COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

A component unit of the City of San Diego

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Debra Woodard, City of San Diego Retiree, 32 years of service.

A Defined Benefit Pension Plan for Employees of the City of San Diego, the Unified Port of San Diego and the San Diego County Regional Airport Authority.

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

A Defined Benefit Pension Plan for
Employees of the City of San Diego, the Unified Port of San Diego,
and the San Diego County Regional Airport Authority.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The San Diego City Employees' Retirement System's (SDCERS) mission is to deliver accurate and timely benefits to its members, retirees and beneficiaries and ensure the Trust Fund's safety, integrity and growth.

Issued by:

Mark A. Hovey
Interim Administrator/CEO
Chief Financial Officer

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1. Introduction

Debra Woodard,
City of San Diego Retiree **- 32 years of service**

Debra began her career with the City of San Diego in 1975, in the police department's clerical pool. She focused her efforts on how to move up the City ladder, where her rungs would later include the City Attorney's office, General Services' Buildings Division and, finally, Citizen's Assistance, where she worked until her retirement providing directions and information to the public and employees visiting the City Administration Building.

Retired just one year, Debra has embraced retirement with as much verve as the time she spent serving the public. Line dancing classes twice a week, Mexico blues festivals, and travels to New Orleans, Hawaii and Georgia keep her young and her calendar full. "People I've never met stop me randomly, wherever I go, and still ask me a question or directions," says Woodard. "My husband says I must have 'Information' permanently written on my forehead."

Transmittal Letter

SDCERS
San Diego City Employees' Retirement System

December 18, 2009

To the Participants, Plan Sponsors and Trustees of the San Diego City Employees' Retirement System:

I am pleased to present the San Diego City Employees' Retirement System's Comprehensive Annual Financial Report (CAFR) Summary for the fiscal year ended June 30, 2009 (FY 2009).

As I write this Letter, I keep recalling the apocryphal question put to Abraham Lincoln's widow, "So, other than that, how did you enjoy the play, Mrs. Lincoln?" Why? Because other than experiencing one of the worst investment years in history, SDCERS had a great FY 2009.

SDCERS' Background and History: SDCERS was established in 1927 by the City of San Diego to provide retirement, disability, and death benefits to its participants. Employees of the Unified Port District became Members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority became Members in 2003.

In order to attain the appropriate level of funding for each member, SDCERS' actuary specifies a formula to calculate the amount that would need to be contributed by participating Plan Sponsors and Members each year until retirement. SDCERS invests these contributions utilizing a long-term investment strategy consisting of a diversified mix of equities, fixed income and real estate. Plan sponsor and Member contributions, along with investment earnings, represent the three funding sources from which SDCERS pays benefits and its operational expenses.

Investment Results. As should be no surprise, one of the worst investment periods since 1929 negatively impacted SDCERS' investments, just as it did every other institutional and individual investor. SDCERS' total investment return for FY 2009 was -19.2% compared to -4.7% for FY 2008. As of June 30, 2009, SDCERS' annualized total investment return was -3.5% over the past three years, +2.3% over the past five years, and +4.6% over the past ten years, which is in the top 2% for public pension plans.

However, it is important to keep in mind during these times that SDCERS invests for the very long term. As a result, SDCERS' investment philosophy and strategy is focused on long-term results. Short-term market dislocations – even those as severe as what we experienced in FY 2009 – are, in relation to SDCERS' time horizon, just that: short-term. SDCERS has never, and should never, manage its portfolio for the short term. Our long-standing, disciplined strategy of a well-balanced portfolio has and will continue to work over the long haul.

On the bright side, investment markets have improved significantly since July 1, 2009. SDCERS' target and actual asset allocation as of June 30, 2009, and recent and long-term investment performance are included in the Investment Section.

Funding Status. SDCERS engages an independent actuarial consulting firm to conduct annual actuarial valuations. The valuation purpose is to reassess benefit commitments and compare them to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The June 30, 2008 actuarial valuations, the most recent available, for our three plan sponsors are summarized in this CAFR, and show that the City's plan is 78.1% funded, the Unified Port District's plan is 92.0% funded, and the Airport Authority's plan is 102.3% funded. Of course, these ratios will move lower in the June 30, 2009 valuations when FY 2009 investment results are reflected. Historical trend information regarding funded status is provided in the Financial and Actuarial Sections of this report.

SDCERS' Board Keeps the "Corridor" and all other actuarial methods. In September 2009, SDCERS' Board voted to maintain the System's current actuarial method in spite of FY 2009's investment results. This included maintaining as asset smoothing corridor to ensure actuarial assets are within +/- 20% of the market value of assets. The Board's consideration of this issue was an impressive example of the way a public body should conduct its business. Although a few in the community urged the Board to ignore the issue entirely, the Board fulfilled its fiduciary duty to SDCERS' participants and thoroughly examined this important issue. The Board's decision was based on facts, on stakeholder input, on expert opinion, on robust discussion and on rational analysis. And, it followed a transparent process based on the Trustees' Constitutionally-mandated fiduciary duty, free of any improper influence.

SDCERS' Board Composition is an Industry "Best Practice." Recently, Cortex Applied Research, a Toronto-based fiduciary consultant retained by the City of San Jose, identified SDCERS' Board composition as an industry "best practice." Cortex recommended that San Jose's two public pension systems restructure their boards in a manner similar to SDCERS' with a majority of board members who have experience relevant to public pension plan oversight and who are financially independent of the system. This independent public recognition and validation of SDCERS' Board governance is good news for everyone with a stake in SDCERS.

SDCERS' Group Trust Receives Another Favorable IRS Determination Letter. In September 2009, the IRS issued a Determination Letter approving SDCERS' Group Trust as tax-exempt under the Internal Revenue Code. This, too, is great news for all involved with SDCERS.

SDCERS applied for this Determination Letter in August 2008 after SDCERS was restructured from a multiple employer plan into a group trust, with separate participating qualified plans and trusts for each of its plan sponsors. (SDCERS also received a Determination Letter approving SDCERS as a multiple employer qualified pension plan in January 2008.) SDCERS' Group Trust allows our three plan sponsors to pool their assets for investment purposes without exposing those assets to claims from the other two. This restructuring was done to provide maximum protection to our plan sponsors and plan participants.

SDCERS also has filed Determination Letter applications for our three plan sponsor's qualified plans. The applications have not yet been assigned to an IRS reviewer, but we expect to receive favorable determination letters for these three plans as well.

FY 2008 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2008 CAFR the Certificate of Achievement for Excellence in Financial Reporting. This Certificate of Achievement "is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management." We haven't received this award since 2003, and it is the direct result of extraordinary work by our Finance, Investment and Legal teams.

Member Services: Never Better. Our Member Services team led a great effort to educate and counsel over 1,000 Deferred Retirement Option Plan (DROP) active members about the options available to them with the change in DROP interest crediting rates that went into effect July 1, 2009. Staff held three group member sessions to provide an overview and answer questions about the changes to the DROP interest credit rates. The Member Services team conducted a record-setting 1,232 counseling sessions and responded to more than 3,000 phone calls on DROP issues between January and June 2009. Staff worked to guarantee that any member who wanted to retire by June 30 would be able to do so. And, it was a total team effort: Benefits Administration, Finance, Legal and IT staff all have provided "service above and beyond" to ensure that our members' needs were met. This was the most impressive and successful customer service outreach effort in SDCERS' history.

Member Services also led the effort to improve SDCERS' Comprehensive Annual Financial Report (CAFR), the Popular Annual Financial Report (PAFR), our newsletter (SDCERScoop) and the website (SDCERS.org), all of which underwent significant changes to improve our ability to communicate with our constituents in a clear and understandable manner.

Investment Team is Focused and at Full Strength. Doug McCalla, our long-time Chief Investment Officer, retired in December 2008, and Liza Crisafi was promoted to succeed him. Liza has successfully and smoothly transitioned into the CIO role, and the Investment Division hasn't missed a beat. Indeed, the division's productivity has never been better. During the year, the Investment Division completed an unprecedented six in-house manager searches. We conducted focused and rigorous reviews on SDCERS' annual asset allocation and manager structure reviews with positive outcomes in both.

SDCERS Employees Receive Recognition. In August, SDCERS recognized four employee "Superstars" for FY 2009: Fanela Espiritu, Jerry Kopotic, Chris Linen and Jeanette Livingston. These colleagues had an extremely positive impact on SDCERS and our participants, and we are very proud of their accomplishments. In addition, Michelle Wegner, a manager in SDCERS' IT group, graduated with the LEAD Class of 2009.

Audited Financial Statements. The financial statements included in this CAFR have been prepared by SDCERS' management, which is responsible for the integrity and fairness of the data presented, including the many amounts that must be based on estimates and judgments. The accounting policies followed in preparation of these financial statements conform to accounting principles generally accepted in the United States of America. The basic financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB). All the financial information presented is consistent with these financial statements. GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This Transmittal Letter complements the MD&A, which follows the report of the independent auditors, and should be read in conjunction with it.

Internal Controls. SDCERS' management is responsible for the accuracy, completeness, and fair presentation of information, and all disclosures in this report. The accounting firm of Macias Gini & O'Connell LLP provides audit services to SDCERS. Their financial audit confirms that SDCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements.

SDCERS has established and maintains a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements are reliable. However, we recognize that even sound internal controls have their inherent limitations. Therefore, internal controls are reviewed to ensure that SDCERS' operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard SDCERS' assets. Our Internal Auditor reviews our internal controls and operations, and he reports regularly to the Audit Committee, which reviews the audit findings and recommendations for improvement in internal control and the actions of management to implement these recommendations.

Acknowledgments. I would like to express my personal appreciation to our Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made all of our recent achievements possible. Our plan sponsors, members, and the citizens of our community have been well-served by their stewardship of SDCERS.

I would like to thank our outgoing Board members during the reporting period for their commitment to SDCERS: Tom Hebrank, George Murray, Peter Preovolos, Jo Anne SawyerKnoll, Bill Sheffler, and John Thompson. Alan Arrollado, Greg Bych, Ray Ellis, Ed Kitrosser, Herb Morgan, Mark Oemcke and Richard Tarte joined the Board in FY 2009, and each brings great experience and judgment to the table.

Finally, I would like to thank my SDCERS colleagues. Each one works hard and takes very seriously their role in providing for the financial security of our members, retirees and beneficiaries. SDCERS' staff is dedicated and committed to ensure the System's success. Their individual efforts, combined with those of a great group of professionals and investment managers, inspires me each day.

As our previous Administrator/CEO David Wescoe said many times, SDCERS has accomplished more over the past few years than any other public pension system in the country. These achievements, many of which are noted above, are due to the leadership of our Trustees, the hard work of SDCERS' employees and the support of our members, retirees and beneficiaries.

It is a pleasure and an honor to work with and serve you.

Respectfully submitted,

Mark A. Hovey
Interim Administrator/CEO
Chief Financial Officer

San Diego City Employees' Retirement System
GFOA Certificate of Excellence

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, 2008

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2009

BOARD OF ADMINISTRATION

Mark C. Sullivan, President
ELECTED SAFETY (POLICE) MEMBER

Raymond G. Ellis , Vice President
MAYORAL APPOINTEE

Alan J. Arrollado
ELECTED SAFETY (FIRE) MEMBER

Gregory J. Bych
EX-OFFICIO, MAYORAL DESIGNEE

Susan S. Gonick
MAYORAL APPOINTEE

David A. Hall
ELECTED RETIREE

V. Wayne Kennedy
MAYORAL APPOINTEE

Edward W. Kitrosser
MAYORAL APPOINTEE

Franklin R. Lamberth
ELECTED GENERAL MEMBER

Steven W. Meyer
ELECTED GENERAL MEMBER

Herb W. Morgan
MAYORAL APPOINTEE

Mark E. Oemcke
MAYORAL APPOINTEE

Richard R. Tartre
MAYORAL APPOINTEE

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2009

In addition to regular Board duties, SDCERS Trustees also participate in one or more standing committees that review policies and procedures related to various areas of SDCERS' administration, report their findings and make recommendations to SDCERS' Board. The composition and responsibilities of the standing committees as of June 30, 2009 were as follows:

Audit Committee

H. Michael Collins (Chair)
Marilyn Creson Brown
Armon Kamesar
Edward W. Kitrosser
Mark C. Sullivan

Responsible for providing oversight of financial reporting process; the system of internal controls; and the independent audit process.

Business and Governance Committee

Raymond G. Ellis (Chair)
Susan S. Gonick
V. Wayne Kennedy
Franklin R. Lamberth
Steven W. Meyer
Mark C. Sullivan

Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.

Disability Committee

David A. Hall (Chair)
Alan J. Arrollado
Edward W. Kitrosser
Mark C. Sullivan
Richard R. Tartre

Responsible for reviewing staff recommendations on disability applications; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.

Executive Committee

Mark C. Sullivan (Chair)
Raymond G. Ellis
David A. Hall
Steven W. Meyer

Responsible for reviewing Board agendas; and developing the performance plan and evaluating the performance of the Administrator/CEO, Internal Auditor, and the Chief Compliance Officer.

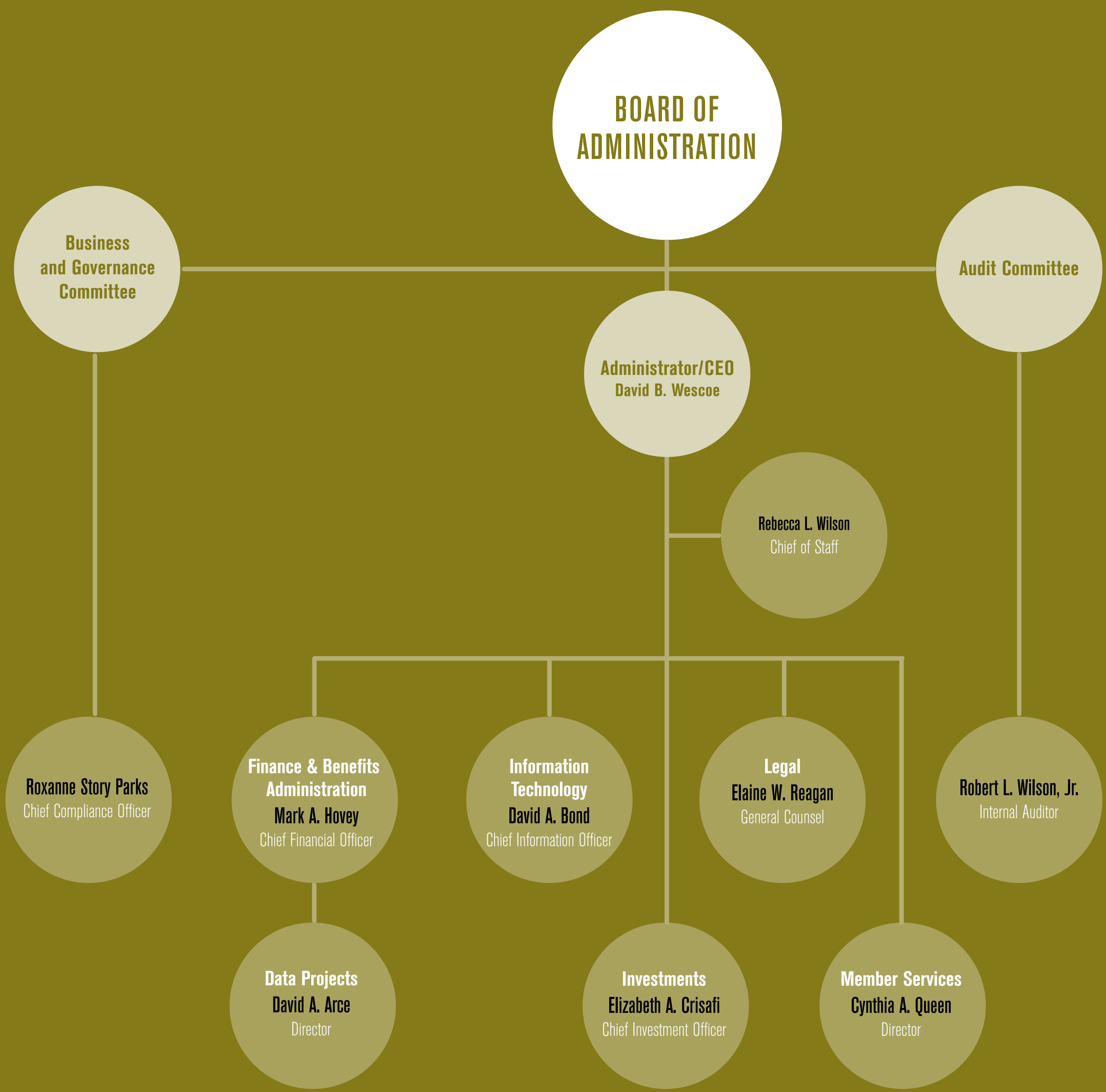
Investment Committee

Steven W. Meyer (Chair)
Gregory J. Bych
Herb W. Morgan
Mark E. Oemcke
Mark C. Sullivan
Richard R. Tartre

Responsible for monitoring investment performance; and recommending changes to the Investment Policy Statement.

San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2009

SDCERS' MEMBERS, RETIREES AND BENEFICIARIES



Report from SDCERS' Board President

SDCERS
San Diego City Employees' Retirement System

December 18, 2008

Dear SDCERS Constituents:

On behalf of the Board of Administration, I am pleased to present the Comprehensive Annual Financial Report for the San Diego City Employees' Retirement System for the fiscal year ending June 30, 2009. This report provides an in-depth review of the financial, actuarial, and investment status of the retirement system.

As Trustees, the Board has a fiduciary duty to make careful, deliberate and measured decisions to strengthen the long-term health of the retirement system. To accomplish this duty, the Board works closely with SDCERS' staff of SDCERS. Together, we take very seriously the trust that has been placed in us to prudently manage plan assets and ensure proper funding of promised benefits for our approximately 19,000 active, deferred, and retired members and their survivors.

While the recent dramatic decline in the global economy exacerbates the challenges we face, SDCERS' Board and staff remain unwavering in our commitment to our participants. We will weather these difficult economic times and continue to provide excellent service to our members and plan sponsors.

I would like to extend the Board's appreciation to our participants and retirees for their continued support, and to our staff for their effort and commitment to the continued successful operation of SDCERS.

Sincerely,

Mark C. Sullivan
President, SDCERS Board of Administration

San Diego City Employees' Retirement System
Professional Services
As of June 30, 2009

Actuary
Cheiron
McLean, VA

Consulting and Professional Services
Levi, Ray & Shoup
Springfield, IL

Linea Solutions
Los Angeles, CA

National Direct Mailing Corporation
Poway, CA

San Diego Data Processing Corporation
San Diego, CA

Sikich LLP
Aurora, IL

Viadesign
San Diego, CA

Custodian
State Street Bank & Trust Company
Alameda, CA

Independent Auditor
Macias Gini & O'Connell LLP
Certified Public Accountants
San Diego, CA

Investment Consultant
Callan Associates
San Francisco, CA

Real Estate Consultant
The Townsend Group
San Francisco, CA

SDCERS' medical and legal service providers are identified in Other Supplementary Information in the Financial Section. SDCERS' investment managers are identified in the Investment Section.

Elias Uskokovic

Unified Port District, Harbor Police

Elias was with the U.S. Border Patrol, prior to being hired by the Port of San Diego as a member of the San Diego Harbor Police. Today, his time is spent serving as the primary law enforcement presence for the San Diego Bay and Port tenants. Elias says he likes the diversity of the job, thanks to the various services his team provides. “I can be on a boat one day, spend the next day at the airport and be making traffic stops the next,” says Elias. “One day is really never like the one before.”

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

SAN DIEGO
402 W. Broadway, Suite 400
San Diego, CA 92101
619.573.1112

SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

NEWPORT BEACH

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of fiduciary net assets of the Group Trust of the San Diego City Employees' Retirement System (SDCERS), a component unit of the City of San Diego, as of June 30, 2009, and the related statement of changes in fiduciary net assets for the year then ended. We have also audited the accompanying statement of fiduciary assets and liabilities of the Preservation of Benefits agency fund of SDCERS as of June 30, 2009. These financial statements are the responsibility of SDCERS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from SDCERS' 2008 financial statements on which our report dated December 15, 2008, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Group Trust of the San Diego City Employees' Retirement System as of June 30, 2009, the fiduciary assets and liabilities of the Preservation of Benefits agency fund as of June 30, 2009 and the changes in fiduciary net assets of the Group Trust for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Notes 9 and 10 to the financial statements, SDCERS is involved in several lawsuits and claims. The ultimate outcome of these matters cannot presently be determined. However, management asserts that the outcome will not have a material adverse effect on the financial condition of SDCERS.

As discussed in Note 6 to the financial statements, the June 30, 2008 actuarial valuations were based on revised actuarial assumptions recommended by SDCDERS' actuary. Further, as presented in the funded status in Note 6 and based on the most recent actuarial valuation, SDCERS' independent actuaries determined that, at June 30, 2008, the value of the City of San Diego's Defined Benefit Pension Plan's actuarial accrued obligation exceeded the actuarial value of its assets by $1.30 billion. The most recent actuarial valuation does not reflect significant fiscal year 2009 investment losses.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009, on our consideration of SDCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 14 through 21, the Schedules of Funding Progress on pages 50 through 52 and the Schedules of Plan Sponsors' Contributions on pages 53 through 55 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplementary information in the financial section and the introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to auditing procedures applied in the 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 introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

San Diego, California
December 8, 2009

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Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview and analysis of SDCERS' financial condition for the fiscal year ended June 30, 2009 (FY 2009), with results also compared to the fiscal year ended June 30, 2008 (FY 2008).

SDCERS' funding objective is to meet long-term benefit obligations through plan sponsor and member contributions and earnings on invested assets. SDCERS has three plan sponsors: the City of San Diego (City), the Unified Port of San Diego (Port), and the San Diego County Regional Airport Authority (Airport).

The SDCERS Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. The Internal Revenue Service issued a favorable determination letter with respect to the Group Trust on September 10, 2009. Under the Group Trust, the City, Port, and Airport's plans are treated as separate plans, with assets of each pooled for investment purposes only. Separate financial statements for FY 2009 only are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. In addition, the discussion and analysis compares financial information between FY 2009 and FY 2008 for the total of all three plans, rather than the separate plans. See *Note 1. Summary of Significant Accounting Policies* for more details on the Group Trust.

Financial Highlights

As of June 30, 2009, the SDCERS Group Trust had $3.354 billion in total net assets held in trust for the payment of pension benefits compared to total net assets of $4.385 billion at June 30, 2008. This represents a $1.031 billion decrease (-23.5%) from FY 2008. The FY 2009 decrease reflects plan sponsor and member contributions ($248.6 million), offset by net investment losses ($956.1 million) and benefit payments and administrative expenses ($323.0 million).

For FY 2009, investment losses exceeded contributions, resulting in net negative additions of $(707.5) million to the Group Trust net assets, a decrease of $707.3 million from FY 2008 additions of $(0.2) million. Decreased net investment earnings of $705.1 million was the main factor in the reduction from last year.

As of June 30, 2009, deductions from Group Trust net assets for benefits and expenses totaled $323.0 million, a $26.3 million increase (8.9%), compared to FY 2008 deductions of $296.7 million.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the Board for approval. Dividing the Actuarial Value of Assets (AVA) by the Actuarial Accrued Liabilities (AAL) results in a funded ratio that is one measure of a pension plan's funded status. An Unfunded Actuarial Liability (UAL) results when the AVA is less than the AAL. Changes in funded status can be caused by increases or decreases in the AVA or AAL, resulting in actuarial gains and losses. The actuarial valuation as of June 30, 2009 for all three plan sponsors is expected to be received in January 2010.

The June 30, 2008 Actuarial Valuations were based on revised actuarial assumptions. In July 2008, the Board received Cheiron's Experience Study Results and Recommendations for the period covering July 1, 2004 to June 30, 2007. In September, the following Actuarial Assumption changes recommended by Cheiron in the Experience Study were formally approved:

- Retirement rates by age were replaced by retirement rates by years of service and were increased;
- Termination rates by age and service were increased;
- Disability rates by age were decreased;
- Active and retiree mortality rates were updated to new tables;
- The wage inflation assumption was lowered from 4.25% to 4.0%; and
- The rate of investment return assumption was lowered from 8.0% to 7.75%.

These revised assumptions were used by Cheiron in preparing the June 30, 2008 valuations.

As of June 30, 2008, the City's funded status, calculated pursuant to the EAN actuarial funding method, was 78.1%. This means that for every dollar of benefits due the City had approximately 78.1 cents in actuarial assets available for payment.

As of June 30, 2008, the Port's funded status under EAN was 92.0%; for every dollar of benefits due, the Port had approximately 92.0 cents in actuarial assets available for payment.

As of June 30, 2008, the Airport's funded status under EAN was 102.3%; for every dollar of benefits due, the Airport had approximately $1.02 in actuarial assets available for payment.

Six years of historical funded status information for the City, Port and Airport are set out in the Required Supplementary Information with associated commentary located in the Notes to the Schedules of Funding Progress. Additional information is presented in *Note 6. Funded Status and Actuarial Methods and Assumptions, and in the Actuarial Section*. The Actuarial Valuations can be found online at sdcers.org.

As discussed in *Note 9. Legal Action and Note 10. Subsequent Events,* SDCERS is involved in a number of litigation matters. SDCERS' management does not believe that the outcome of any of them will have a material adverse impact on SDCERS' financial condition.

Overview of Financial Statements

SDCERS' audited financial statements are comprised of the following six items:

1. Statement of Plan Net Assets;
2. Statement of Changes in Plan Net Assets;
3. Statement of Fiduciary Assets and Liabilities;
4. Notes to the Financial Statements;
5. Required Supplementary Information; and
6. Other Supplementary Information - Supporting Schedules.

The **Statement of Plan Net Assets** is a balance sheet presentation of assets and liabilities for the Group Trust. It discloses the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2009, with comparative totals as of June 30, 2008. As of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. Accordingly, the interests of each plan and trust are accounted for separately, as presented in this year's Statement of Plan Net Assets.

The **Statement of Changes in Plan Net Assets** provides an income statement presentation of annual additions to and deductions from plan assets for the Group Trust for FY 2009, with comparative totals for FY 2008. The FY 2009 Statement also presents separate reporting for the City, Port, and Airport, as does the Statement of Plan Net Assets.

Both Statements comply with Governmental Accounting Standards Board (GASB) Statement Nos. 3, 5, 25, 28, 31, 40 and 50 that require certain disclosures and the use of the full accrual method of accounting.

Both Statements were prepared using the accrual basis of accounting and report information about SDCERS' financial activities, including all assets and liabilities. All investment gains and losses are shown on a trade-date basis using market and appraised values, and all capital assets are depreciated over their useful lives.

The **Notes to the Financial Statements** provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERS' financial condition. Note 1. Summary of Significant Accounting Policies provides information on the assumptions and methods used in the presentation of SDCERS' financial statements. It provides for the basis for accounting treatment of stated values under Generally Accepted Accounting Principles (GAAP) used that are unique to a public employee retirement system.

The **Required Supplementary Information** provides information concerning plan sponsors' progress in funding their benefit obligations. It also contains the Schedules of Plan Sponsors' Contributions and Notes that accompany each of these schedules.

The **Other Supplementary Information - Supporting Schedules** includes a Schedule of Administrative Expenses, a Schedule of Payments to Consultants, a Schedule of Fees Paid to Investment Professionals, and a Statement of Changes in Assets and Liabilities – Agency Funds. All Supporting Schedules are included after the Required Supplementary Information.

SDCERS' management is responsible for the accuracy, completeness, and fair presentation of this information and all disclosures in accordance with U.S. GAAP.

Financial Analysis

Tables 1 and 2 below summarize and compare SDCERS' financial results for the current and prior fiscal year for the Group Trust.

The Group Trust's net assets held in trust for the payment of defined benefit pension benefits as of June 30, 2009 totaled $3.354 billion, a $1.031 billion decrease (-23.5%) compared to net assets of $4.385 billion as of June 30, 2008. Investment returns of -19.2% for the year accounted for the most significant portion of the decline in net assets. All net assets are available to meet SDCERS' ongoing retirement and disability payment obligations to retirees and beneficiaries. A comparative summary is set out in Table 1 as follows.

Table 1: Plan Net Assets (Dollars in Thousands)

	2009	2008	Total Percentage Change
Cash and Cash Equivalents	$374,935	$506,522	-26.0%
Receivables	109,333	134,689	-18.8
Investments, at Fair Value	3,448,135	4,311,902	-20.0
Securities Lending Cash Collateral	395,085	674,085	-41.4
Capital Assets at Cost plus Prepaid Expenses	1,348	538	250.4
Total Assets	$4,328,836	$5,627,736	-23.1%
Current Liabilities	218,677	257,048	-14.9
DROP Liabilities	360,758	311,756	15.7
Securities Lending Obligations	395,085	674,085	-41.4
Total Liabilities	$974,520	$1,242,889	-21.6%
Plan Net Assets	$3,354,316	$4,384,847	-23.5%

Reserves

Pension plans establish reserves to set apart plan net assets for various anticipated liabilities. SDCERS' reserves have been established to account for employer and employee contributions, the accumulation of current retired members' expected benefits and other items.

The largest reserve balances are for accumulated benefits payable to retired SDCERS members. These comprise approximately 54% of plan assets ($2.0 billion reserved out of $3.7 billion in total reserves) as of June 30, 2009. Reserves for Plan Sponsor Contributions at June 30, 2009 were $868.4 million, up $477.3 million from June 30, 2008. A complete listing of SDCERS' reserves and comparative balances for FY 2009 are set out in *Note 5. Reserve Balances*.

Current Year Results

Key elements of FY 2009 results and year-over-year comparisons are summarized below.

Additions to Plan Net Assets, necessary to pay current retirement benefits and accrue for future retirement benefits, are accumulated from plan sponsor and member contributions and the earnings on invested assets (net of investment management fees and related expenses). For FY 2009, contributions were offset by investment losses, resulting in net negative additions of $707.5 million, a decrease of $707.3 million from FY 2008 additions of $(0.2) million.

Deductions to Plan Net Assets reflect SDCERS' administration of lifetime retirement annuities, survivor benefits, and permanent disability benefits. The costs of these programs include recurring pension benefit payments and refunds of contributions to terminated members. Deductions for FY 2009 were $323 million, an increase of $26 million from FY 2008 deductions of $297 million.

A comparative summary of additions and deductions is set out in Table 2 below.

Table 2: Changes in Plan Net Assets (Dollars in Thousands)

	2009	2008	Total Percentage Change
Additions:			
Plan Sponsor Contributions	$172,850	$175,001	-1.2%
Member Contributions and Other Contributions	75,740	75,788	-0.1
Net Investment Earnings (Losses)	(956,097)	(250,955)	-281.0
Total Additions	($707,507)	($166)	-426k%
Deductions:			
Benefit Payments	$277,131	$254,014	9.1%
Refunds of Member Contributions	4,069	3,866	5.2
Administrative Expenses	14,726	15,776	-6.7
DROP Interest Expense	27,098	23,051	17.6%
Total Deductions	$323,024	$296,707	8.9%
Changes in Plan Net Assets	($1,030,531)	($296,873)	-247.1%

FY 2009 plan sponsor contributions totaled $172.9 million, a decrease of $2.1 million (-1.2%) compared to their contributions of $175.0 million in FY 2008. The Annual Required Contribution (ARC) for all three plan sponsors was lower in FY 2009 than in FY 2008, accounting for the reduced current year contributions. For further information about plan sponsor contributions, see *Note 4. Contributions* in the Notes to Financial Statements and the Schedule of Plan Sponsors' Contributions in the Required Supplementary Information.

FY 2009 member contributions and member contributions paid by plan sponsors totaled $75.7 million, unchanged from FY 2008. A $5.0 million increase in member contributions paid by the plan sponsor was offset by reduced contributions from members.

In FY 2009, net investment losses totaled $956.1 million, an increase of $705.1 million (-281.0%) due to lower investment performance from FY 2008. Depreciation in the fair value of equity holdings accounted for $446.6 million of the increased loss, real estate holdings $146.6 million, and fixed income holdings another $77.1 million. Dividend and interest income of $103.4 million also decreased $44.7 million from FY 2008.

A report on SDCERS' investment activity by Callan Associates, SDCERS' investment consultant, is provided in the Investment Section. This report provides commentary on specific asset class investment returns, index returns and peer group performance. The Investment Section also includes information about SDCERS' FY 2009 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2009 was -19.2%, compared to -4.66% as of June 30, 2008. According to the Callan Associates database of public fund performance, SDCERS' investment performance was in the 61st percentile for the year ended June 30, 2009. Longer-term performance has been stronger, however, and SDCERS ranks in the top 45% and 2% over the five- and ten-year periods ended June 30, 2009.

In FY 2009, member benefit payments totaled $277.1 million, $23.1 million (9.1%) more than FY 2008's payments of $254.0 million. A 6.4% increase in the number of total retirees in FY 2009 and annual cost of living increases account for the increased payments.

In FY 2009, refunds of member contributions totaled $4.1 million, a $0.2 million increase (5.2%) compared to FY 2008 refunds. The annual fluctuation in refunds of member contributions is not indicative of any notable trend.

FY 2009 administrative expenses totaled $14.7 million, a decrease of $1.1 million (6.7%) from FY 2008 expenses of $15.8 million. Data processing costs were lower in FY 2009 following the completion of several projects and transition to lower out-sourced service providers. See the Schedule of Payments to Consultants in the Other Supplementary Information of the Financial Section for more details.

FY 2009 Deferred Retirement Option Plan (DROP) interest expenses totaled $27.1 million, an increase of $4.0 million (17.6%) over FY 2008 expenses of $23.1 million. A 15.7% increase in DROP reserves from new and existing DROP members accounted for the increase in DROP interest expense.

Analysis of Balances and Results by Plan Sponsor

Tables 3 and 4 below summarize and compare SDCERS' financial results for the current and prior fiscal year by plan sponsor.

Table 3: Plan Net Assets by Sponsor (Dollars in Thousands)

	As of June 30, 2009			As of June 30, 2008		
	City	Port	Airport	City	Port	Airport
Cash & Cash Equivalents	$350,583	$19,454	$4,898	$475,630	$25,049	$5,843
Receivables	101,158	6,235	1,940	125,084	7,385	2,220
Investments, at Fair Value	3,224,178	178,915	45,042	4,048,918	213,240	49,744
Securities Lending Cash Collateral	369,424	20,500	5,161	632,973	33,336	7,776
Capital Assets at Cost plus Prepaid Expenses	1,260	70	18	505	27	6
Total Assets	$4,046,603	$225,174	$57,059	$5,283,110	$279,037	$65,589
Current Liabilities	197,822	18,109	2,746	241,417	12,674	2,957
DROP Liabilities	353,227	7,001	530	305,300	5,889	567
Securities Lending Obligations	369,424	20,500	5,161	632,973	33,336	7,776
Total Liabilities	$920,473	$45,610	$8,437	$1,179,690	$51,899	$11,300
Plan Net Assets	$3,126,130	$179,564	$48,622	$4,103,420	$227,138	$54,289

City plan net assets of $3.126 billion at June 30, 2009 were down $977 million (23.8%) from $4.103 billion at June 30, 2008. Investment returns of -19.2% for FY 2009 accounted for the decline in net assets.

Port plan net assets of $179.6 million at June 30, 2009 were down $47.5 million (20.9%) from $227.1 million at June 30, 2008. The Port was similarly impacted by SDCERS' investment losses in FY 2009.

Airport plan net assets of $48.6 million at June 30, 2009 were down $5.7 million (10.4%) from $54.3 million at June 30, 2008. Relatively higher plan sponsor and member contributions than the other two plan sponsors offset a portion of the investment loss declines.

Table 4: Changes in Plan Net Assets by Sponsor (Dollars in Thousands)

	For the year ended June 30, 2009			For the year ended June 30, 2008		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	$162,475	$7,340	$3,035	$165,581	$6,900	$2,520
Member Contributions and Other Contributions	67,363	5,035	3,342	68,563	4,741	2,484
Net Investment Losses	(897,544)	(47,530)	(11,023)	(235,704)	(12,413)	(2,838)
Total Additions	($667,706)	($35,155)	($4,646)	($1,560)	($772)	$2,166
Deductions:						
Benefit Payments	265,477	10,997	657	243,378	10,227	409
Refunds of Member Contributions	3,840	186	43	3,581	71	214
Administrative Expenses	13,763	696	267	14,573	881	322
DROP Interest Expense	26,504	540	54	22,634	379	38
Total Deductions	$309,584	$12,419	$1,021	$284,166	$11,558	$983
Changes in Plan Net Assets	($977,290)	($47,574)	($5,667)	($285,726)	($12,330)	$1,183

City plan net assets declined $977.3 million in FY 2009, $691.6 million (242.0%) more than the FY 2008 decline. Net investment losses of $897.5 million accounted for 95.7% of the decline. Plan sponsor and member contributions in FY 2009 were similar to FY 2008, down 1.9% and 1.8%, respectively. Benefit payments were up $22.1 million (9.1%) in FY 2009, reflecting an increased number of retirees in FY 2009. DROP interest expense was up $3.9 million (17.1%), reflecting an increased number of members in the program.

Port plan net assets declined $47.6 million in FY 2009, $35.3 million (285.8%) more than the FY 2008 decline. Net investment losses of $47.5 million accounted for all but 0.4% of the decline. Plan sponsor and member contributions in FY 2009 were up 6.4% and 6.2% to FY 2008, respectively. Benefit payments were up $0.8 million (7.5%) in FY 2009, reflecting an increased number of retirees in FY 2009. Year over year changes in other deduction line items were not significant.

Airport plan net assets declined $5.7 million in FY 2009, compared to an increase of $1.2 million in FY 2008. Net investment losses of $11.0 million were largely offset by plan sponsor and member contributions of $3.0 million and $3.3 million, respectively. Total deductions were $1.0 million, virtually unchanged from FY 2008.

Post-Employment Healthcare Benefit Plan (HCB Plan)

The City's Post-employment Healthcare Benefit Plan funds are not part of the SDCERS trust fund and are reported in the City's financial statements.

Stock Market Volatility

The turmoil in the global financial markets in FY 2009 negatively impacted SDCERS' investment portfolio. However, the market rebounded in the quarter ending June 30, 2009, the most recent period for which investment performance has been measured, and the portfolio recovered 13.3% during that quarter. Market returns in July and August 2009 have also been favorable. However, SDCERS' return of -19.2% for FY 2009 will have a negative impact on each plan sponsor's ARC. Only when the ARC is calculated, in January 2010, will the final impact of the FY 2009 investment market losses be known. That ARC will be paid by plan sponsors in fiscal year 2011, beginning in July 2010.

San Diego City Employees' Retirement System
Statement of Plan Net Assets
As of June 30, 2009 (with Comparative Totals as of June 30, 2008) (Dollars in Thousands)

	2009				2008
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash or Equity in Pooled Cash and Investments with the City of San Diego	$2,991	$166	$42	$3,199	$5,122
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	347,592	19,288	4,856	371,736	501,400
Total Cash and Cash Equivalents	350,583	19,454	4,898	374,935	506,522
Receivables					
Plan Sponsors and Member Contributions	2,904	162	94	3,160	3,455
Members - Purchased Service Contracts	9,765	1,162	609	11,536	14,341
Accounts Receivable - Other	393	22	5	420	-
Accrued Interest Receivable	12,286	682	172	13,140	16,824
Securities Sold	75,810	4,207	1,060	81,077	100,068
Total Receivables	101,158	6,235	1,940	109,333	134,688
Investments, at Fair Value					
Short-Term Investments	31,148	1,728	435	33,311	42,268
Domestic Fixed Income Securities	805,597	44,704	11,254	861,555	998,630
International Fixed Income Securities	134,345	7,455	1,877	143,677	183,122
Domestic Equity Securities	1,351,005	74,969	18,874	1,444,848	1,780,841
International Equity Securities	574,350	31,872	8,024	614,246	819,511
Directly-Owned Real Estate and Real Estate Equity Securities	327,733	18,187	4,578	350,498	487,530
Total Investments	3,224,178	178,915	45,042	3,448,135	4,311,902
Securities Lending Cash Collateral	369,424	20,500	5,161	395,085	674,085
Total Investments Including Securities & Lending Cash Collateral	3,593,602	199,415	50,203	3,843,220	4,985,987
Prepaid Expenses	68	4	1	73	16
Properties at Cost, Net of Accumulated Depreciation of $593,758 and $379,862, respectively	1,192	66	17	1,275	523
TOTAL ASSETS	$4,046,603	$225,174	$57,059	$4,328,836	$5,627,736
LIABILITIES					
Accounts Payable	$1,139	$63	$16	$1,218	$771
Accrued Investment Fees	4,246	236	59	4,541	5,286
Accrued Wages and Benefits	732	41	10	783	705
Employer Contribution Advances	-	7,200	-	7,200	-
DROP Liability	353,227	7,001	530	360,758	311,756
Net Pension and Other Post Employment Obligations	1,235	-	-	1,235	776
Securities Purchased	190,470	10,569	2,661	203,700	249,510
Securities Lending Obligations for Cash Collateral	369,424	20,500	5,161	395,085	674,085
TOTAL LIABILITIES	$920,473	$45,610	$8,437	$974,520	$1,242,889
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$3,126,130	$179,564	$48,622	$3,354,316	$4,384,847

For a full understanding of the Statement of Plan Net Assets, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System
Statement of Changes in Plan Net Assets
For the year ended June 30, 2009 (with Comparative Totals for the year ended June 30, 2008)
(Dollars in Thousands)

	2009				2008
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	$162,475	$7,340	$3,035	$172,850	$175,001
Members Portion Paid by Plan Sponsor	20,317	3,093	1,874	25,284	20,216
Members	43,109	1,441	812	45,362	47,287
Members for Purchased Service	3,161	403	603	4,167	7,262
Earned Interest on Purchased Service Installment Contracts	776	98	53	927	1,023
Total Contributions	229,838	12,375	6,377	248,590	250,789
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity Securities	(796,886)	(42,137)	(9,810)	(848,833)	(402,204)
Fixed Income Securities	(31,823)	(1,602)	(375)	(33,800)	43,266
Real Estate and Real Estate Securities	(165,603)	(9,029)	(2,091)	(176,723)	(30,166)
Total Net Depreciation in Fair Value of Investments	(994,312)	(52,768)	(12,276)	(1,059,356)	(389,104)
Dividend Income	49,994	2,612	715	53,321	71,494
Interest Income	46,983	2,604	515	50,102	76,635
Real Estate Income	13,370	725	168	14,263	8,335
Other Income	325	-	-	325	335
Securities Lending Income					
Gross Earnings	10,888	525	194	11,607	37,350
Less: Borrower Rebate & Bank Charges	(6,284)	(293)	(121)	(6,698)	(32,025)
Net Securities Lending Income	4,604	232	73	4,909	5,325
Total Investment Loss	(879,036)	(46,595)	(10,805)	(936,436)	(226,980)
Investment Expenses	(18,508)	(935)	(218)	(19,661)	(23,975)
Net Investment Loss	(897,544)	(47,530)	(11,023)	(956,097)	(250,955)
TOTAL ADDITIONS	($667,706)	($35,155)	($4,646)	($707,507)	($166)
DEDUCTIONS					
Benefits Payments					
Monthly Retirement and Disability Allowances	$254,923	$10,811	$650	$266,384	$243,334
13th Check	4,679	172	7	4,858	4,700
Corbett Benefit	5,526	-	-	5,526	5,525
Death Benefit	349	14	-	363	455
Total Benefit Payments	265,477	10,997	657	277,131	254,014
Refunds of Members Contributions	3,840	186	43	4,069	3,866
Administrative Expenses	13,763	696	267	14,726	15,776
DROP Interest Expense	26,504	540	54	27,098	23,051
TOTAL DEDUCTIONS	$309,584	$12,419	$1,021	$323,024	$296,707
NET DECREASE	(977,290)	(47,574)	(5,667)	(1,030,531)	(296,873)
NET ASSETS BEGINNING OF YEAR	4,103,420	227,138	54,289	4,384,847	4,681,720
NET ASSETS END OF YEAR	$3,126,130	$179,564	$48,622	$3,354,316	$4,384,847

For a full understanding of the Statement of Changes in Plan Net Assets, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System
Statement of Fiduciary Assets and Liabilities
As of June 30, 2009 (Dollars in Thousands)

City of San Diego

		2009
ASSETS		
Cash and Cash Equivalents		
Cash or Equity in Pooled Cash and Investments with the City of San Diego	$	1
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents		26
Total Cash and Cash Equivalents		27
TOTAL ASSETS	$	27
LIABILITIES		
Sundry Trust Liability	$	27
TOTAL LIABILITIES		27
NET ASSETS	$	-

Unified Port District

		2009
ASSETS		
Cash and Cash Equivalents		
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	$	42
Total Cash and Cash Equivalents	$	42
TOTAL ASSETS	$	42
LIABILITIES		
Sundry Trust Liability	$	42
TOTAL LIABILITIES		42
NET ASSETS	$	-

For a full understanding of the Statement of Fiduciary Assets and Liabilities, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System
Notes to the Financial Statements
June 30, 2009

FINANCIAL STATEMENTS

The following information supplements the audited financial statements, the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. *Note 9. Legal Action* and *Note 10. Subsequent Events* provide information regarding litigation that may have a financial impact on SDCERS or circumstances that may have occurred after June 30, 2009 through the end of the audit period.

1. Summary of Significant Accounting Policies

Basis of Accounting

SDCERS' financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The U.S. Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, established financial reporting standards for defined benefit pension plans.

In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007, to fulfill requirements in the City Charter and Municipal Code that the assets of each SDCERS Plan be used to pay benefits and expenses relating only to that Plan. Under the Group Trust, the City's, Port's, and Airport's plans are legally treated as separate plans. Unlike a multiple-employer plan, under a group trust the assets of one employer's plan are not legally available to pay benefits under any other employer's plan if one or more of the employers becomes insolvent. Assets of each sponsor's plan are pooled for investment purposes only.

The City, Port and Airport approved their respective Participation and Administration Agreements, and in September 2007, the San Diego City Council adopted a necessary enabling resolution approving each Agreement. To confirm the separation of the City, Port and Airport plans, SDCERS has filed requests with the IRS for separate determination letters for the Group Trust, City, Port and Airport. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009.The applications for the separate plans and trust applications remain pending. Separate financial statements are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. Separate statements are presented for FY 2009 only, in accordance with GASB requirements.

SDCERS is also the fiduciary for agency funds for the City's and Port's Preservation of Benefit Plan. The agency funds account for assets held by SDCERS in a trustee capacity or as an agent on behalf of the City and Port. The agency funds are custodial in nature and do not measure the results of operations. In November 2006, SDCERS filed a request with the IRS for a private letter ruling approving the Preservation of Benefit (POB) Plans established by the City, the Port and the Airport. In October 2008, the IRS issued three Private Letter Rulings approving the three POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the defined benefit (DB) plans that exceed the IRC Section 415(b) limits. See *Note 7. Preservation of Benefit Plan Activity* for additional information.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

SDCERS' financial statements are prepared using the accrual basis of accounting. SDCERS is considered part of the City's financial reporting entity, and SDCERS' financial statements are included in the City's Comprehensive Annual Financial Report (City's CAFR).

Member contributions are recognized in the period in which they are due. Plan sponsor contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due in accordance with SDCERS' Group Trust. SDCERS' investments are stated at fair value. Investment income is recognized in accordance with GASB Statement No. 25 and is stated net of investment manager fees and related expenses.

Cash or Equity in Pooled Cash and Investments on Deposit with Wells Fargo Bank and the City of San Diego

In June 2009, SDCERS opened accounts with Wells Fargo Bank from which retiree benefits and operational expenses are paid. The City now funds only the cash flow associated with the salary expense of SDCERS' employees. Up to the end of June 2009, SDCERS participated in the City's cash and investment pool that is available to all departments 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 CAFR. Interest is earned on the pooled funds. SDCERS had a total of $3.2 million in deposits and pooled cash as of June 30, 2009.

Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents

The balance in the audited financial statements of Cash and Cash Equivalents on Deposit with the Custodial Bank and Fiscal Agents of SDCERS' investment managers totaled $371.7 million as of June 30, 2009.

Receivables

SDCERS' receivables reflect accrued employer and employee contributions due to SDCERS and member contributions for executed purchase of service contracts where payment is pending. See *Note 4. Contributions* for additional discussion and disclosure regarding purchase of service contracts.

In accordance with GASB Statement No. 25, securities sold represents a receivable of cash under trade date accounting. Cash is received as of the transaction settlement date, which is typically trade date plus one to three business days.

Investments

The Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS' agents, in SDCERS' name, manage all investments, which are stated at fair value in the accompanying Statement of Plan Net Assets. SDCERS' custodian, State Street, provides the market values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the market values of which are provided by the respective custodians. Directly-owned real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third-party appraisal firms.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Capital Assets

Purchased capital 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

Liabilities

Liabilities reflect accrued financial obligations of SDCERS as of June 30, including the repayment of securities lending collateral at a future date. In accordance with GASB Statement No. 25, securities purchased represent a payable of cash that is required under trade date accounting to settle pending purchases on a settlement date basis, which is typically trade date plus one to three business days. Also included within Liabilities are DROP reserves. DROP is a voluntary program created by SDCERS' plan sponsors to provide members with an alternative method to accrue benefits in SDCERS. See the Actuarial Section for further details on the DROP program. In addition, a Net Pension Obligation (NPO) and Net Other Post Employment Obligation (OPEB) is shown representing that portion of the City's NPO and OPEB that is apportioned to SDCERS employees.

Expenses

SDCERS' administrative expenses are paid from plan assets. Fees for investment management, actuarial services, custodial bank services and other operational costs are netted against annual additions to plan assets.

Income Taxes

Under Internal Revenue Code Section 401(a) and California Revenue and Taxation Code Section 23701, SDCERS' Group Trust and the three separate defined benefit plans participating in the Group Trust are exempt from federal and state income taxes. Accordingly, no provision for income taxes is made in the financial statements. SDCERS received a favorable determination letter from the Internal Revenue Service in January 2008. While a determination letter is not required for a defined benefit plan to be tax-qualified, it confirms SDCERS' status as a qualified governmental pension plan. In June and August 2008, SDCERS filed applications for determination letters for the Group Trust and for the separate plans and trusts sponsored by the City, Port and Airport. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009. The applications for the separate plans and trust applications remain pending.

Use of Estimates

The preparation of SDCERS' financial statements in conformity with GAAP requires SDCERS' management to make estimates and assumptions that affect the reported amounts of Net Assets Held in Trust for Pension Benefits as of the date of the financial statements. These estimates also affect the actuarial information included in the footnotes and the Required Supplementary Information as of the valuation date, the changes in plan net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements.

Comparative Totals

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SDCERS' financial statements for the year ended June 30, 2008, from which the summarized information was derived.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

2. Plan Descriptions

General

SDCERS administers three separate defined benefit pension plans for the City, Port and Airport, and SDCERS provides service retirement, disability retirement, death, and survivor benefits to its participants. Employees of the Port became members of SDCERS in 1963. Pursuant to an amendment to the San Diego City Charter in 2002, the Port contracts directly with SDCERS to administer its defined benefit plan. On January 1, 2003, the State of California established the Airport as a separate agency. In 2003, the Airport entered into an agreement with SDCERS to have SDCERS administer its defined benefit plan.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified multiple employer defined benefit plan for the City, the Port and the Airport. However, as of July 1, 2007, the City, Port and Airport plans have been separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, Port and Airport, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit, and final compensation, typically based on the highest salary earned over a one-year or three-year period. SDCERS also coordinates the benefits for the City's post-employment healthcare benefit plan.

The Port and Airport Plans provide for five-year vesting for employees to be eligible to receive pension benefits. Beginning January 1, 2009, new Port employees do not begin to earn a benefit until their sixth year of employment. The City Plan requires ten years of service for its employees to vest for a pension benefit. Beginning on January 3, 2003, the City's ten years of service can be a combination of time worked (service earned) and purchased service.

SDCERS is included in the City's CAFR as a blended component unit and reported as a pension trust fund in its fiduciary funds.

Membership

All City, Port and Airport employees receiving employment benefits are eligible to participate in SDCERS. Salaried employees hired on or after August 11, 1993, became members of SDCERS upon employment, except for elected officers who have the option to join.

SDCERS' participants consist of Retirees (retired members and beneficiaries receiving benefits, and DROP participants) and Members (active members and inactive members entitled to benefits but not yet receiving them).

The following membership table provides information on the number of members by category for each plan sponsor. SDCERS' total number of participants increased by 343 in FY 2009. This was comprised of a net decrease of 123 Members and increase of 466 Retirees.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

As of June 30, 2009

	City General Members	City Safety Members	Port All Members	Airport All Members	Total Members
Active	5,825	2,449	563	339	9,176
Inactive	2,298	528	282	67	3,175
Retirees	3,980	2,659	354	16	7,009
DROP Participants	448	284	37	6	775
Totals	12,551	5,920	1,236	428	20,135

City Post-Employment Healthcare Benefit Plan (HCB Plan)

Pursuant to the San Diego Municipal Code, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City's post-employment healthcare benefit plan for health-eligible retirees. Post-employment healthcare benefits for members retiring from City employment are based on their health-eligibility status. SDCERS also coordinates a special healthcare benefit for spouses and dependents of eligible City employees killed in the line of duty. The HCB Plan is funded by the City and reported in its CAFR.

3. Deposits and Investments

Cash

At June 30, 2009, SDCERS' cash or equity in pooled cash and investments was $3.2 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was $371.7 million, which includes cash collateral from market neutral portfolios of $187.5 million, cash collateral for SDCERS' cash overlay program of $30.6 million, and residual cash held in each manager's portfolio, which is invested overnight by SDCERS' custodial bank, of $135.1 million, and cash balances available to pay benefits and expenses of $18.5 million. SDCERS does not have a target allocation to cash; any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS' operational expenses.

Investments

The Board has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the Charter of the City and the California State 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 may also invest in additional investments as approved by resolution of the City Council. These investments include bonds, notes or other obligations, real estate investments, common stock, preferred stock and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the Board to invest in financial futures contracts provided the contracts do not hedge SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at market value each day and must be settled at expiration date. Changes in the market value of the contracts results in the recognition of a gain or loss under GASB Statement No. 25.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Investment earnings are recorded in accordance with GASB Statement No. 25. Net investment income includes the net appreciation/depreciation in the fair value of investments, interest income, dividend income, and other income not included in the appreciation/depreciation in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS had current year realized losses that totaled $314.9 million for the year ended June 30, 2009. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year.

Through its investment objectives and policies, the Board has placed considerable importance on both generating a reasonable rate of return above inflation and on the preservation of capital. Investments are made only after the risk/reward trade-offs are clearly understood.

Securities Lending

SDCERS has entered into an agreement with State Street, its Custodian Bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During FY 2009, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. In addition, State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from a default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk and collateral reinvestment risk. During the fiscal year, the two collateral pools that SDCERS was invested in and managed by State Street were impacted by market events and the credit crunch. Market values of securities held in the collateral pools declined as liquidity evaporated. However, SDCERS' investments in the collateral pools did not realize any losses. State Street 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.

As of June 30, 2009, securities on loan collateralized by cash had a fair value of $382.5 million, and a collateral value of $395.1 million, which was reported in the assets and liabilities in the accompanying Statement of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. As of June 30, 2009, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $35.0 million, and a collateral value of $36.8 million, which were not reported in the assets or liabilities in the accompanying Statement of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end June 30, 2009, for its securities lending activities was $395.1 million.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other lenders of securities of qualified tax-exempt plans, in a collective investment pool. Because the securities loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. As of June 30, 2009, this investment pool had an average duration of 42.64 days and an average weighted maturity of 317.62 days for USD collateral. Beginning in FY 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. As of June 30, 2009, the Euro collateral pool had an average duration of 35 days and an average weighted maturity of 508 days.

Portfolio Risk – Credit, Interest Rate, and Foreign Currency

SDCERS investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on efficient model portfolios developed from an annual asset allocation study. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year to reflect changes in capital market assumptions. SDCERS' target allocation to fixed income strategies as of June 30, 2009 was 29%. The fixed income allocation is externally-managed and is comprised as follows: 22% to core-plus domestic fixed income, which is benchmarked against the Barclays Capital Aggregate Bond Index, and 4% to non-U.S. fixed income, which is benchmarked to the Citigroup Non-U.S. Government Bond index; and, 3% to convertible bond securities, which is benchmarked to the Merrill Lynch Convertible Index, All Qualities. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

SDCERS also has a 5% target allocation to an unsecuritized market neutral strategy which is benchmarked to the Merrill Lynch 1-5 year Government/Corporate index. The market neutral and convertible bond strategies do not exhibit interest rate risk and duration is not relevant in structuring these portfolios. Convertible securities diversify SDCERS' fixed income portfolio and are expected to provide a higher rate of return than traditional fixed income strategies due to their conversion feature. Convertible securities are not likely to decrease in value during a rising interest rate environment because their valuation is tied to the underlying value of the company's common stock. This low correlation to fixed income assets provides additional diversification to the portfolio's fixed income allocation. SDCERS' market neutral strategy was added to SDCERS' fixed income strategy in 1998; in May 2009, the Board voted to reduce the market neutral allocation from 9% to 5%, with the 4% reduction re-allocated to core-plus domestic fixed income. This strategy uses equity securities held long and sold short with the cash proceeds of the short sales held in a cash account invested in U.S Government Federal Funds (Fed Funds). The total return of the market neutral strategy can be impacted by the interest rate offered on Fed Funds deposits. This strategy is benchmarked to a shorter duration bond index that in a normal interest rate environment would be expected to have a lower yield at the short end of the interest rate curve. The market neutral strategy has a low correlation to traditional fixed income strategies and is a proxy for a shorter-duration defensive fixed income strategy.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Credit Risk

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. Nationally-recognized statistical rating organizations (NRSROs) assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors. SDCERS employs two core-plus bond managers that invest in a wide variety of fixed income and derivative securities. The investment management agreements between SDCERS and its two core-plus bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core-plus fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core-plus fixed income manager is limited to U.S. fixed income investments only.

The permitted securities and derivatives for the two domestic core-plus fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, and asset backed securities. Investment guidelines include minimum average portfolio quality of A rating (market value weighted); and, minimum credit quality at time of purchase of 80% Baa/BBB and 20% B for a domestic core-plus fixed income manager; and Ba/BB for core-plus fixed income manager with tactical discretion to invest in non-U.S. fixed income strategies.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks, and straight debt and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average rating of at least BB+.

The permitted securities and derivatives for SDCERS' international fixed income portfolio include international corporate securities, sovereign debt instruments, and international asset backed securities. SDCERS' international fixed income portfolio has the following credit and market risk parameters: minimum average portfolio quality of A rating (market value weighted); and, minimum credit quality at time of purchase of BBB- or equivalent rating by at least one of the major rating services, e.g., Moody's, S&P, Fitch.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2009.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)
As of June 30, 2009

(All Values are in U.S. Dollars, in thousands)

S&P Quality Rating	Total Fair Value	Collateralized Mortgage Obligations	Corporates[1]	Government & Agency Obligations[2]	Asset-Backed Securities	Short-Term/ Other
U.S. Treasury	$ 22,140	$ –	$ –	$ 22,140	$ –	$ –
AAA	550,994	83,537	36,686	408,662	22,109	–
AA+	25,931	–	10,046	10,926	4,959	–
AA	28,308	–	19,450	8,121	737	–
AA-	15,950	–	15,950	–	–	–
A+	41,504	–	26,692	2,212	–	12,600
A	58,648	313	57,678	657	–	–
A-	21,786	–	21,786	–	–	–
BBB+	14,733	–	13,581	253	899	–
BBB	10,125	–	4,958	1,384	3,783	–
BBB-	16,460	73	11,896	492	3,999	–
BB+	1,484	528	956	–	–	–
BB	5,529	1,485	4,044	–	–	–
BB-	5,152	1,864	2,143	197	948	–
B+	2,066	–	2,066	–	–	–
B	4,247	–	2,923	–	1,324	–
CCC+	1,849	–	1,849	–	–	–
CCC	2,496	1,541	955	–	–	–
CC	6,239	–	6,239	–	–	–
NR	202,902	14,924	131,662	30,860	5,523	19,933
Totals	$ 1,038,543	$ 104,265	$ 371,560	$ 485,904	$ 44,281	$ 32,533

[1]Corporates include convertible bonds from SDCERS' convertible bond manager.
[2]Includes international and municipal holdings.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, U.S. Government Agency securities have been included in this credit risk disclosure as AAA. NR represents those securities that are not rated by one of the NRSROs.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2009, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. Cash and cash equivalents on deposit with SDCERS' custodial bank totaled $184.2 million as of June 30, 2009.

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled $35.0 million as of June 30, 2009 and are at risk as the collateral for these loaned securities is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled $395.1 million as of June 30, 2009, is also at risk as it is invested in a pooled vehicle managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending section in the Notes to the Financial Statements.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2009, SDCERS had no single issuer that exceeded 5% of total investments, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. With respect to the concentration of credit risk by issue, SDCERS' Investment Policy Statement states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines places limits on each portfolio to manage interest rate risk.

Convertible bonds are typically not subject to interest rate risk as convertible bonds are positively correlated to interest rate movements versus other fixed income securities. The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2009.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2009
(All Values are in U.S. Dollars, in thousands)

Type of Security	Effective Duration (in years)	Fair Value[1]
Collateralized Mortgage Obligations:		
Collateralized Mortgage Obligations	7.65	$104,265
Corporates:		
Corporate Bonds	4.07	267,080
Government & Agency Obligations:		
FHLMC	3.52	61,308
FNMA	2.80	282,624
GNMA I	5.07	15,006
GNMA II	1.29	954
Treasury Strips	18.90	1,762
Government Issues	5.64	118,705
Municipals	11.71	5,545
Asset-Backed Securities:		
Other Asset-Backed Securities	1.13	44,281
Total	4.79	$901,530

[1]Fair Value does not include convertible bonds, short-term investments and derivative securities of $137,013.
These securities do not exhibit interest rate risk and duration cannot be calculated.

Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table above discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total value of securities, as of June 30, 2009, that are highly sensitive to interest changes due to factors other than term to maturity are shown in the table below.

Investments Highly Sensitive to Interest Rate Changes
As of June 30, 2009
(Dollars in thousands)

	Market Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	$11,133	1.1%
Asset Backed Securities	27,238	2.6
Floating Rate Notes	66,237	6.4
Interest Only Strips	1,713	0.2
Inverse Floating Rate Notes	2,970	0.3
Range Notes	2,626	0.3

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents securities held in a foreign currency as of June 30, 2009.

Foreign Currency Risk[1]

As of June 30, 2009

(All Values are in U.S. Dollars, in thousands)

Local Currency Name	Cash	Equity	Fixed Income	Total Fair Value
Australian Dollar	$689	$17,271	$11,717	$29,677
Brazilian Real	-	6,700	-	6,700
Canadian Dollar	97	11,312	2,570	13,979
Swiss Franc	4	34,855	-	34,859
Danish Krone	4	4,707	14,785	19,496
Euro Currency	989	162,934	69,880	233,803
Pound Sterling	356	116,202	3,647	120,205
Hong Kong Dollar	212	48,001	-	48,213
Indonesian Rupiah	-	1,153	-	1,153
Japanese Yen	1,588	124,209	39,826	165,623
South Korean Won	1	729	-	730
Norwegian Krone	128	121	-	249
New Zealand Dollar	-	605	-	605
Philippine Peso	-	140	-	140
Swedish Krona	103	7,357	4,437	11,897
Singapore Dollar	5	6,953	-	6,958
Taiwan Dollar	37	3,360	-	3,397
South African Rand	-	2,093	-	2,093
Totals	$4,213	$548,702	$146,862	$699,777

[1]The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. A significant component of the diversification benefit of non-domestic investments comes from foreign currency exposure. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Derivative Instruments

SDCERS' investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the SDCERS' Investment Policy Statement. These instruments include futures, options and swaps, but by Board policy, may not be used to leverage SDCERS' portfolio, i.e., to use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used primarily to enhance a portfolio's performance and reduce the portfolio's risk or volatility. The notional or contractual amount of futures contracts as of June 30, 2009 was $350.6 million. The fair value of of options and swaps, included in the short-term investments line on the Statement of Plan Net Assets, was $7.9 million as of June 30, 2009.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument on a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the purchaser chooses to exercise the option. SDCERS uses exchange-traded and over-the-counter options. Options are sold and proceeds are received to enhance fixed income portfolio performance. Option contracts sold were predominately on money market and short-term instruments of less than one-year to maturity. In call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, in put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

Swap agreements are used to modify investment returns or interest rates on investments. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts and could expose investors to credit risk in the event of non-performance by counterparties.

In January 2009, SDCERS implemented a cash overlay program with the objective of keeping the portfolio performing more closely to its target asset allocation. SDCERS does not have an allocation to cash, but the portfolio will have cash balances held at the investment manager level to settle trades. The overlay program utilizes futures contracts as an inexpensive, highly liquid method of maintaining the portfolio's exposures to the target allocation.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established the following portfolio composition target: a minimum of 30% in stable core real estate, and a maximum of 70% in enhanced and high return real estate. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities pursuant to a policy adopted by the Board in FY 2007. Unfunded capital commitments as of June 30, 2009 totaled $111.3 million. As of June 30, 2009, real estate investments totaled $350.5 million.

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined rates designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. For FY 2008 contributions, the Normal Cost and Actuarial Accrued Liability were determined using the Projected Unit Credit (PUC) actuarial funding method. Beginning in FY 2009, contributions are calculated under the Entry Age Normal (EAN) actuarial funding method, in accordance with methodology changes approved by the Board in September and October 2006.

The City, Port and the Airport make annual plan sponsor contributions to SDCERS based upon the ARC as determined by SDCERS' actuary. In addition, all three plan sponsors made contributions above this amount in FY 2009.

Beginning with the June 30, 2007 Actuarial Valuation, the City's UAL are amortized over a closed 20-year period, and the first payment was made in FY 2009 on July 1, 2008. Annual changes beginning with the June 30, 2008 valuation are amortized over a closed 15-year period. The ARC formula includes an amount to ensure there is no negative amortization of the City's UAL. The Port's UAL is being funded as a level percent of payroll over a 30-year, closed amortization period that began July 1, 1991 (13 years remaining as of the June 30, 2008 actuarial valuation). The Airport's UAL is being funded over an 18.5-year closed amortization period that began January 1, 2003 (13 years remaining as of the June 30, 2008 actuarial valuation).

The following table illustrates the required plan sponsors' contribution rates as calculated annually by SDCERS' actuary, Cheiron.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

FY 2009 Contribution Rates (As of July 1, 2008)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2007, Actuarial Valuation)					
	General	Elected Officers	Police	Fire	Lifeguard	Weighted Total
Normal Cost[1]	9.87%	20.64%	18.59%	17.83%	20.39%	12.92%
Amortization Payment[1,2]	13.84	27.10	23.07	27.41	18.21	17.53
Total Contribution Rate	23.71	47.74	41.66	45.24	38.60	30.45
Total Contribution Rate if paid at the beginning of the year (July 1, 2008)	22.81	45.94	40.08	43.54	37.14	29.30

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (June 30, 2007, Actuarial Valuation)		
	General	Elected Officers	Police
Normal Cost[1]	13.94%	18.40%	15.28%
Amortization Payment[1,2]	3.80	3.75	3.81
Total Contribution Rate	17.74	22.15	19.09
Total Contribution Rate if paid at the beginning of the year (July 1, 2008)	17.07	21.31	18.37

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2007, Actuarial Valuation)
	All Members
Normal Cost[1]	14.84%
Amortization Payment[1,2]	-1.69
Total Contribution Rate	13.15
Total Contribution Rate if paid at the beginning of the year (July 1, 2008)	12.66

[1]Rates assume that contributions are made uniformly during the plan year.

[2]To avoid "negative amortization," the amortization payment includes full interest on the UAL.

Members are required to contribute a percentage of their annual salary to each plan in the Group Trust. Contributions vary according to the member's age at the time of enrollment and member's group (e.g., safety, general and elected officers).

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Member average contribution rates for FY 2009 for each member class are shown below. Averages shown apply to salary amounts over $400 per month in the case of members with social security integrated benefits.

	City	Port	Airport
General Members*	10.06%	9.83%	n/a
Safety Members*	12.69%	12.74%	n/a
All Members	n/a	n/a	10.02%

*General Members includes Elected Officers; Safety Members include Police, Fire, and Lifeguard Members, as applicable.

All or part of the member's contribution rate may be subject to a reduction for member contributions paid by the employer, as determined through annual meet and confer negotiations between the employers and employee bargaining groups. The rates above (actuarially determined amounts) are shown before any applicable reduction. Member contributions paid by the employer and related accumulated interest are not refunded to the members at termination; only a member's actual contributions made plus credited interest are refunded to a member at termination of employment, upon the member's request.

In accordance with the FY 2009 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary:

For Elected Officers:	5.89%
For General Members:	1.40% to 5.40%
For Police Members:	4.10%
For Fire Members:	2.40% to 4.30%
For Lifeguard Members:	3.30% to 4.30%

The City's aggregate member contributions made to SDCERS are discounted (prior to being contributed to SDCERS) by the anticipated savings from member terminations from City employment. The discount is 5.00% for general members and 1.00% for safety members.

For FY 2009, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	6.00% to 7.00%
For Safety Members:	6.00%
For Management Members:	7.50% to 8.50%

For FY 2009, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	7.00%
For Management Members:	8.50%

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Neither the Port nor the Airport discounts its aggregate member contributions to SDCERS by any anticipated savings from member terminations from Port or Airport employment.

SDCERS' members are allowed to purchase certain types of service credit, usually related to periods of missing service credit or missing employee contributions. The San Diego Municipal Code provides that City members may purchase service credit. For Airport members and Port members, their respective plan documents outline the purchase of service credit provisions.

Beginning in 1997, City and Port members became eligible to purchase an additional five years of service credit, in addition to their actual employment service credit. Airport members became eligible to purchase an additional five years of service credit at inception of their Plan on January 1, 2003. The five-year purchase may be applied toward the vesting requirements for the City members, but not for Port or Airport members. The option to purchase an additional five years of service credit was discontinued by the City, Port, and Airport for employees hired on or after February 16, 2007, October 1, 2005 and October 3, 2006, respectively.

A member may pay for purchases of service credit by: lump sum payments from personal funds; direct transfers from the City's Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plan; or bi-weekly installment payment plans. Both pre-tax and post-tax payment plans have been permitted. However, recent guidance by the Internal Revenue Service will restrict the availability of pre-tax payment plans in the future. The length of the installment contracts varies but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

The table below describes a member's cost to purchase one year of service credit:

		Cost as of November 2003 (% of Current Salary)
City of San Diego		
	General Members	27%
	Safety Members	37%
	Legislative Members	50%
Port/Airport		As of July 2004
	General Members	32%
	Safety Members	38%
	Executive Members	34%

On December 19, 2008, the Board approved a revised pricing methodology for purchase of service applications received after that date. The new pricing formula is based on the age and service of each requesting member, with an automated calculator being utilized instead of published tables.

As of June 30, 2009, a total of 682 members were making payments on installment contracts. Service credit purchased under an installment contract is not an actuarial accrued liability of SDCERS until the purchase is paid by the member. A receivable for purchased service contracts (both installment contracts and pending lump sum payments) totaling $11.5 million has been included in the accompanying Statement of Plan Net Assets for the DB Plan at June 30, 2009.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

5. Reserve Balances

The San Diego Municipal Code authorizes the Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the Trust Fund's reserves are a result of realized investment gains or losses and member and plan sponsor contributions received. These changes are distributed in accordance with the San Diego Municipal Code.

Reserve balances as of June 30, 2009 (in thousands):

	2009
Reserved for Investments in Properties	$377
Reserved for Receivables	11,558
Reserved for Member Contributions	706,534
Reserved for Plan Sponsor Contributions	868,359
Reserved for Retired Members	2,021,858
Plan Continuation Liability	1,323,372
Fund Deficit - Equivalent to Plan Continuation Liability	(1,323,372)
Reserved for Supplemental COLA	10,985
Undistributed Earnings Reserve	93,658
Total Reserves[1]	$3,713,329

[1]Total Reserves will differ from Plan Net Assets Held in Trust for Pension Benefits in the audited financial statements as investments are stated at fair value (market value) at June 30 each year. Unrealized losses at June 30, 2009 were $359.0 million.

Reserved for Investments in Properties. This represents the un-depreciated cost of SDCERS office equipment.

Reserved for Receivables. This represents the balance of funds expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

Reserved for Members Contributions. This represents the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

Reserved for Plan Sponsors Contributions. This represents the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

Reserved for Current Retired Members. This represents funds sufficient, based upon advice of the actuary, to pay present and future benefits of current retired members. Upon retirement, members' contribution balances are transferred from Reserved for Members Contributions to this reserve, along with sufficient funds from the Plan Sponsors Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Plan Continuation Liability. This represents the portion of the plan's actuarial accrued liabilities that were not funded as of the prior valuation date. It is calculated as the actuarial present value of credited projected benefits minus the actuarial value of assets and totaled for all three plan sponsors; this is the same as the Unfunded Actuarial Liability (UAL) totaled for all three plan sponsors. Values are based on the June 30, 2008 actuarial valuation.

Fund Deficit - Equivalent to Plan Continuation Liability. This represents the dollar amount not reserved for the portion of UAL of the City's, Port's, and Airport's plans.

Reserved for Supplemental COLA. These are funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1982 for the rest of their lives or until this reserve is depleted, whichever comes first.

Undistributed Earnings Reserve. This represents the balance of earnings remaining after the annual distribution to the members' and plan sponsors' reserve accounts in accordance with the Board-established assumed rate of interest. At the beginning of each fiscal year, the Board credits all Surplus Undistributed Earnings to the Reserve for Plan Sponsors Contributions in order to reduce SDCERS' current liabilities. The City's external auditor has completed their review of the FY 2007 calculations and their report was approved at the October 2009 Board meeting. The FY 2008 and FY 2009 surplus will be credited following completion of the FY 2009 audit.

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2008 is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAL as A Percentage Of Covered Payroll ((b – a) / c)
City	$4,660,346	$5,963,549	$1,303,203	78.1%	$535,774	243.2%
Port	245,580	267,036	21,456	92.0%	38,635	55.5%
Airport	58,096	56,808	(1,288)	102.3%	23,488	-5.5%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

Additional information as of the latest actuarial valuation follows:

	City	Port	Airport
Valuation date	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent; closed	Level percent; closed	Level percent; closed
Remaining amortization period	19 years for 2007 UAL; 15 years for 2008 UAL; no negative amortization	13 years for 2007 UAL; 15 years for 2008 UAL; no negative amortization	13 years for 2007 UAL; 15 years for 2008 UAL; no negative amortization
Asset valuation method	Smoothed market 25% current market and 75% prior AVA	Smoothed market 25% current market and 75% prior AVA	Smoothed market 25% current market and 75% prior AVA
Actuarial Assumptions:			
- Investment rate of return	7.75%	7.75%	7.75%
- Wage inflation	4.0%	4.0%	4.0%
- Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	1.0% to 5.0%
- Cost of living increase	2%	2%	2%

The June 30, 2008 actuarial valuations were based on revised actuarial assumptions. In July 2008, the Board received Cheiron's Experience Study Results and Recommendations for the period covering July 1, 2004 to June 30, 2007. At the September 2008 Board meeting, the following Actuarial Assumption changes recommended by Cheiron in the Experience Study were formally approved:

- Retirement rates by age were replaced by retirement rates by years of service and were increased;
- Termination rates by age and service were increased;
- Disability rates by age were decreased;
- Active and retiree mortality rates were updated to new tables;
- The wage inflation assumption was lowered from 4.25% to 4.0%; and
- The rate of investment return assumption was lowered from 8.0% to 7.75%.

The financial impact of all economic and demographic assumption changes on the June 30, 2008 UAL is being amortized over 30 years. The complete Experience Study and the Actuarial Valuations for the City, Port, and Airport are available at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

7. Preservation of Benefit Plan (POB Plan) Activity

In October 2008, the IRS issued three Private Letter Rulings approving the City, Port, and Airport POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the DB Plans that exceed the IRC Section 415(b) limits.

The POB Plans are unfunded within the meaning of the federal tax laws, requiring the plan sponsor to fund the Plans on a pay-as-you-go basis. The plan sponsor retains title to any assets, including cash or other investments, that they designate to pay POB Plan benefits. Benefits payable from and the costs of administering the POB Plans, as determined by SDCERS and its actuary, are paid by the respective plan sponsor. To date, there have been no payments to or from the Airport's POB Plan.

The City deposited $1,213,000 to its POB Plan to pay benefits for FY 2009. Actual benefits and administrative costs paid from the City's POB Plan in FY 2009 totaled $1,312,000. A balance of $27,000 remained in the fund at June 30, 2009 and will be carried forward to pay the City's FY 2010 POB Plan expenditures, currently estimated at $1,107,000. In July 2009, the City transferred $500,000 into the POB Plan to fund FY 2010 payments.

The Port deposited $81,000 into its POB Plan to pay benefits and administrative costs for FY 2009, the first year such payments were made. Actual benefits paid were $39,000, leaving $42,000 available to pay plan benefits in FY 2010. The Port transferred an additional $33,000 into its POB in July 2009.

POB Plan activity is disclosed within this CAFR's Agency Fund disclosures and is also included in the City and Port's financial statements and CAFRs.

8. Leases

Operating Leases

The following is a schedule of future minimum rental payments required under an operating lease entered into by SDCERS that has an initial, non-cancelable lease term in excess of one year as of June 30, 2009:

Year Ending June 30	(in thousands)
2010	898
2011	931
2012	963
2013	997
2014	1,031
2015-2019	4,604
Total	$9,424

Rent expense related to operating leases was $730,000 for the year ended June 30, 2009.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

9. Legal Action

William J. McGuigan, et al. v. City of San Diego, San Diego Superior Court, case number GIC 849883.

In June 2005, William J. McGuigan, a retired City employee, filed a class action complaint claiming that the City failed to fund the retirement plan as required by the City Charter and San Diego Municipal Code. SDCERS was not a party to the action, but it was impacted by its settlement.

In December 2006, the Court approved the settlement on the following terms: the City (1) will receive credit for having paid SDCERS $100 million in June 2006; and (2) will pay SDCERS an additional $73 million plus interest over 5 years, to be secured by property of comparable value. In SDCERS v. City of San Diego, Case Number GIC 841845, SDCERS contends that the City is not entitled to credit for the $100 million payment because the payment, consisting of bond proceeds from a tobacco securitization transaction, was made to SDCERS in June 2006, six months before the McGuigan matter was settled. The settlement in the McGuigan case was appealed by the San Diego Police Officers' Association (POA). In September 2008, the Court of Appeal upheld the settlement approved by the trial court.

Disclosures in the City's 2011 – 2015 Five-Year Financial Outlook issued in October 2009 claim (but SDCERS disputes in Case Number GIC 841845) that of the amount due SDCERS under the settlement, the City's funding contributions through securitization of future tobacco revenues, actual tobacco revenue receipts, and payments in excess of ARC City contributions result in a remaining obligation of $39.1 million, to be paid to SDCERS in June 2011.

San Diego City Employees' Retirement System v. City of San Diego and City Attorney Michael Aguirre, and related cross complaint, San Diego Superior Court, case number GIC 841845 and San Diego City Employees' Retirement System v. City of San Diego, San Diego Superior Court, case number GIC 851286.

In January 2005, SDCERS filed a complaint for declaratory relief asserting SDCERS' right to employ its own legal counsel, on which SDCERS prevailed by way of motion for summary judgment in March 2006. This matter was consolidated with multiple other lawsuits between the City, SDCERS and City employees' unions over the legality of certain pension benefits the City granted during the past decade. In 2007, the unions prevailed on all claims at the trial court level, and the City appealed. In December 2008, the Court of Appeal dismissed the City's appeal as premature and transferred the case back to the trial court for trial of SDCERS' compulsory cross-complaint against the City for recovery of past underfunding of SDCERS. In November 2009, the City's motion for summary judgment on SDCERS' cross-complaint was denied. Trial has been set for March 2010. The City's appeal will not return to the Court of Appeal until after trial of SDCERS' cross-complaint is completed.

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2007-00077604-CU-MC-CTL.

In October 2007, the City filed a declaratory relief action against SDCERS for a judicial declaration that certain pension benefits were eliminated from SDCERS' retirement plan effective July 1, 2005. SDCERS contends the benefits were not eliminated until February 16, 2007. SDCERS demurred to the complaint on the grounds that the City failed to name as defendants those individual employees whose retirement benefits would be affected by a determination of the effective date of the amendments to Municipal Code section 24.1201.1. SDCERS' demurrer was sustained in March 2008. The City has filed an amended complaint naming a defendant class of employees. Notice of the litigation has been sent to class members and defendant class counsel has been assigned.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2007-00081912-CU-WM-CTL.

In November 2007, the City filed a petition for a writ of mandate seeking an order vacating a decision by the Board to continue to amortize the portion of the unfunded accrued actuarial liability attributable to underpriced purchased service credits as part of SDCERS' UAL. In November 2008, the Court granted the petition and directed that the Board's November 16, 2007 vote be set aside only to the extent it continued to authorize amortization of underfunding resulting from service credits purchased between August 15 and November 1, 2003, by employees who were still employed by the City as of November 20, 2007. SDCERS has appealed the Court's decision.

San Diego Police Officers' Association v. Michael Aguirre, et al., U.S. District Court, Southern District of California, case number 05CV1581.

In August 2005, the POA as a representative body filed a complaint for damages, declaratory and injunctive relief against the City Attorney, the City, SDCERS, and SDCERS' former Retirement Administrator, past and present members of the City Council, certain former Board members, the former City Auditor, and the past and present City Managers. The POA alleged that the City had engaged in unfair labor negotiation tactics and asserted claims related to MP1 and MP2 and healthcare benefits. Judgment was entered in favor of defendants and the action was dismissed in August 2007. The POA appealed. In June 2009, the Ninth Circuit affirmed the District Court's dismissal of the action in its entirety, against all defendants.

Erica Aaron, et al. v. Michael Aguirre, et al., U.S. District Court, Southern District of California, case number 06CV1451.

In July 2006, Erica Aaron filed a class action lawsuit on behalf of active and retired members of the POA naming SDCERS and others as defendants. The lawsuit is essentially identical in substance to POA v. Aguirre, Case No. 05CV1581. In September 2008, SDCERS prevailed on its motion for summary judgment, and plaintiffs appealed. It is anticipated that oral argument on the appeal will be heard in early 2010.

San Diego Police Officers' Association v. Michael Aguirre, et al., San Diego Superior Court, case number 37-2007-00075432-CU-MC-CTL.

In September 2007, the POA filed a complaint for damages and declaratory and injunctive relief against the City Attorney, the City, SDCERS, various past and present members of the City Council, various former Board members, the former City Auditor, two former City Managers and a former Deputy City Manager. The allegations in this complaint mirror those in the federal case of POA v. Aguirre, Case No. 05CV1581, concerning alleged improprieties surrounding the passage and implementation of MP1 and MP2.

The POA filed a second amended complaint in June 2008. The parties have stipulated to stay the case pending a decision in SDCERS v. City of San Diego, Case No. GIC 841845.

Mark Annis, et al., v. City of San Diego, et al., San Diego Superior Court, case number 37-2008-00092949-CU-BC-CTL

In October 2008, a class action was filed by Mark Annis on behalf of active and retired San Diego police officers. The lawsuit asserts causes of actions for violation of public policy, violation of the Meyer-Millias-Brown Act, breach of fiduciary duty, breach of trust, breach of contract and fraud and seeks an accounting, declaratory relief and a writ of mandate.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

In September 2009, the Court executed an order dismissing the lawsuit in its entirety against SDCERS, finding that plaintiffs' could not obtain meaningful relief from SDCERS.

Erica Aaron, et al., v. City of San Diego, et al., San Diego Superior Court, case number 37-2008-00093078-CU-OE-CTL.

In October 2008, a class action was filed by Erica Aaron on behalf of active and retired San Diego police officers. The lawsuit asserts causes of action for violation of public policy, violation of the Meyer-Milias-Brown Act, breach of fiduciary duty, breach of trust and breach of contract and seeks an accounting, writ of mandate and declaratory relief.

In March 2009, the parties stipulated to a stay in the proceedings until the resolution of the related proceedings in state court in POA v. Aguirre, Case No. 37-2007-00075432_CU-MC-CTL.

United States of America v. Ron Saathoff, et al., U.S. District Court, Southern District of California, case number 06CR0043-BEN.

In January 2006, a federal grand jury filed indictments against former Board members, Ron Saathoff, Cathy Lexin, and Terri Webster, as well as SDCERS' former Retirement Administrator, Lawrence B. Grissom, and SDCERS' former General Counsel, Loraine Chapin. The indictment states charges arising from alleged violations of Title 18, U.S.C. Section 371, conspiracy to commit wire and mail fraud; Title 18, U.S.C. Sections 1343 and 1346, mail fraud; and Title 18, U.S.C. Section 2, aiding and abetting. In October 2008, the U.S. Attorney's Office amended the indictment to include additional wire and mail fraud charges.

Pursuant to a resolution approved by the Board in March 2006, SDCERS has entered into defense agreements with Mr. Grissom and Ms. Chapin. Each agreement is secured by collateral and requires repayment to SDCERS of all attorneys' fees in the event of any conviction or guilty plea arising from this action. In FY 2009, SDCERS paid $89,471 in defense costs for Mr. Grissom and $122,103 in defense costs for Ms. Chapin. The total defense costs paid through June 30, 2009 are $806,721 for Mr. Grissom and $577,991 for Ms. Chapin.

San Diego Municipal Employees' Association, et al. v. City of San Diego, et al., San Diego Superior Court case number 37-2008-00096145.

In June 2008, a complaint was filed against the City and SDCERS by Judith Italiano and the Municipal Employees' Association (MEA) stating claims against SDCERS for breach of fiduciary duty, infliction of emotional distress and restoration of her pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in compliance with the Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects.

SDCERS disputes liability and is defending against the allegations asserted in this action.

San Diego City Firefighters, Local 145 and Robert Blizzard v. San Diego City Employees' Retirement System and City of San Diego, San Diego Superior Court, case number 37-2008-000932170-CU-OE-CTL.

In October 2008, the San Diego City Firefighters, Local 145 and Robert Blizzard, a paramedic, filed a petition for writ of mandate as a representative action seeking to compel SDCERS to recalculate Mr. Blizzard's retirement benefits to include that portion of his salary paid at time and one-half and to calculate benefits for all similarly situated paramedics in the same manner. On October 27, 2009, the court issued a minute order denying the petition.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2009

City of San Diego v. San Diego Police Officers Association, San Diego Superior Court, case number 37-2009-86499-CU-PT-CTL

In April 2009, the City filed a petition for declaratory relief seeking an order that the POA meet and confer pursuant to the Meyers-Milias-Brown Act on changes to the DROP benefits for police officers. The POA cross-petitioned requesting a preliminary injunction prohibiting the City from increasing the DROP entry age from age 50 to age 55 and for a preliminary injunction against the City barring adjustment of the DROP interest rate. SDCERS is not a party to this litigation but could be impacted by the decision on benefits administered by SDCERS.

10. Subsequent Events

San Diego City Firefighters, Local 145 et al. v. SDCERS and City of San Diego, San Diego Superior Court, case number 37-2009-00099066-CU-WW-CTL

In September 2009 a complaint was filed against the City and SDCERS by the San Diego City Firefighters, Local 145, Ronald Saathoff and nine individual plaintiffs known collectively as the Annual Leave Plaintiffs stating claims against SDCERS for breach of fiduciary duty, and restoration of pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in compliance with the IRS's Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects. The litigation also involves claims of the Annual Leave Plaintiffs regarding the IRS decision in the December 1997 Compliance Statement that SDCERS lacked the legal authority to allow firefighter members to use annual leave time with the City of San Diego to "purchase" service credit in SDCERS, also known as the Cashless Leave Benefit.

Garry Collins, et al. v. City of San Diego and San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2009-00088422-CU-BC.

In September 2009, the POA and Garry Collins, Harry Eastus and James Farrar served a complaint on SDCERS, stating claims for breach of fiduciary duty, specific performance of contract, infliction of emotional distress, restoration of pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in compliance with the IRS's Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects. SDCERS disputes liability and is defending against the allegations asserted in this action.

Plan Sponsors' Contributions

On July 1, 2009, SDCERS received a total of $157.2 million in FY 2010 Plan Sponsor contributions: $154.2 million from the City and $3.0 million from the Airport. The Unified Port District paid their FY 2010 contribution of $7.2 million in June 2009.

The City and the Airport paid their contributions at the beginning of the fiscal year in order to fully invest contributions for the entire fiscal year and to take advantage of an actuarial discount in the calculation of the annual required contribution.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Funding Progress (Dollars in Thousands)

City of San Diego

Valuation Date	Valuation Assets	Continuation Indicators AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/08[1]	$4,660,436	$5,963,549	78.1%	$1,303,203	$535,774	243.2%
6/30/07[3]	4,413,411	5,597,653	78.8	1,184,242	512,400	231.1
6/30/06[2]	3,981,932	4,982,699	79.9	1,000,768	534,103	187.4
6/30/05	2,983,080	4,377,093	68.2	1,394,013	557,631	250.0
6/30/04[1]	2,628,680	3,997,328	65.8	1,368,648	540,181	253.4
6/30/03	2,375,431	3,532,626	67.2	1,157,194	533,595	216.9

Unified Port of San Diego

Valuation Date	Valuation Assets	Continuation Indicators AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/08[1]	$245,580	$267,036	92.0%	$21,456	$38,635	55.5%
6/30/07[3]	230,585	246,538	93.5	15,953	37,160	42.9
6/30/06[2]	203,286	220,637	92.1	17,351	33,927	51.1
6/30/05	163,691	198,072	82.6	34,381	35,077	98.0
6/30/04	141,375	175,366	80.6	33,991	34,916	97.4
6/30/03[4,5]	123,884	154,300	80.3	30,415	34,164	89.0

San Diego County Regional Airport Authority

Valuation Date	Valuation Assets	Continuation Indicators AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/08[1]	$58,096	$56,808	102.3%	($1,288)	$23,488	-5.5%
6/30/07[3]	50,812	46,637	109.0	(4,176)	21,957	-19.0
6/30/06[2]	41,222	36,905	111.7	(4,317)	19,116	-22.6
6/30/05	28,551	32,603	87.6	4,051	17,609	23.0
6/30/04	16,225	23,579	68.8	7,354	15,606	47.1
6/30/03[4]	11,142	16,279	68.4	5,137	11,577	44.4

[1]Reflects revised actuarial assumptions

[2]Reflects revised actuarial methodologies

[3]Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details).

[4]Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

[5]Reflects benefit increases for Port general employees.

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet

San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress
For the Years Ended June 30

current and future liabilities with the assets of a retirement plan. The most recent actuarial valuation for the City, the Port and the Airport was performed as of June 30, 2008.

1. Key Actuarial Assumptions

In the June 30, 2008 valuation, the normal cost and actuarial accrued liability are determined using the Entry Age Normal (EAN) actuarial funding method.

The June 30, 2008 actuarial valuations were based on revised actuarial assumptions. In July 2008, the Board received Cheiron's Experience Study Results and Recommendations for the period covering July 1, 2004 to June 30, 2007. At the September 2008 Board meeting, the following Actuarial Assumption changes recommended by Cheiron in the Experience Study were formally approved:

- Retirement rates by age were replaced by retirement rates by years of service and were increased;
- Termination rates by age and service were increased;
- Disability rates by age were decreased;
- Active and retiree mortality rates were updated to new tables;
- The wage inflation assumption was lowered from 4.25% to 4.0%; and
- The rate of investment return assumption was lowered from 8.0% to 7.75%.

The assumed annual pension cost-of-living adjustment is generally 2% per annum, compounded.

The member statistical data on which the annual actuarial valuations were based was furnished by SDCERS and is combined by Cheiron with pertinent data on financial operations. Membership data was reviewed for reasonableness, but was not audited by the actuary.

Actuarial Valuations are available on-line at sdcers.org.

For further information regarding the actuarial valuations and assumptions, see *Note 6. Funded Status and Actuarial Methods and Assumptions*, and the Actuarial Section.

2. Actuarial Terms Defined

Valuation Assets: The value of cash, investments, and other property belonging to a pension plan are used by the actuary for the purpose of an Actuarial Valuation. Beginning with the June 30, 2007 Valuation, the Actuarial Value of Assets reflects a weighted average giving 25% weight to the current market value and 75% weight to the prior year's actuarial value, increased by expected interest and contributions and decreased by benefit payments and expenses.

Actuarial Accrued Liabilities (AAL): The difference between the actuarial present value of plan benefits and the actuarial value of future normal costs.

Annual Required Contribution (ARC): The employer required contribution amount for GASB 25 disclosure purposes.

Funded Ratio: This ratio provides a measure of the plan's overall health. The ratio is calculated by dividing the

San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress (continued)
For the Years Ended June 30

Actuarial Value of Assets by the Actuarial Accrued Liabilities (AAL). Over time, the ratio is expected to increase toward 100% in the absence of benefit improvements or modification of actuarial assumptions.

Unfunded Actuarial Liability (UAL): The difference between Actuarial Accrued Liabilities and Actuarial Value of Assets. Also called Unfunded Actuarial Accrued Liability (UAAL).

Member Payroll: Each plan sponsor's estimated total annual compensation for all active members (covered payroll) of a retirement system, as reported in the actuarial valuation.

UAL Ratio to Member Payroll: This ratio is calculated by dividing the UAL by the Member Payroll. The ratio is a relative index of condition where inflation is present in both items. Over time, the ratio is expected to decrease toward 0% in the absence of benefit improvements or changes in actuarial assumptions.

For further information regarding actuarial assumptions and policies, see the Actuarial and Statistical Sections.

3. Commentary

City of San Diego

As of June 30, 2008, the City had a funded status of 78.1%, using the EAN funding method.

The schedule for the City presented above reports the last six years of historical funding progress information.

As of the June 30, 2008 actuarial valuation, the City's UAL was $1.3 billion, using the EAN funding method. A 20-year closed amortization period is being used to pay down the then-existing June 30, 2007 UAL commencing on July 1, 2008 for Fiscal Year 2009. The amortization of future experience gains and losses, including those for FY 2008, are being amortized over a closed 15-year period.

Unified Port of San Diego

As of June 30, 2008, the Port had a funded status of 92.0%, using the EAN funding method.

The schedule for the Port presented above reports the last six years of historical funding progress information.

As of the June 30, 2008 actuarial valuation, the Port had a UAL of $21.5 million using the EAN funding method. The Port's then-existing June 30, 2007 UAL is being amortized over a closed 14-year period, with 13 years remaining at June 30, 2008. The amortization of future experience gains and losses, including those for FY 2008, are being amortized over a closed 15-year period.

San Diego County Regional Airport Authority

As of June 30, 2008, the Airport had a funded status of 102.3%, using the EAN funding method.

The schedule for the Airport presented above reports the last six years of historical funding progress information.

As of the June 30, 2008 actuarial valuation, the Airport had a surplus of $1.3 million using the EAN funding method. The Airport's then-existing June 30, 2007 UAL is being amortized over a closed 14-year period, with 13 years remaining at June 30, 2008. The amortization of future experience gains and losses, including those for FY 2008, are being amortized over a closed 15-year period.

City of San Diego

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Plan Sponsor Contributions

Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2004 - 2009)
($ in Thousands)

SDCERS' actuary calculates annual employer contribution rates using the entry age normal actuarial funding methodology. The City's Contributions Made to SDCERS have differed from the Annual Required Contributions (ARC) recommended by SDCERS' actuary. This was approved by SDCERS' Board in accordance with their authority under the Charter of the City of San Diego, Article IX, Section 143, Contributions.

	2009	2008	2007	2006	2005	2004
Annual Required Contributions (ARC)	$161,700[1]	$137,700[1]	$162,000[1]	$170,071[2]	$181,284[2]	$140,168[2]
Contributions Made to SDCERS	162,475	165,581[9]	169,126[8]	271,349[7]	122,089[3,6]	69,002[3,4,5,6]
Difference - Over/ (Under) Contributed	775	27,881	7,126	101,278	(59,195)	(71,166)
Percentage of ARC Contributed	100.5%	120.2%	104.4%	159.6%	67.4%	49.2%

[1] Annual Required contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

[2] The City's ARC for the three year period from 2004 through 2006 has been recalculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

[3] Adjusted contributions per City, including adjustment to reduce "contributions made" for healthcare benefit expenses paid.

[4] The FY 2004 City's plan sponsor contribution included Annual Required Contributions for its Proprietary and Fiduciary Funds and the "Minimum City-Paid Blended Rates" for its General Funds. This contribution also included an amortization payment pursuant to the 2002 Contribution Agreement due to the City's SDCERS' funded status being below 82.3% as of the June 30, 2002 actuarial valuation. The City's advanced employer contribution (payment made on July 1, 2003) represented 13.43% of the FY 2004 budgeted (covered) payroll.

[5] Contributions made for 2004 were in accordance with the 2002 Contribution Agreement (MP2). This agreement was nullified by the Gleason Settlement in 2005.

[6] Contributions for 2005 were a fixed amount in accordance with the Gleason Settlement. The City's contribution funding method during 2003 through 2005 was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation (NPO) is included in the City of San Diego's Comprehensive Annual Financial Report.

[7] Contributions for 2006 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its Retirement UAAL SDCERS Reserve Fund year-end balance.

[8] Contributions for 2007 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount by transferring its Retirement UAL SDCERS Reserve Fund year-end balance.

[9] Contributions for 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City contributed an additional $20 million to ensure no negative amortization of the UAL, and $7.3 million to reimburse SDCERS for assets spent on prior year's retiree health expenses.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Plan Sponsor Contributions (continued)

Unified Port of San Diego
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2004 - 2009)
($ in Thousands)

	2009	2008	2007	2006	2005	2004
Annual Required Contributions (ARC)	$7,300[1]	$6,900[1]	$8,300[1]	$8,121[2]	$7,613[1]	$4,595[1]
Contributions Made to SDCERS	7,340[3]	6,900	9,300	8,121	7,613	4,595
Difference - Over/ (Under) Contributed	40	–	1,000	–	–	–
Percentage of ARC Contributed	100.5%	100.0%	112.1%	100.0%	100.0%	100.0%

[1] Annual Required Contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

[2] ARC figures provided by plan sponsor; ARC calculated using annual covered payroll.

[3] The Port prepaid their FY2010 ARC of $7.2 million which is shown as a liability on the SDCERS Statement of Plan Net Assets.

San Diego County Regional Airport Authority
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2004 - 2009)
($ in Thousands)

	2009	2008	2007	2006	2005	2004
Annual Required Contributions (ARC)	$3,000[1]	$2,200[1]	$2,600[1]	$2,879[2]	$2,312[1]	$1,435[1]
Contributions Made to SDCERS	3,035	2,520	2,962	3,300	7,625	1,435
Difference - Over/ (Under) Contributed	35	320	362	421	5,313	–
Percentage of ARC Contributed	101.2%	114.5%	113.9%	114.6%	329.8%	100.0%

[1] Annual Required Contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

[2] ARC figures provided by plan sponsor, ARC calculated using annual covered payroll.

San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Plan Sponsor Contributions
For the Years Ended June 30

Trend Information

Three sources of revenues fund a retirement system: plan sponsor contributions, member contributions and investment earnings on these contributions. Each year, SDCERS' actuary determines the amount of plan sponsor contributions (expressed as a contribution rate) required to fund benefits (current and future liabilities). Benefit schedules are calculated for each actuarial valuation from the benefit structure of the City, Port, and Airport, statistical data about SDCERS members, and current and predicted future retirees and beneficiaries. The actuary must make assumptions to estimate how many SDCERS members will terminate employment; leave on a disability retirement or service retirement; and, the average ages of members at retirement and at mortality. Finally, this data is combined with an actuarially assumed investment rate of return and assumed salary increases of the City's, Port's and Airport's employees. This information is presented in actuarial valuation reports in which the actuary recommends employer contribution rates (stated as a percentage of valuation payroll) to each of the plan sponsors. The actuarially determined contribution rate percentages are applied to the annual payroll for each of the participating plan sponsors' employees. The resulting dollar amounts, as depicted in the above schedules of plan sponsor contributions, are the Annual Required Contributions (ARC) necessary to fund the promised benefits to SDCERS' members.

City of San Diego

The Schedule of Plan Sponsors' Contributions for the City contains six years of historical information with respect to the ARC compared to the actual contributions made by the City.

Contributions made for FY 2004 were in accordance with the 2002 Contribution Agreement known as Managers' Proposal 2 (MP2). Under MP2, the City increased its FY 2004 annual plan sponsor contribution rate to 10.83% per the contribution rate schedule plus 1.06% for benefit enhancements for the City's SDCERS general members, for a total of 11.89% versus the previous year's 10.33% contribution rate paid by the City in FY 2003 under MP1. While MP2 provided for subsequent contribution rate increases in future fiscal years, MP2 was nullified by the Gleason settlement in FY 2005 and, as such, FY 2004 was the only year in which City contributions were determined by MP2.

Contributions for FY 2005 were a fixed amount in accordance with the Gleason settlement. This contribution method, as well as the contribution methods for FYs 2003 and 2004, was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation is included in these years in the City of San Diego's Comprehensive Annual Financial Report.

Contributions for FY 2006, FY 2007, and FY 2008 were made at a full actuarially-determined rate using the PUC method. In 2006 the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its dedicated UAL Reserve Fund year-end balance for both FY 2006 and FY 2007. The City made additional contributions in FY 2008 to ensure no negative amortization of the UAL and to reimburse SDCERS for assets spent on prior year's retiree health expenses. Effective in FY 2006 through FY 2008, the City made full actuarial contributions based upon the terms of the Gleason settlement. Contributions for FY 2009 were made at a full actuarially-determined rate using the EAN method.

Unified Port of San Diego

The Schedule contains six years of historical information comparing the Port's ARC to its contributions. Over the past six years, the Port has contributed 100% or more of the amount recommended by SDCERS' actuary. The Port's current funded status is 92.0%.

San Diego County Regional Airport Authority

The Schedule contains six years of historical information comparing the Airport's ARC to its contributions. Since its inception, the Airport has contributed 100% or more of the amount recommended by SDCERS' actuary and has a current funded status of 102.3%.

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules

Schedule of Administrative Expenses
For the Year Ended June 30, 2009

Salaries and Personnel	$6,851,104
Data Processing	
Data Processing and Computer Services	1,415,555
Contracted Services	521,624
Total Data Processing	1,937,179
Outside Legal Counsel	2,519,363
Disability	
Medical Consulting and Disability Review	289,409
General Operations	
Actuary Services	527,044
Audit Services	117,619
Depreciation Expense	213,896
Fiduciary Insurance	320,168
Office Operations Expenses	770,805
Professional Services	342,022
Rent	730,341
Travel & Training	106,809
Total General Operations	3,128,704
GRAND TOTAL	$14,725,759

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Schedule of Fees Paid to Investment Professionals
For the Year Ended June 30, 2009

	Market Value of Assets Under Management[1]	Total Fees Paid
Investment Manager Fees		
Domestic Equity Managers	$1,445,446,655	$6,389,721
International Equity Managers	621,752,280	3,288,328
Domestic Fixed Income Managers	1,204,360,672	4,303,196
International Fixed Income Managers	147,588,180	401,925
Real Estate Managers	354,551,209	4,379,622
Cash & Cash Overlay	46,173,784	48,032
Total Investment Manager Fees	$3,819,872,780	$18,810,823
Other Investment Service Fees		
Custodian Services		248,495
Investment Consultants		559,593
Investment Accounting Applications		41,831
Total Other Investment Service Fees		$849,918
Total Fees Paid to Investment Professionals		$19,660,742

[1] Market Values of Assets Under Management for SDCERS' investment managers include total investments at fair value (based on trade date), by investment strategy, as detailed in the actual asset allocation as depicted in the Investment Section of this CAFR. The audited financial statements classify SDCERS' aggregate portfolio by security type, cash, stocks, bonds and real estate, and nets the receivable and payable of cash for pending transactions (settlement date based) in each strategy.

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Schedule of Payments to Consultants
For the Year Ended June 30, 2009

Individual or Firm	2009	Nature of Service
Doctors & Disability Services	$289,409	Medical Consulting
(see next page for full listing)		
Cheiron, Inc.	527,044	Actuary
Legal Firms & Professional Legal Services	2,519,363	Legal, Arbitration, Mediation, Court Reporting
(see next page for full listing)		
Levi, Ray & Shoup	404,173	Member Benefit Systems Development
Macias Gini & O'Connell LLP	117,619	Audit
EMC Corporation	31,473	Software Support
San Diego Data Processing Corporation	1,415,555	Computer/Applications Support
Various Providers	585,815	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	$5,890,450	

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Schedule of Payments to Consultants
For the Year Ended June 30, 2009

SDCERS used the following Doctors' services:

California Orthopaedic Institute Medical Associates, Inc.
- William S. Adsit, M.D.
- L. Randall Mohler, M.D.

So. California Cardiology Medical Group
- Steven Gross, M.D.

Southwest & Associates
- Hans Anderson, M.D.
- Michael Kimball, M. D.
- A. Lyle Rosenfield, M. D.

Other Doctors
- Dominick Addario, M.D.
- Daniel J. Bressler, M.D.
- William Chapman, M.D.
- William P. Curran, Jr., M.D.
- Donald Green, D.P.M.
- Richard Greenfield, M.D.
- Pierre Hendricks, M.D.
- Sohaib Kureshi, M.D.
- L. Mercer McKinley, M.D.
- Mark Mikulics, M.D.
- Robert E. Neveln, M.D.
- Laurence Saben, M.D
- James Scalone, D.O
- Walter W. Strauser, M.D.
- Robert Warren, M.D.
- Thomas J. Wegman, Ph.D.
- Kevin Yoo, M.D.

SDCERS paid the following Legal Firms & Professional Legal Services Firms:

Baker & McKenzie, LLP
Byrne & Nixon, LLP
Cooley Godward Kronish, LLP
Geary D. Cortes
Cox, Castle & Nicholson, LLP
Dixon, Truman & Fisher
Law Offices of Amie J. Flynn
Gibbs & Fuerst
Hay Group, Inc
Ice Miller Legal and Business Advisors
Irell & Manella, LLP
JAMS (Judicial Arbritation Services)
Manatt, Phelps & Phillips, LLP
Olson, Hagel & Fishburn, LLP
Michael Pancer
Paul Hastings, Janofsky & Walker, LLP
Peterson & Associates
Pillsbury Winthrop Shaw Pittman, LLP
Seltzer Caplan McMahon Vitek, APC
Stockwell, Harris, Widom, Woolverton & Muehl
Howard B. Wiener

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Statement of Changes in Assets and Liabilities - Agency Funds
For the Year Ended June 30, 2009 (Dollars in Thousands)

	City of San Diego Preservation of Benefits Fund			
	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Cash or Equity in Pooled Cash and Investments with the City of San Diego	$15		$14	$1
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	111	$1,213	1,298	26
TOTAL ASSETS	$126	$1,213	$1,312	$27
LIABILITIES				
Sundry Trust Liability	$126	$1,213	$1,312	$27
TOTAL LIABILITIES	$126	$1,213	$1,312	$27

	Unified Port District Preservation of Benefits Fund			
	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	$–	$81	$39	$42
TOTAL ASSETS	$–	$81	$39	$42
LIABILITIES				
Sundry Trust Liability	$–	$81	$39	$42
TOTAL LIABILITIES	$–	$81	$39	$42

Diane Haynes

City of San Diego, Firefighter/Paramedic

A San Diego transplant from Virginia, Diane followed a likely career path toward fire and rescue, after working as an athletic trainer, personal trainer, lifeguard and EMT. Working out of Station 22 in Point Loma, Diane balances her career with also being the mother of two boys. "I feel so blessed to have the job I have," says Diane. "Most of my memorable calls are bad for the people involved, but some turn out good. Just the other day we had a visit from a man who brought us a snack bag as thanks, following a call to his house where we used a defibrillator as he was clinging to life. The biggest reward is helping people out in their time of need."

Investment Consultant's Statement

CALLAN ASSOCIATES INC

October 16, 2009

JANET BECKER-WOLD, CFA

Mr. David Wescoe
Retirement Administrator/CEO
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 921001

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Dear Mr. Wescoe:

This letter reviews the investment performance of the San Diego City Employees' Retirement System (SDCERS) for the fiscal year ended June 30, 2009 (FY 2009).

During fiscal year 2009, SDCERS' custodian, State Street Bank and Trust Company, independently prepared the information underlying the performance data. The performance calculations were made in compliance with CFA Institute 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 pension plans.

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 participants. 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 then selects a strategic investment plan that balances growth potential and acceptable risk to fund projected liabilities. A policy performance benchmark is constructed that mirrors SDCERS' asset allocation strategy. This policy performance benchmark is a custom total fund index comprised of equity, fixed income and real estate market indices weighted in the same proportions as SDCERS' asset allocation strategy.

Highlights for Fiscal Year 2009

Fiscal year 2009 is the tale of two halves. The financial crisis that began in 2007, reached its pinnacle on September 15, 2008 with the bankruptcy filing of Lehman Brothers. Just prior to the Lehman bankruptcy, the U.S. Government assumed conservatorship of Fannie Mae and Freddie Mac. The Dow dropped 504 points on September 15, the worst point drop since 2001. September also saw very large money market funds "break the buck". Credit markets froze around the world as a flight to quality resulted in sharp declines in short-term government rates and increases in risk premiums. By the end of the year, the Fed Fund rate target range was 0.0 - 0.25%. The free fall in equities continued through October when the VIX (a measure of equity volatility) hit its highest ever level.

The U.S. Federal Reserve took action by cutting interest rates and injecting liquidity into major financial institutions either through direct loans, purchase of preferred shares or through the Troubled Asset Relief Program. By the end of the year, Goldman Sachs and Morgan Stanley became banks; Washington Mutual was seized by the U.S. Government and insurance giant AIG

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was teetering on bankruptcy. The S&P lost 28% in the six months ending December 2008 with other asset classes also performing poorly. International equities were not spared the rout and posted a loss of 36% for the six months period. Real estate, ground zero for the crisis, showed the first one year negative return since 1993. The de-leveraging of the economy led to dramatic pull backs in both consumer and business spending. Governments globally took dramatic steps to calm the markets and increase liquidity. Economic growth globally slowed dramatically with U.S. GDP contracting by 6% over the latter half of the year.

An alphabet soup of government programs – TALF, TARP, PPIP, CPP – were introduced to stabilize the economy and inject liquidity into the markets. The economic contraction accelerated in the first quarter with GDP down at an annualized rate of 6%. Equities continued their downward trend with the S&P 500 falling 25% through March 9 (the worst January in the history of the S&P 500) when the market turned around ending the quarter down 11.7%. Glimmers of hope began to appear in the economic data – housing starts and new home sales showed slight gains as did consumer spending in February. Unemployment, a lagging indicator, continued to rise and reached 9.4% by the end of June. With investors feeling a little better about the prospects of the economy, risk appetite returned to the markets. Spread sectors within fixed income contracted dramatically and smaller cap and low quality stocks led the equity rally. While Treasuries outperformed in the last six months of 2008, credit and other spread sectors led in the first six months of 2009.

In Fiscal Year 2009, the U.S. experienced gut wrenching volatility, a freeze in credit markets and a permanent change of the landscape for financial markets. The S&P 500 finished the fiscal year down 25%. Small cap stocks modestly outperformed large cap stocks with returns of -25.0% and -26.7% respectively. Growth stocks (-24.5%) bested value stocks (-29.0%) as the value index is comprised of about a quarter financials which suffered the most in the downturn. International stocks had a tough year as the MSCI All Country World ex-US index lost 30% of its value.

As a result of concerted easing by the Federal Reserve, interest rates dropped across the curve with short term interest rates hovering near 0% by fiscal year end. The broad fixed income market was a bright spot with the Barclay's Capital Aggregate up 6.1%.

SDCERS' Fiscal Year 2009 Investment Performance

For the one-year period ended June 30, 2009, SDCERS' total fund, time-weighted return of -19.2% trailed the custom policy performance benchmark return of -15.9% and also fell short of the actuarial annual rate of return assumption of 7.75%.

SDCERS' custom policy performance benchmark is comprised of the following market indices, in the percentages indicated, as of June 30, 2009:

Domestic Equities
22.8% S&P 500, 7.6% S&P 400 Mid Cap, and 7.6% Russell 2000

International Equities
13.6% MSCI All Country World ex. U.S. Free, 3.4% Citigroup EMI World Ex-U.S.

Domestic Fixed Income
18.0% Barclays Capital Aggregate, and 3.0% Merrill Lynch All Convertible

Market Neutral
9% T-Bills + 3%

International Fixed Income
4.0% Citigroup Non-U.S. World Government Bond

Real Estate
8.3% NCREIF and 2.8% EPRA/NAREIT Global Index

The total fund return performed below the median public pension plan in the Callan peer universe for fiscal year 2009. Over the last ten years the annualized total fund return of 4.6% ranked in the 5th percentile against peers and is 60 basis points ahead of the custom policy performance benchmark on an annualized basis.

SDCERS' Domestic Equity Performance

SDCERS' domestic equity composite returned -25.8% during the four quarters ended June 30, 2009. This performance outperformed its blended domestic equity performance benchmark return of -26.2% by 40 basis points and ranked in the 38th percentile of Callan's public fund domestic equity database. The domestic equity composite return fell short of the blended domestic equity performance benchmark return for the trailing three-year period, but exceeded the performance benchmark for the trailing five-year period. Over ten years, the domestic equity composite ranks 1st percentile against other public fund domestic equity portfolios.

SDCERS' International Equity Performance

SDCERS' international equity composite lost 34.5% for the year ended June 30, 2009. The fiscal year 2009 return underperformed the blended international equity performance benchmark return of -30.7% by 380 basis points and ranked in the 92nd percentile versus other public pension plans in the Callan peer universe. McKinley Capital's 10.4% underperformance combined with weak returns from international small cap hurt the overall composite return. Over the ten-year period, the relative performance of the SDCERS international portfolio is strong ranking 15th percentile against peers.

SDCERS' Domestic Fixed Income Performance

SDCERS' domestic fixed income composite posted weak returns for fiscal year 2009. A return of 0.9% for the year ranked in the 75th percentile of public pension plans in the Callan peer universe, trailing the blended domestic fixed income performance benchmark return of 2.8%. The domestic fixed income composite's long-term annualized return exceeds the fixed income benchmark and the Barclays Capital Aggregate and ranks in the top third of the peer universe for the five and ten-year periods.

SDCERS' Market Neutral Performance

The equity market neutral composite returned -5.1% for the fiscal year underperforming the T-Bills + 3% benchmark of 3.5%. This performance resulted in a ranking of 52nd percentile versus peers. The negative 5.1% return is not unexpected given the severe decline and high volatility of the equity markets over this period.

SDCERS' International Fixed Income Performance

For the one-year ended June 30, 2009, the international fixed income portfolio returned 0.1%, underperforming the international fixed income performance benchmark return of 3.5% by 340 basis points and ranked in the 78th percentile in Callan's peer universe. International fixed income returns were bolstered by the continued decline in the U.S. Dollar versus the Euro and the Yen as well as declining interest rates globally. The international fixed income portfolio has performed at median in the Callan peer universe for the trailing five and ten-year periods. For the five year period ending June 30, 2009, the international fixed income portfolio produced a return of 5.6%, a premium of 60 basis points per annum over the Barclays Capital Aggregate.

SDCERS' Real Estate Performance

As a result of the bursting of the housing bubble, real estate suffered for the fiscal year. The SDCERS total real estate portfolio declined 30.1% lagging the total real estate benchmark return of -24.2%. Over the ten years ending June 2009, real estate has been the highest performing asset class with an annualized return of 8.2%.

Fiscal year 2009 saw the worst recession since the Great Depression. Global de-leveraging punished all asset classes with the exception of high quality bonds. Equities globally swooned as investors rushed to the safety of government issued bonds and gold. Given the rapid rotation in the markets, it also proved to be a difficult year for active managers. Equity returns were weak in 2008 but were significantly worse in fiscal year 2009. Real estate, which has historically been a strong contributor, detracted from returns in fiscal year 2009. Given the extreme market conditions, SDCERS skillfully navigated the year using a time tested, prudent and disciplined investment approach which has generated strong historical returns. Over the last 20 years, the SDCERS portfolio returned 8.2%, exceeding the actuarial rate of return and ranking 15th among other public retirement plans.

Sincerely,

Janet Becker-Wold

Janet Becker-Wold, CFA
Senior Vice President

San Diego City Employees' Retirement System
Asset Class Investment Returns[1, 2]

Performance Comparisons
As of June 30, 2009

	Annualized Performance			
	1-YEAR	**3-YEAR**	**5-YEAR**	**10-YEAR**
SDCERS' Domestic Equity Performance	**-25.8%**	**-8.6%**	**-1.4%**	**1.8%**
Domestic Equity Benchmark, comprised of:	-26.2%	-8.3%	-1.5%	0.1%
Standard & Poor's 500 (60% weight)	-26.2%	-8.2%	-2.2%	-2.2%
Standard & Poor's MidCap 400 (20% weight)	-28.0%	-7.5%	0.4%	4.6%
Russell 2000 (20% weight)	-25.0%	-9.9%	-1.7%	2.4%
SDCERS' International Equity Performance	**-34.5%**	**-8.4%**	**2.9%**	**4.9%**
International Equity Benchmark, comprised of:	-30.7%	-5.9%	4.8%	3.5%
MSCI AC World Free Ex-US Index (80% weight)	-30.5%	-5.4%	5.0%	2.9%
Citigroup EMI World Ex-US Index (20% weight)	-31.3%	-8.2%	4.1%	5.8%
SDCERS' Domestic Fixed Income Performance	**0.9%**	**5.4%**	**5.1%**	**6.1%**
Domestic Fixed Income Benchmark, comprised of:	2.8%	5.1%	4.3%	5.6%
Barclays Capital Aggregate Index (85.7% weight)	6.1%	6.4%	5.0%	6.0%
ML Convertible Index, All Qualitites (14.3% weight)	-18.8%	-4.3%	-0.7%	2.5%
SDCERS' International Fixed Income Performance	**0.1%**	**6.3%**	**5.6%**	**6.2%**
International Fixed Income Benchmark, comprised of:	3.5%	7.9%	6.2%	6.5%
Citigroup Non-U.S. Gov't Bond (100% weight)	3.5%	7.9%	6.2%	6.5%
SDCERS' Market Neutral Performance	**-5.1%**	**2.6%**	**4.3%**	**3.4%**
Market Neutral Benchmark, comprised of:	5.1%	5.9%	4.3%	5.2%
Merrill 1-5 Yr Gov't/Corp (100% weight)	5.1%	5.9%	4.3%	5.2%
SDCERS' Real Estate Performance	**-30.1%**	**-8.1%**	**4.3%**	**8.2%**
Real Estate Benchmark, comprised of:	-24.2%	-3.3%	5.6%	8.1%
NCREIF Property Index (75% weight)	-19.6%	1.0%	7.6%	8.5%
EPRA/NAREIT Global Index (25% weight)	-35.9%	-13.6%	1.4%	6.3%
SDCERS' Total Fund Performance	**-19.2%**	**-3.5%**	**2.3%**	**4.6%**
Total Fund Performance Benchmark, comprised of:	-15.9%	-1.9%	3.0%	4.0%

S&P 500 (22.8%); BC Agg (18.0%); MSCI AC World exUS Free (13.6%); ML 1-5 Gov't Corp (9.0%); Russell 2000 (7.6%); S&P MidCap 400 (7.6%); NCREIF (8.3%); Citigroup Non-U.S. Gov't Bond (4.0%); Citigroup EMI World ex-US (3.4%); EPRA/NAREIT Global (2.8%); and ML All Convertible (3.0%).

[1] Basis of calculation is time-weighted rates of return.

[2] Long-Term Performance: 3-year, 5-year and 10-year performance benchmarks may have been comprised of different indices and percentage weights due to changes in SDCERS' asset allocation strategy over time.

San Diego City Employees' Retirement System
Investment Managers
As of June 30, 2009

Domestic Equity Investment Managers

Delta Asset Management
Los Angeles, CA

Fisher Investments
Woodside, CA

Perimeter Capital Management
Atlanta, GA

Dimensional Fund Advisors
Santa Monica, CA

Globeflex Capital, L.P.
San Diego, CA

Trust Company of the West (TCW)
Los Angeles, CA
New York, NY

Dodge & Cox
San Francisco, CA

INTECH Enhanced Investment Technologies (Janus)
Palm Beach Gardens, FL

Wall Street Associates
La Jolla, CA

Domestic Fixed Income Investment Managers

Metropolitan West Asset Management
Los Angeles, CA

Nicholas Applegate Capital Management
San Diego, CA

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

Market Neutral Investment Managers

Pyramis Global Advisors (Fidelity)
Smithfield, RI

SSI Investment Management, Inc.
Beverly Hills, CA

International Equity Investment Managers

Brandes Investment Partners
San Diego, CA

McKinley Capital Management Inc.
Anchorage, AK

Grantham, Mayo, Van Otterloo & Co. LLC
Boston, MA

Globeflex Capital, L.P.
San Diego, CA

International Fixed Income Investment Managers

Rogge Global Partners
London, England

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

Real Estate Investment Managers

Capmark Investments
Horsham, PA

Europa Capital
London, England

Pyramis (Fidelity) Real Estate
Boston, MA

Colony Capital, LLC
Los Angeles, CA

Invesco Real Estate
Dallas, TX

RREEF Funds
San Francisco, CA

Cornerstone Real Estate Advisers
Glastonbury, CT

Pacific Coast Capital Partners
El Segundo, CA

RREEF Funds (REITs)
Chicago, IL

San Diego City Employees' Retirement System
Statement of Investment Objectives and Policies
As of June 30, 2009

Consistent with SDCERS' Mission Statement, the goal of SDCERS' investment program is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of SDCERS. The following objectives are intended to assist in achieving this goal:

- SDCERS should earn, on a long-term average basis, a total rate of return in excess of SDCERS' actuarial investment return assumption of 7.75%.
- SDCERS' assets will be managed on a total return basis, which takes into account the considerable importance of the preservation of capital. Additionally, SDCERS follows the principle that different degrees of investment risk exist and are generally rewarded with varying degrees of return over the long term.
- SDCERS will operate in an efficient manner that fulfills its fiduciary responsibility and contributes to the overall effectiveness of the organization.

It is the purpose of SDCERS' investment program to ensure that sufficient financial assets are available to provide SDCERS' participants and their beneficiaries with all benefits due as specified in SDCERS' plan documents. Therefore, the participants' and beneficiaries' financial interests shall take precedence over all other financial interests.

To achieve these objectives, SDCERS allocates its investment assets pursuant to a strategic, long-term perspective of the capital markets. Additionally, SDCERS models and manages its investment program based on principals outlined under the Prudent Expert standard.

* * *

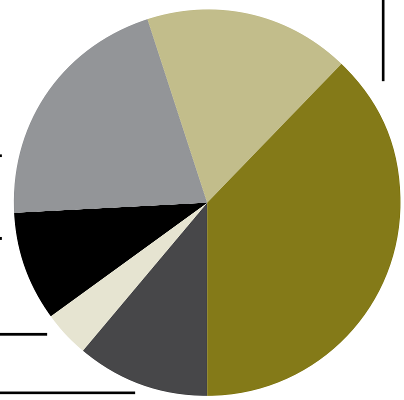
These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS' Investment Program.

A copy of the IPS is available upon request or on SDCERS' website – www.sdcers.org.

San Diego City Employees' Retirement System
As of June 30, 2009

Target Asset Allocation[1]

Domestic Equity Strategies	38.0%
International Equity Strategies	17.0%
Domestic Fixed Income Strategies	21.0%
Market Neutral Strategies	9.0%
International Fixed Income Strategies	4.0%
Real Estate Strategies	11.0%
Total	100.0%



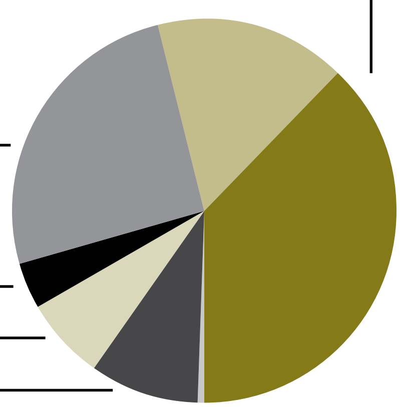
[1] As a result of the annual asset allocation process, which ended in June 2009, two changes were approved by the SDCERS Board that were implemented in July 2009:

- The 3% convertible bond allocation was reclassified from domestic fixed income strategies to domestic equity strategies.
- The 9% market neutral allocation was reduced to 5%, with a corresponding increase to the fixed income allocation from 21% to 25%.

In September 2007, private equity was added as a new asset class at a target allocation of 5%, which is expected to be funded over several years. Domestic equity allocations will be proportionally reduced from 38% to 33% in one percent increments as private equity capital is invested and the allocation increases from zero to five percent of total assets.

Actual Asset Allocation[2]

Domestic Equity Strategies	37.8%
International Equity Strategies	16.3%
Domestic Fixed Income Strategies	25.6%
International Fixed Income Strategies	3.9%
Market Neutral Strategies	6.7%
Real Estate Strategies	9.3%
Cash	0.4%
Total	100.0%



(in thousands)

Domestic Equity Strategies	$1,445,447
International Equity Strategies	621,752
Domestic Fixed Income Strategies	977,755
International Fixed Income Strategies	147,588
Market Neutral Strategies	257,230
Real Estate Strategies	354,551
Cash	15,550
Total Investments, At Fair Value	3,819,873
Less Pending Transactions	(122,624)
Total Net Investments	$3,697,249

2 Actual asset allocation values illustrated above are based upon SDCERS' investment managers' specific strategies. Each portfolio, including all securities and cash held by an investment manager, is categorized based upon the strategy that SDCERS hired that manager to execute. SDCERS does not have a target allocation to cash. Investment strategy totals by asset class here will differ from those that appear in the audited financial statements. For GASB reporting purposes, investments in the audited financial statements are stated from a total fund perspective and are then classified by security type: i.e., cash, stocks, bonds and real estate.

San Diego City Employees' Retirement System
As of June 39, 2009 (in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	428	Schlumberger Ltd.	806857108	$23,156	0.7%
2	468	Qualcomm, Inc.	747525103	21,162	0.6%
3	514	Hewlett Packard Co.	428236103	19,869	0.6%
4	130	Apple, Inc.	037833100	18,472	0.5%
5	361	Procter and Gamble Co.	742718109	18,432	0.5%
6	42	Google, Inc.	38259P508	17,861	0.5%
7	363	Gilead Sciences, Inc.	375558103	16,994	0.5%
8	269	Cerner Corp.	156782104	16,778	0.5%
9	251	Occidental Petroleum Corp.	674599105	16,512	0.5%
10	219	Monsanto Co.	61166W101	16,273	0.5%
		Total		$185,509	5.4%

Schedule of Largest Fixed Income Holdings

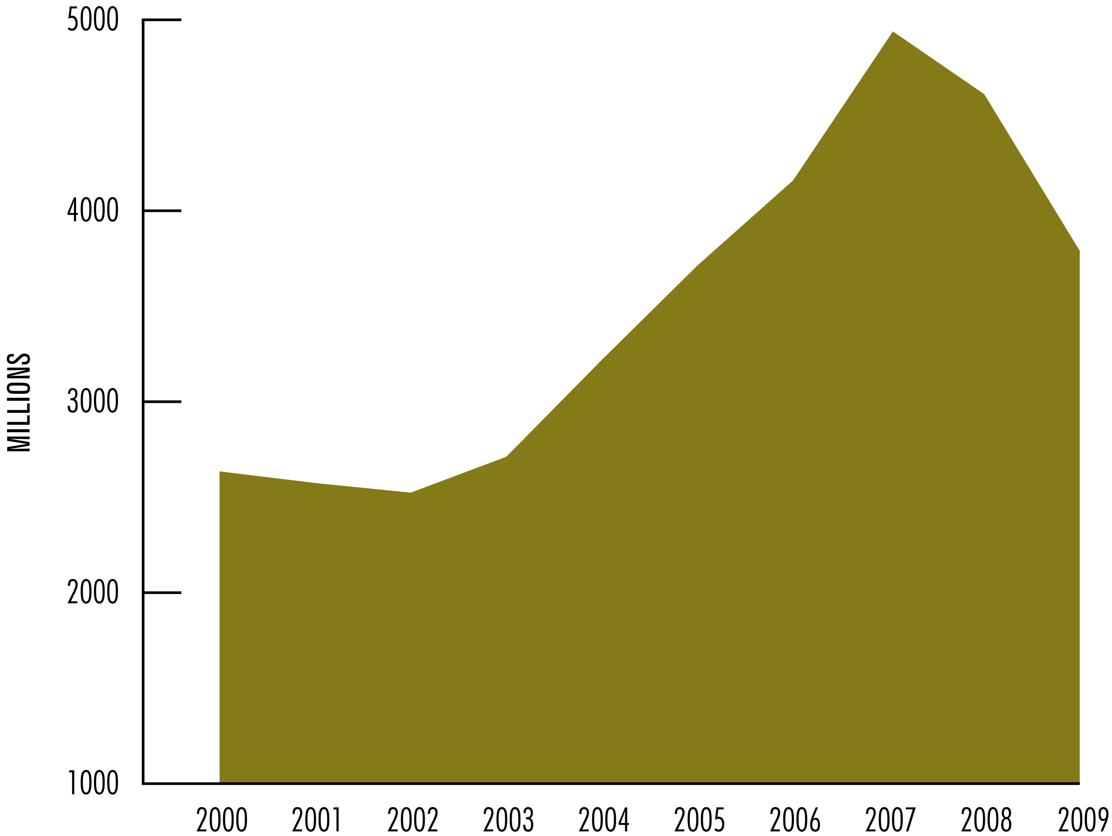
Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	126,800	Interest Rate Swap-Rec USD Fixed 3% 15 Dec 10	99S03U4N9	$128,791	3.7%
2	56,500	FNMA TBA July 30 Single Family 6% 01 Dec 9	01F060675	59,043	1.7%
3	41,972	FNMA TBA July 30 Single Family 5.5% 01 Dec 99	01F052672	43,316	1.3%
4	22,700	Interest Rate Swap-Rec USD Fixed 3% 04 Feb 11	99S040TN7	23,312	0.7%
5	17,500	FNMA Pool #257533 5.5% 01 Jan 39	31371PBA7	18,091	0.5%
6	10,057	Kingdom of Netherlands 5% 15 July 12	730959II6	15,303	0.4%
7	14,700	Interest Rate Swap-Rec USD Fixed 3% 04 Feb 11	99S040TE7	15,096	0.4%
8	12,148	FNMA Pool #888030 5.5% 01 Dec 36	31410FST3	12,578	0.4%
9	12,460	GNMA I TBA July 30 Single Family 4.5% 01 Dec 99	01N042674	12,433	0.4%
10	10,200	FNMA TBA July 15 Single Family 5% 01 Dec 99	01F050478	10,552	0.3%
		Total		$338,515	9.8%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedules of Commissions
For the Year Ended June 30, 2009 (in thousands)

Rank	Broker Name	Shares	Commission	Commission Per Share
1	Citigroup Global Markets, Inc.	35,555	$638	$0.018
2	UBS AG	35,200	541	0.015
3	Merrill Lynch & Co., Inc.	33,835	447	0.013
4	Investment Technology Group, Inc.	21,048	322	0.015
5	Credit Suisse Securities	31,138	320	0.010
6	Instinet, LLC	16,389	288	0.018
7	J.P. Morgan Chase & Co.	63,808	272	0.004
8	Jefferies & Company, Inc.	12,589	226	0.018
9	Cantor Fitzgerald, LP	6,905	221	0.032
10	State Street Global Markets, LLC	15,010	219	0.015
11	Morgan Stanley & Co., Inc.	225,403	208	0.001
12	Goldman Sachs & Co.	12,393	200	0.016
13	Warburg Dillon Read	8,150	186	0.023
14	Pershing LLC	6,280	161	0.026
15	Barclays Capital, Inc.	6,469	107	0.016
16	Deutsche Bank Securities, Inc.	3,890	97	0.025
17	BNY Securities Group	5,483	85	0.016
18	National Financial Services LLC	2,459	68	0.028
19	Liquidnet	2,731	68	0.025
20	Royal Bank of Canada	1,743	65	0.037
21	Nomura Securities Company	20,561	59	0.003
22	Macquarie Securities, Inc.	21,778	57	0.003
23	Stifel, Nicolaus & Co.	1,736	55	0.032
24	Robert W. Baird & Company	1,291	48	0.037
25	Janney Montgomery Scott LLC	1,058	42	0.040
	All Other Brokers	66,703	1,095	0.016
	Total	659,605	$6,095	$0.009

San Diego City Employees' Retirement System
Growth of Investments, At Fair Value
For Ten Years Ended June 30, 2009



Fiscal Year	Fair Value[1] (in thousands)
2000	$2,629,874
2001	2,582,010
2002	2,507,015
2003	2,656,058
2004	3,240,853
2005	3,636,722
2006	4,202,303
2007	4,922,362
2008	4,663,861
2009	3,697,249

[1] Fair value includes investments, cash and cash equivalents on deposit, net of pending transactions (receivable for securities sold and liability for securities purchased).

4. Actuarial

Calvin Butler

Airport Authority, Airport Traffic Supervisor

Calvin has been directing drivers and assisting weary travelers for the past 11 years at Lindbergh Field. His days are a mix of interacting with people from all over the world, as well as safety enforcement. "Being outside here is the best part of my job," says Calvin. "I had a guy from Chicago once who told me if I lived where he did, I'd be up to my neck in snow. I politely told him I wouldn't do this job in Chicago."

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

November 13, 2009
Members of the Retirement Board
San Diego City Employees' Retirement Systems
401 West "A" Street, Suite 400
San Diego, California 92101

Dear Members of the Board:

Actuarial valuations for the San Diego City Employees' Retirement System (SDCERS) are performed annually. The results of the June 30, 2008 actuarial valuation of SDCERS are summarized in this letter.

Funding Method
Beginning June 30, 2007, the actuarial funding methodology for the actuarial valuation is the **Entry Age Normal** actuarial funding method. Under this method, there are two components to the total contribution: the **normal cost**, and the **unfunded actuarial liability contribution**. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the Unfunded Actuarial Liability (UAL). The UAL is amortized over the periods described below for each plan sponsor.

Funding Objective
The funding objective of SDCERS is to fully fund the plan's liabilities with contributions which, over time, will remain level as a percent of payroll. Under this approach the contribution rate is based on the normal cost rate and an amortization of any UAL.

Amortization of Unfunded Actuarial Liability
In May 2007, the SDCERS Board approved several amortization periods that affect the calculation of the each plan sponsors' UAL. These amortization periods became effective with the June 30, 2007 actuarial valuations and were used to calculate the portion of the June 30, 2008 contribution rate that is attributable to the UAL for all three plan sponsors. The amortization period for the then-existing June 30, 2007 UAL for each plan sponsor was set at 20 years for the City, 14 years for the UPD, and 14 years for the Airport Authority. For all three plan sponsors, the amortization of future experience gains and losses was set at 15 years, and the amortization of changes in actuarial methods or assumptions was set at 30 years. The Board also approved an additional UAL cost component to ensure that there is no negative amortization of the UAL in any year.

Assumptions
The actuarial assumptions used in performing the June 30, 2008 valuation were changed from the prior valuation based on the review of SDCERS experience for the three year period from July 1, 2004 to June 30, 2007 and adopted by the Board of Trustees. The assumptions as a whole represent our

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best estimate for the future experience of SDCERS. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of SDCERS could vary from our results.

The assumptions and methods used in performing this valuation meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans.*

Reliance on Others

In preparing our report, we relied without audit, on information (some oral and some written) supplied by SDCERS's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year's data.

Supporting Schedules

Using historical information (pre-2005 results provided by the prior actuary) along with results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and most in the Statistical Section.

Compliance with Code of San Diego §24.0100-0200 and Charter section 149

We have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the San Diego Unified Port District and the San Diego Airport Authority.

Certification

I, Gene Kalwarski, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

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

Sincerely,

Cheiron

Gene Kalwarski, FSA

Consulting Actuary

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results

Overview

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

- The financial condition of the System,
- Historical trends in the financial condition of the System,
- The SDCERS contribution rates, and
- Information required by the Governmental Accounting Standards Board (GASB).

On the pages that follow, we present:

1. The actuary's general comments on the valuation,
2. Historical trends showing the System's funding progress and contributions,
3. Detailed information on employer and employee contribution rates,
4. Summary of actuarial assumptions and methods,
5. Schedule of membership data,
6. Schedule of retirees and beneficiaries,
7. Solvency test,
8. Analysis of financial experience,
9. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

1. General Comments

The June 30, 2008 valuation results reflect a number of assumption changes that were approved by the SDCERS Board based on an experience study completed by Cheiron in July of 2008. These changes include:

- Assumed rates of retirement were increased and changed to be based on service as opposed to the age of a member.
- Rates of termination from employment were increased.
- Disability rates were decreased.
- The mortality rates for General and Safety Members were increased.
- The discount rate assumption was lowered from 8.00% to 7.75%; and
- The inflation assumption was lowered from 4.25% to 4.00%.

For all three plan sponsors, the impact of all of the above assumption changes on the June 30, 2008 UAL was amortized over 30 years, and the fiscal year ending June 30, 2008 experience loss was amortized over 15 years. The outstanding balance of the June 30, 2007 UAL at June 30, 2008 was amortized over 19 years for the City, and over 13 years for the UPD and the Airport Authority. Finally, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

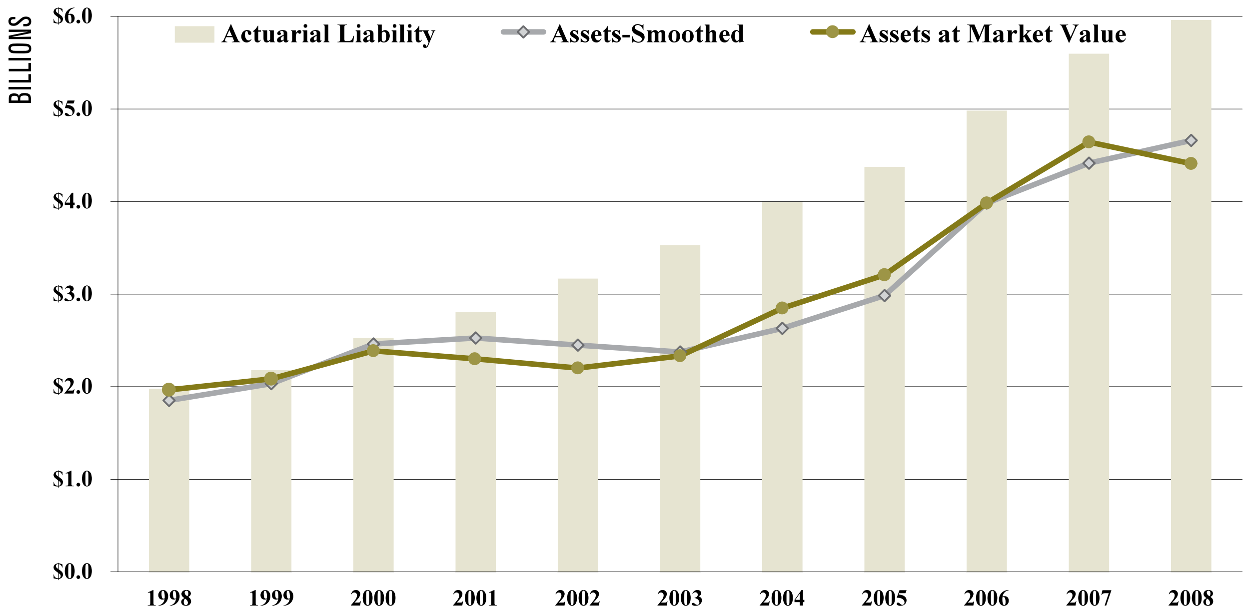
The valuation reports for each of the employers in SDCERS show the itemized effects of these changes on the Unfunded Actuarial Liability and the Gain/Loss of the UAL as well.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

2. Historical Trends

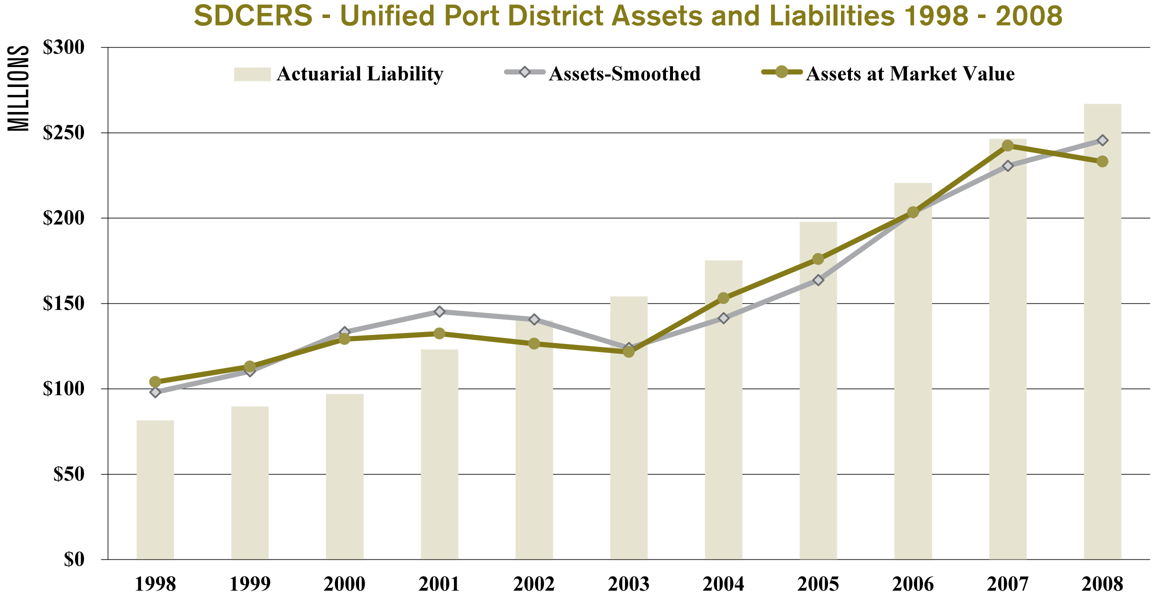
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 1998 - 2008



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Funding Ratio	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%	78.1%	
UAL (billions)	$ 0.13	$ 0.15	$ 0.07	$ 0.28	$ 0.72	$ 1.16	$ 1.37	$ 1.39	$ 1.00	$ 1.18	$ 1.30	*

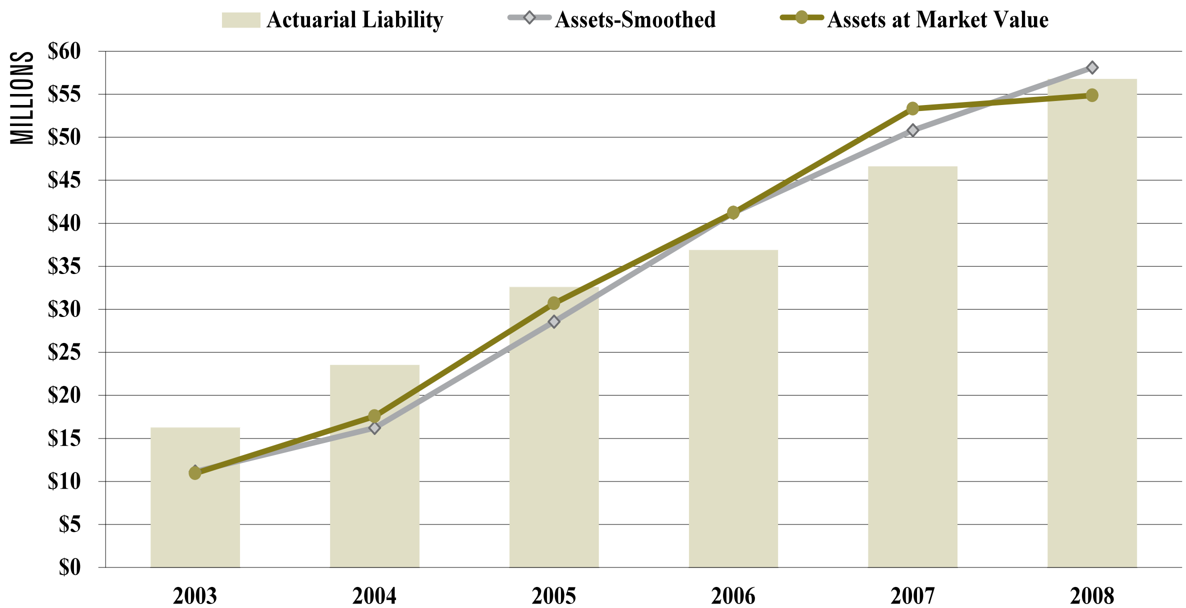
SDCERS - Unified Port District Assets and Liabilities 1998 - 2008



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Funding Ratio	120.1%	122.8%	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%	92.0%	
UAL (millions)	$ (16.4)	$ (20.5)	$ (36.0)	$ (22.2)	$ (0.4)	$ 30.4	$ 34.0	$ 34.4	$ 17.4	$ 16.0	$ 21.5	*

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

SDCERS - Airport Authority Assets and Liabilities 2003 - 2008



	2003	2004	2005	2006	2007	2008
Funding Ratio	68.4%	68.8%	87.6%	111.7%	109.0%	102.3%
UAL (millions)	$ 5.1	$ 7.4	$ 4.1	$ (4.3)	$ (4.2)	$ (1.3) *

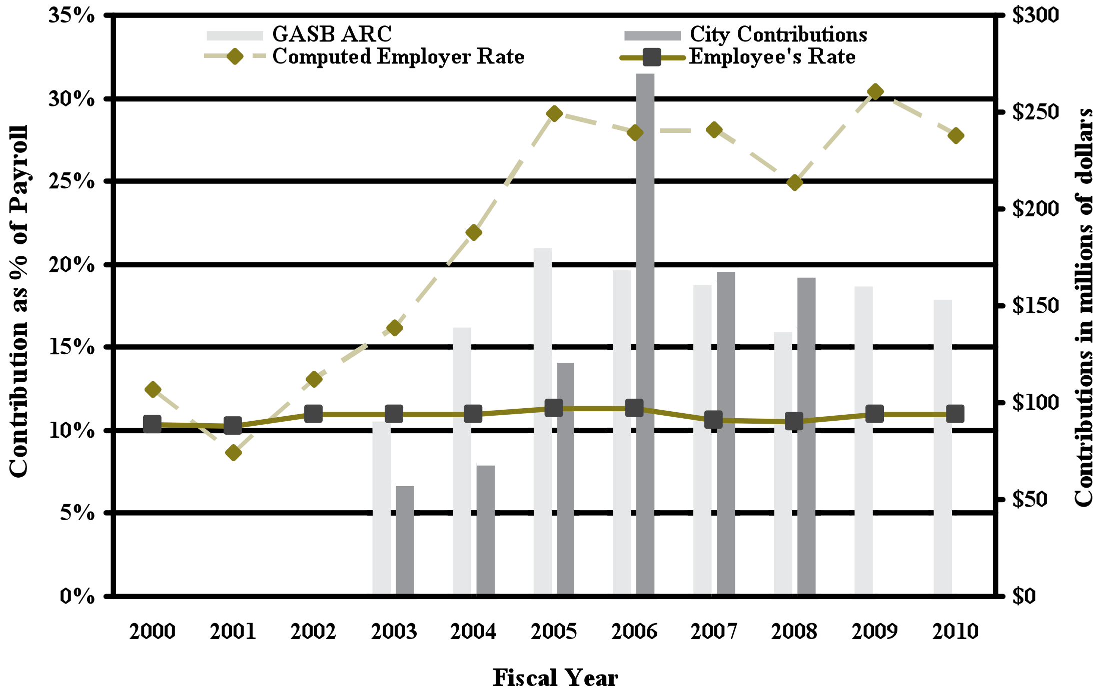
* The UAL for 2007 and after is calculated using the Entry Age Normal method, 2006 and prior years are calculated using the Projected Unit Credit method.

For funding purposes, the target amount is represented by the top of the green bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

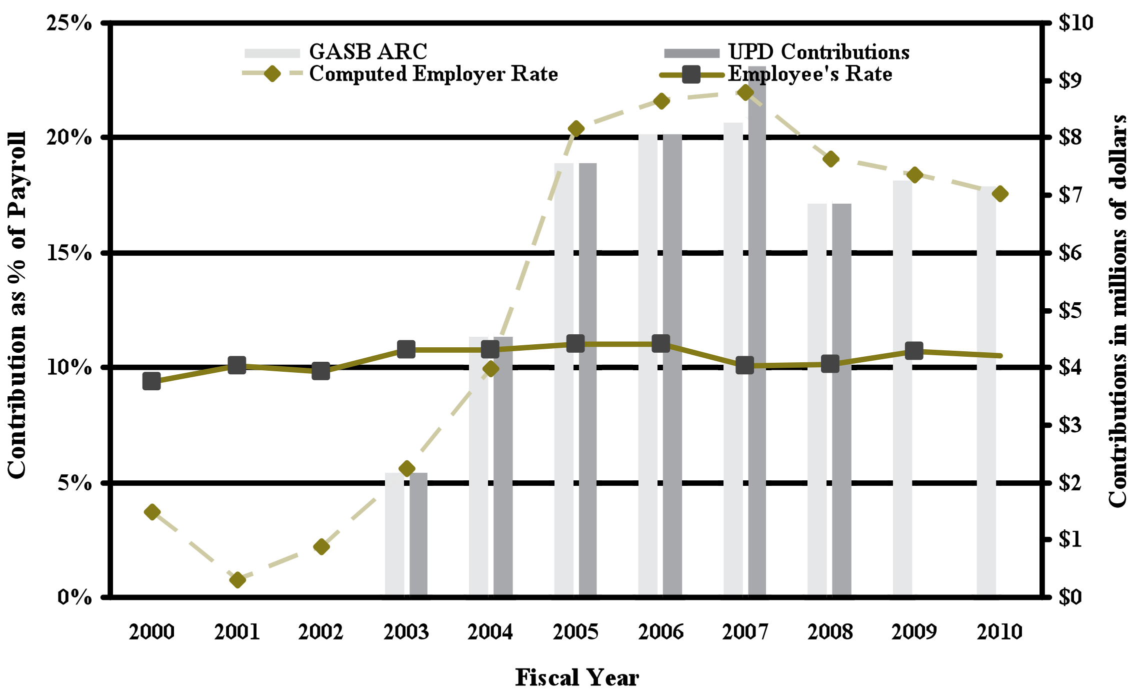
As demonstrated above, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. From 2003 to 2007, the funded percentage has improved due to the increase in investment returns among other factors. In 2008, negative investment returns and a change in actuarial assumptions caused the funded percentage to decrease.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)
Contribution Rates

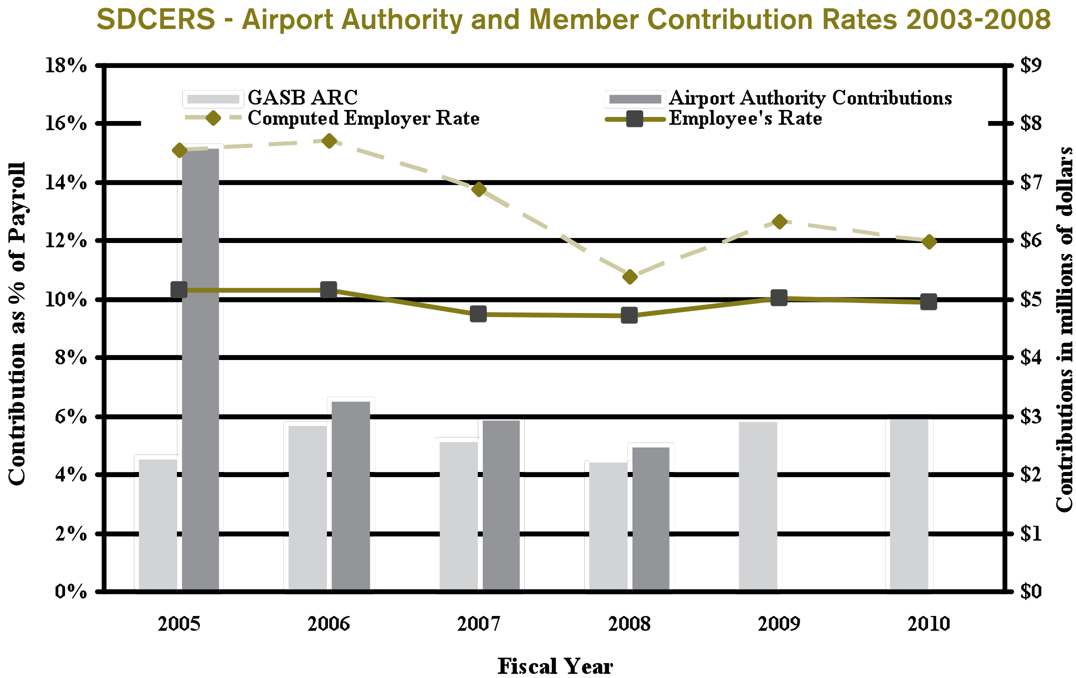
SDCERS - City of San Diego and Member Contribution Rates 1998 - 2008



SDCERS - Unified Port District and Member Contribution Rates 1998 - 2008



San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)
Contribution Rates



The light gray bars show the actuarially computed GASB ARC in dollars, while the dark gray bars show the actual contribution paid by the plan sponsor (right hand scale). The dotted light green line shows the employer contribution each year as a percent of payroll (left hand scale). The solid green line shows employees' contributions as a percent of payroll (left hand scale).

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego
(all dollar amounts in millions)

Valuation Date	June 30, 2008	June 30, 2007
Unfunded Actuarial Liability (UAL)	$1,303.2	$1,184.2
Funding Ratio	78.1%	78.8%
City Contribution Rate	27.73%	30.45%

Fiscal Year	2010	2009
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	$154.2 million	$161.7 million
• if paid throughout the year	$160.1 million	$168.1 million

SDCERS - City of San Diego - Membership Total

Item	June 30, 2008	June 30, 2007	% Change
Active Counts	8,487	8,494	-0.1%
Terminated Vested	2,743	2,606	5.3%
Disabled	1,244	1,245	-0.1%
Retirees	4,597	4,354	5.6%
Beneficiaries	1,099	1,080	1.8%
Total City Members	18,170	17,779	2.2%
Active Member Payroll	$535,774,438	$512,440,197	4.6%
Average Pay per Active Member	63,129	60,330	4.6%

SDCERS - City of San Diego - Assets & Liabilities

EAN	June 30, 2008	June 30, 2007	% Change
Actives	$2,426,739,455	$2,256,487,761	7.5%
Terminated Vested	250,141,836	239,571,040	4.4%
Disabled	392,785,020	383,228,325	2.5%
Retirees	2,763,266,125	2,589,431,710	6.7%
Beneficiaries	130,617,109	128,934,025	1.3%
Total Actuarial Liability	$5,963,549,545	$5,597,652,861	6.5%
Market Value Assets	$4,408,719,440	$4,641,340,923	-5.0%
Actuarial Value Assets	4,660,346,403	4,413,410,812	5.6%
Unfunded Actuarial Liability	$1,303,203,142	$1,184,242,049	10.0%
Funding Ratio-Actuarial Value	78.1%	78.8%	-0.7%

SDCERS - City of San Diego - Contributions

EAN	June 30, 2008	June 30, 2007	% Change
Gross Normal Cost %	21.81%	23.89%	-2.1%
Member Cost %	10.93%	10.97%	0.0%
Employer Normal Cost %	10.88%	12.92%	2.0%
Employer Unfunded Liability Cost %	16.39%	15.78%	0.6%
Negative Amortization Adjustment Cost %	0.46%	1.75%	-1.3%
Total Employer Cost %	27.73%	30.45%	-2.7%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	$ 154.2 million	$161.7 million	-4.6%
• if paid throughout the year	$ 160.1 million	$168.1 million	-4.7%

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

SDCERS - Unified Port District

Valuation Date	June 30, 2007	June 30, 2007
Entry Age Normal UAL (millions)	$21.5	$16.0
Entry Age Normal Funding Ratio	92.0%	93.5%
UPD Contribution Rate	17.57%	19.09%

Fiscal Year	2010	2009
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	$7.2 million	$7.3 million
• if paid throughout the year	$7.5 million	$7.6 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2008	June 30, 2007	% Change
Active Counts	565	559	1.1%
Terminated Vested	276	254	8.7%
Disabled	60	61	-1.6%
Retirees	246	233	5.6%
Beneficiaries	55	55	0.0%
Total UPD Members	1,202	1,162	3.4%
Active Member Payroll	$38,634,835	$37,159,870	4.0%
Average Pay per Active Member	68,380	66,476	2.9%

SDCERS - Unified Port District - Assets & Liabilities

EAN	June 30, 2008	June 30, 2007	% Change
Actives	$130,541,076	$121,588,551	7.4%
Terminated Vested	13,467,043	9,928,803	35.6%
Disabled	13,776,914	13,772,668	0.0%
Retirees	102,962,596	94,376,832	9.1%
Beneficiaries	6,289,100	6,871,472	-8.5%
Total Actuarial Liability	$267,036,729	$246,538,326	8.3%
Market Value Assets	$233,027,785	$242,403,219	-3.9%
Actuarial Value Assets	245,580,297	230,584,904	6.5%
Unfunded Actuarial Liability	$21,456,432	$15,953,422	34.5%
Funding Ratio-Actuarial Value	92.0%	93.5%	-1.5%

SDCERS - Unified Port District - Contributions

EAN	June 30, 2008	June 30, 2007	% Change
Gross Normal Cost %	23.58%	25.99%	-2.4%
Member Cost %	10.53%	10.71%	-0.2%
Employer Normal Cost %	13.05%	15.28%	-2.2%
Employer Unfunded Liability Cost %	4.52%	3.81%	0.7%
Negative Amortization Adjustment Cost %	0.00%	0.00%	0.0%
Total Employer Cost %	17.57%	19.09%	-1.5%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	$7.2 million	$7.3 million	-1.2%
• if paid throughout the year	$7.5 million	$7.6 million	-1.4%

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

SDCERS - Airport Authority

Valuation Date	June 30, 2008	June 30, 2007
Entry Age Normal UAL (millions)	$(1.3)	$-4.2
Entry Age Normal Funding Ratio	102.3%	109.0%
UPD Contribution Rate	11.96%	13.15%

Fiscal Year	2010	2009
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	$3.0 million	$3.0 million
• if paid throughout the year	$3.1 million	$3.1 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2008	June 30, 2007	% Change
Active Counts	341	324	5.2%
Terminated Vested	62	52	19.2%
Disabled	-	-	0.0%
Retirees	16	11	45.5%
Beneficiaries	1	1	0.0%
Total Airport Members	420	388	8.2%
Active Member Payroll	$23,488,283	$21,956,656	7.0%
Average Pay per Active Member	68,881	67,767	1.6%

SDCERS - Airport Authority - Assets & Liabilities

EAN	June 30, 2008	June 30, 2007	% Change
Actives	$47,157,366	$40,418,489	16.7%
Terminated Vested	3,309,120	1,930,181	71.4%
Disabled	-	-	0.0%
Retirees	6,037,405	3,981,919	51.6%
Beneficiaries	303,772	305,966	-0.7%
Total Actuarial Liability	$56,807,663	$46,636,555	21.8%
Market Value Assets	$54,856,234	$53,305,476	2.9%
Actuarial Value Assets	58,095,599	50,812,142	14.3%
Unfunded Actuarial Liability	($1,287,936)	($4,175,587)	-69.2%
Funding Ratio-Actuarial Value	102.3%	109.0%	-6.7%

SDCERS - Airport Authority - Contributions

EAN	June 30, 2008	June 30, 2007	% Change
Gross Normal Cost %	22.67%	24.86%	-2.2%
Member Cost %	9.91%	10.02%	-0.1%
Employer Normal Cost %	12.76%	14.84%	-2.1%
Employer Unfunded Liability Cost %	-0.80%	-1.69%	0.9%
Negative Amortization Adjustment Cost %	0.00%	0.00%	0.0%
Total Employer Cost %	11.96%	13.15%	-1.2%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	$3.0 million	$3.0 million	1.6%
• if paid throughout the year	$3.1 million	$3.1 million	1.5%

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

4. Summary of Assumptions and Methods

A. Funding Method

The Entry Age Normal actuarial funding method was used to determine the actuarial liability. The normal cost (associated with active employees only) is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability for active employees is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial liability is amortized by annual payments. The payments are determined as a level percentage of pay, assuming payroll increases 4.00% per year. The UAL for FY 2010 is to be amortized over several different periods, and is as follows:

City of San Diego

The UAL due to assumption changes is amortized over 30 years, the fiscal year ending June 30, 2008 experience loss is amortized over 15 years, and the outstanding balance of the June 30, 2007 UAL is amortized over 19 years. Finally, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

Unified Port of San Diego and San Diego County Regional Airport Authority

The UAL due to assumption changes is amortized over 30 years, the fiscal year ending June 30, 2008 experience loss is amortized over 15 years, and the outstanding balance of the June 30, 2007 UAL is amortized over 13 years. Finally, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

The System's contributions are calculated using the same basic actuarial method (EAN).

B. Actuarial Value of Assets

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

The actuarial value of assets each year is equal to 100% of the *expected actuarial value of assets*[1] plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. In no event will the actuarial value of assets ever be less than 80% of the market value of assets, nor ever greater than 120% of the market value of assets.

C. Method Changes since Last Valuation

There were no method changes for the June 30, 2008 valuation.

[1] The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased with actual contributions made, decreased with actual disbursements made, all items (prior assets, contributions and disbursements) further adjusted with expected investment returns for the year.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

General members follow the RP2000 Combined Healthy table (male and female) projected to 2008. Safety members follow the Male RP2000 projected to 2008, set forward two years. Set forward two years means that when a member is currently age 50 the actuary uses the age 52 mortality rate. SDCERS uses setbacks and set forwards to compensate for mortality experience in its work force.

Rates of Mortality for Active Lives at Selected Ages

	General		Safety
Age	Male	Female	
20	0.03%	0.02%	0.03%
25	0.03	0.02	0.04
30	0.04	0.02	0.05
35	0.07	0.04	0.09
40	0.10	0.06	0.11
45	0.14	0.10	0.15
50	0.18	0.15	0.23
55	0.31	0.25	0.41
60	0.59	0.49	0.78
65	1.14	0.93	1.45
70	1.97	1.61	2.42

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

All retired healthy members use the RP2000 Combined Healthy table (male and female). Safety members use the RP2000 Combined Healthy table set forward two years (male and female).

Rates of Mortality for Retired Healthy Lives at Selected Ages

	General		Safety	
Age	Male	Female	Male	Female
40	0.11%	0.07%	0.12%	0.09%
45	0.15	0.11	0.17	0.13
50	0.21	0.17	0.27	0.20
55	0.36	0.27	0.47	0.35
60	0.67	0.51	0.88	0.67
65	1.27	0.97	1.61	1.22
70	2.22	1.67	2.73	2.07
75	3.78	2.81	4.69	3.41
80	6.44	4.59	8.05	5.63
85	11.08	7.74	13.60	9.63
90	18.34	13.17	21.66	15.76

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

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

Rates of Mortality for Disabled Lives at Selected Ages

Age	General	Safety
20	0.07%	0.06%
25	0.09	0.08
30	0.09	0.09
35	0.12	0.10
40	0.17	0.13
45	0.28	0.20
50	0.48	0.35
55	0.86	0.60
60	1.56	1.09
65	2.55	1.94
70	4.00	3.06

Termination of Employment (Prior to Normal Retirement Eligibility)

Rates of Termination at Selected Ages and Service 5+ years*

Age	General	Safety
20	12.78%	5.00%
25	8.33	4.07
30	5.83	3.57
35	4.60	3.07
40	3.36	2.67
45	2.78	2.33
50	2.78	2.33
55	2.78	2.33
60	2.78	2.33

*Add 1% to every age for each year of service under 5 years.

20% of terminating employees, with 10+ years of service at termination (5+ years of service at termination for UPD and Airport employees), are assumed to subsequently work for a reciprocal employer and receive 4.50% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

Disability

Rates of Disability at Selected Ages

Age	General	Safety
20	0.04%	0.40%
25	0.06	0.40
30	0.07	0.40
35	0.11	0.50
40	0.15	0.63
45	0.23	0.82
50	0.35	0.95
55	0.53	1.80
60	0.68	-

60% of the General disabilities and 80% of the Safety disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

Family Composition

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

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

Retirement

Rates of Retirement by Service Years

Service	General	Safety
5-9*	9%	9%
10-19	33	32
20	41	32
21	33	14
22	35	18
23	37	23
24	39	27
25	41	32
26	42	36
27	44	41
28	46	45
29	48	50
30	50	100
31	51	100
32	53	100
33	55	100
34	57	100
35+	100	100

*Service years 5-9 apply only to UPD and Airport Authority beginning at age 62; City employees become retirement eligible after 10 years of service beginning at age 62. Retirement eligibility may apply to earlier ages depending on service level (see benefits section) .

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

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service (5 years for both UPD and Airport Authority employees, excluding the 5 year permissible purchased service) on the later of attained age or:

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

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

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

Rates of Retirement at Selected Ages

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

For vested deferred Elected Officials, we assume that retirement will occur provided they have at least 4 years of service on the later of attained age or the earlier of age 55 or age 53 and 8+ years of service.

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

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

E. Economic Assumptions

Investment Return: 7.75% compounded per annum, net of expenses.

Interest Credited to Member Contributions: 7.75% compounded per annum.

Rate of Wage Increase: 4.00% compounded per annum.

Additional Merit Wage Increase:

Years of Service at Valuation Date	General	Safety
0	5.00%	8.00%
1	4.00%	7.00%
2	3.00%	6.00%
3	2.00%	3.50%
4	1.00%	2.00%
5+	0.50%	0.50%

Rate of Increase in Cost-of-Living: 2.00% compounded per annum.
4.00% compounded per annum for a closed group of 98 special City safety officers.

Total Payroll Increase (For amortization): 4.00% compounded per annum.

COLA Annuity Benefit: For active members, there is a 2.5% load on valued benefits for the City and the Unified Port District and 2.0% load for the Airport Authority. This is to anticipate the impact of the annuitized employee COLA contributions at retirement.

F. Assumption Changes since Last Valuation

- Retirement rates were increased and the assumption was changed to be based on service as opposed to the age of a member.
- Termination rates were increased.
- Disability rates were decreased.
- Mortality rates for active City General members were changed from the UP1994 table set back five years to the RP2000 Combined Healthy table projected to 2008; for active City Safety members mortality rates were changed from the UP1994 table (male only) set back five years to the RP2000 Combined Healthy (male only) table projected to 2008, set forward two years.
- Mortality rates for retired City General and Safety members were changed from the UP1994 table set back two years to the RP2000 Combined Healthy table (set forward two years for Safety only).
- The discount rate assumption was lowered from 8.00% to 7.75%.
- The inflation assumption was lowered from 4.25% to 4.00%.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

SDCERS - City of San Diego

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2008	8,487	$535,774,438	$63,129	4.64%
6/30/2007	8,494	512,440,197	60,330	0.38
6/30/2006	8,887	534,102,801	60,099	1.70
6/30/2005	9,436	557,630,735	59,096	6.65
6/30/2004	9,749	540,180,941	55,409	4.88
6/30/2003	10,100	533,595,405	52,831	2.76

SDCERS - Unified Port District

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2008	565	$38,634,835	$68,380	2.87%
6/30/2007	559	37,159,870	66,476	4.24
6/30/2006	532	33,927,372	63,773	1.45
6/30/2005	558	35,077,367	62,863	3.52
6/30/2004	575	34,915,741	60,723	8.24
6/30/2003	609	34,163,647	56,098	0.00

SDCERS - Airport Authority

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2008	341	$23,488,283	$68,881	1.64%
6/30/2007	324	21,956,656	67,767	4.58
6/30/2006	295	19,115,804	64,799	4.51
6/30/2005	284	17,608,879	62,003	5.29
6/30/2004	265	15,605,857	58,890	5.80
6/30/2003	208	11,577,127	55,659	8.54

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

6. Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

SDCERS - City of San Diego

Year Ended	Added Count	Added Annual Allowances	Added Avg. Age	Removed Count	Removed Annual Allowances	Removed Avg. Age	Total Count	Total Annual Allowances	Total Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/08	446	$19,239,330	58.2	185	$3,487,942	79.8	6,940	$253,894,388	66.6	8.43%	$36,584
6/30/07	486	19,465,413	59.2	208	3,634,273	81.8	6,679	234,162,141	66.5	9.55	35,059
6/30/06[1]	619	24,676,720	56.6	213	3,150,596	80.7	6,401	213,747,320	66.6	18.62	33,393
6/30/05	443	18,168,020	58.6	171	2,342,920	80.4	5,995	180,189,027	67.1	11.71	30,057
6/30/04	434	16,057,596	59.0	178	2,634,535	79.8	5,723	161,294,618	67.2	11.30	28,184
6/30/03	470	22,966,080	N/A	146	2,035,123	N/A	5,467	144,916,588	67.2	19.22	26,508

SDCERS - Unified Port of San Diego

Year Ended	Added Count	Added Annual Allowances	Added Avg. Age	Removed Count	Removed Annual Allowances	Removed Avg. Age	Total Count	Total Annual Allowances	Total Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/08	24	$825,588	61.6	12	$207,767	74.8	361	$10,577,683	68.2	8.09%	$29,301
6/30/07	38	1,147,197	62.5	14	276,143	80.1	349	9,786,345	67.9	12.09	28,041
6/30/06[1]	29	1,131,237	57.4	10	333,265	80.2	325	8,731,137	68.2	14.09	26,865
6/30/05	20	786,944	59.0	4	38,109	81.2	306	7,652,853	68.5	12.86	25,009
6/30/04	26	895,159	61.8	10	135,199	76.7	290	6,780,541	68.3	15.08	23,381
6/30/03	15	520,260	N/A	19	454,851	N/A	274	5,892,202	68.2	3.15	21,504

SDCERS - Airport Authority

Year Ended	Added Count	Added Annual Allowances	Added Avg. Age	Removed Count	Removed Annual Allowances	Removed Avg. Age	Total Count	Total Annual Allowances	Total Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/08	5	$148,248	59.3	-	-	N/A	17	$480,239	64.1	46.61%	$28,249
6/30/07	5	115,187	65.0	-	-	N/A	12	327,559	65.1	57.72	27,297
6/30/06[1]	1	21,612	53.5	1	$39,833	65.5	7	207,688	64.1	-6.00	29,670
6/30/05	4	147,730	61.9	-	-	N/A	7	220,945	64.9	207.81	31,564
6/30/04	2	46,165	66.6	-	-	N/A	3	71,779	67.1	185.84	23,926
6/30/03	1	25,112	N/A	-	-	N/A	1	25,112	66.1	-	25,112

[1] June 30, 2006 and later valuations reflect contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

Results from the June 30, 2004 actuarial valuation and prior were calculated by Gabriel, Roeder, Smith & Company, (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

	Aggregate Actuarial Liabilities for ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
Valuation Date	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets[1]			
6/30/08	$522,966	$3,286,668	$2,153,916	$4,660,346	100.00%	100.00%	39.50%
6/30/07[4]	482,526	3,101,594	2,013,532	4,413,411	100.00	100.00	41.19
6/30/06[2]	456,562	2,822,203	1,703,935	3,981,932	100.00	100.00	41.27
6/30/05	457,550	2,183,263	1,736,279	2,983,080	100.00	100.00	19.71
6/30/04	414,986[3]	1,946,660	1,635,681	2,628,680	100.00	100.00	16.33
6/30/03	375,000[3]	1,741,490	1,416,126	2,375,431	100.00	100.00	18.28

SDCERS - Unified Port of San Diego

	Aggregate Accrued Liabilities For ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
Valuation Date	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets[1]			
6/30/08	$19,397	$123,029	$124,611	$245,580	100.00%	100.00%	82.78%
6/30/07[4]	18,374	115,021	113,143	230,585	100.00	100.00	85.90
6/30/06[5]	16,140	101,542	102,955	203,286	100.00	100.00	83.15
6/30/05	15,122	86,242	96,708	163,691	100.00	100.00	64.45
6/30/04	12,885[3]	75,994	86,487	141,375	100.00	100.00	60.70
6/30/03	12,000[3]	65,581	75,455	123,884	100.00	100.00	59.69

SDCERS - Airport Authority

	Aggregate Accrued Liabilities For ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
Valuation Date	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets[1]			
6/30/08	$7,335	$6,341	$43,131	$58,096	100.00%	100.00%	102.99%
6/30/07[4]	6,681	4,288	35,668	50,812	100.00	100.00	111.71
6/30/06[5]	5,402	2,783	28,720	41,222	100.00	100.00	100.00
6/30/05	4,255	2,713	25,635	28,551	100.00	100.00	84.19
6/30/04	2,935[3]	795	19,848	16,225	100.00	100.00	62.95
6/30/03	2,200[3]	300	13,779	11,142	100.00	100.00	62.72

[1] Actuarial Value of Assets. [2] Reflects contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits. [3] Estimated by Cheiron.
[4] The actuarial liability on June 30, 2007 and after is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information. [5] Reflects contingent liabilities (13th check), DROP reserves, and IRC Section 415 limits.

San Diego City Employees' Retirement System
Summary of June 30, 2008 Valuation Results (continued)

8. Analysis of Financial Experience

Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Development of Gain/(Loss) SDCERS - City of San Diego

Valuation DateIncome	Investment Experience	Combined Liability Gain (or Loss)	Financial Experience Items	Non-Recurring Gain (or Loss) During Year	Composite Gain (or Loss)
6/30/2008	$(81,306,075)	$31,375,539	$(49,930,537)	$(47,421,879)	$(97,352,416)
6/30/2007	74,938,588	(39,748,777)	35,189,811	(225,348,741)	(190,158,930)
6/30/2006	158,924,281	46,325,305	205,249,586	209,389,562	414,639,148
6/30/2005	82,500,398	(45,724,516)	36,775,882	(35,852,494)	923,388
6/30/2004	34,002,415	(92,125,989)	(58,123,574)	NA	(58,123,574)
6/30/2003	(286,400,000)	(17,299,305)	(303,699,305)	NA	(303,699,305)

Development of Gain/(Loss) SDCERS - Unified Port District

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2008	$(4,428,892)	$2,429,387	$(1,999,505)	$(2,615,672)	$(4,615,176)
6/30/2007	4,899,047	(1,904,568)	2,994,479	(3,322,298)	(327,819)
6/30/2006	20,926,668	(787,854)	20,138,814	(3,595,264)	16,543,550
6/30/2005	3,062,374	(3,614,921)	(552,547)	(49,448)	(601,995)
6/30/2004	692,000	(2,762,000)	(2,070,000)	NA	(2,070,000)
6/30/2003	(8,150,891)	(2,097,544)	(10,248,435)	NA	(10,248,435)

Development of Gain/(Loss) SDCERS - Airport Authority

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2008	$(1,350,066)	$1,842,772	$492,707	$(1,944,924)	$(1,452,217)
6/30/2007	909,618	266,769	1,176,387	(2,029,171)	(852,784)
6/30/2006	5,886,918	2,845,946	8,732,864	(420,564)	8,312,300
6/30/2005	1,380,592	(2,588,040)	(1,207,448)	4,464,525	3,257,077
6/30/2004	560,000	(2,764,850)	(2,204,850)	NA	(2,204,850)
6/30/2003	(641,718)	(1,371,994)	(2,013,712)	NA	(2,013,712)

Results from 6/30/2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

9. Summary of SDCERS' Benefit Provisions

The following pages illustrate the various benefit provisions for the City's, Port's and Airport's SDCERS participants. For a complete description of these benefits, please call SDCERS at (800) 774-4977 or (619) 525-3600 and request a Summary Plan Description.

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2008

	City of San Diego
1. Membership Requirements	Membership is mandatory upon employment with the City, for all full, three-quarter, and half-time classified employees and any unclassified employees hired on or after 8/11/1993. (§24.0104)
2. Monthly Base Salary for Benefits	Highest consecutive 12 month average in any qualified employment with a California government jurisdiction (§24.0103) subject to a 10% increase for those hired before July 1, 2002, if the General or Safety Member elects such an increase in lieu of an increased benefit formula.
3. Service Retirement	
Eligibility	
General Members	Age 62 with 10 years of service credit, or age 55 with 20 years of service credit. (§141 of City Charter)
Safety Members (includes Fire, Lifeguard & Police)	Age 55 with 10 years of service credit, or age 50 with 20 years of service credit. (§141 of City Charter)
Elected Officers	Age 55 with 4 years of service. Eligible to retire at any age with 8 years of service, however, benefit is reduced by 2% per year for each year under age 55. (§24.1705)
Benefit Formula Per Year of Service	
General Members	Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or, (3) 2.5% per year of service at age 55, and increasing to 2.8% at age 65, not to exceed 90% of Final Compensation. (§24.0402)
General Members (Andrecht-Covered) (Applies to Airport only)	N/A
Executive General Members Port & Airport only (where not specifically identified, treated as part of General Members)	N/A
Safety Members (City - Fire & Police, Port - Harbor Police)	Choice of: (1) 2.5% per year of service at age 50, increasing to 2.9999% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or, (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0402)
Safety Members (City - Lifeguard)	Choice of: (1) 2.2% at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation. (§24.0402)
Elected Officers	3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55. (§24.1705)

Unified Port of San Diego	San Diego County Regional Airport Authority
Membership is mandatory upon employment for all full-time Port employees. (§0101)	Membership is mandatory upon employment for all full-time Airport employees. (§0101)
Highest one-year average for general members hired before October 1, 2006, and all safety members. For General members hired on or after October 1, 2006, highest 3-year average (§0102). Subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.	Highest contiguous 26 bi-weekly pay periods (§0102), subject to a 10% increase if the Member elects such increase in lieu of an increased benefit formula.
Age 62 with 5 years of service credit, or age 55 with 20 years of service credit. (§0300)	Age 62 with 5 years of service, or age 55 with 20 years of service. (§0300)
Age 55 with 5 years of service credit, or age 50 with 20 years of service credit. (§0301)	N/A
N/A	N/A
N/A	N/A
Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.	Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.
Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.	Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.
Choice of: (1) 2.5 % at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.	N/A
N/A	N/A
N/A	N/A

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2008

	City of San Diego
Retirement Payment Options	Choice of: **Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide larger annuity benefit for the member.
	Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.
	Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.
	Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.
	Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.
	Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement. (§24.1102, 24.0210, 24.0310)

Unified Port of San Diego	San Diego County Regional Airport Authority
Choice of: **Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.	Choice of: **Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.
Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.	**Option 1** - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.
Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.	**Option 2** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.
Option 3 -receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.	**Option 3** - receive a reduced monthly retirement allowance until the mem-ber's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.
Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.	**Option 4** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.
Social Security Integrated Option - Unified Port District employees participate in Social Security.	**Social Security Integrated Option** - Airport Authority employees participate in Social Security.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2008

	City of San Diego
4. Non-Industrial Disability Eligibility All Members	Ten years of service credit.(Charter §141)
Benefit Formula Per Year of Service General Members	Choice of: (1) 1.5% per year of service multiplied by final compensation*; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0505)
Safety Members	Choice of: (1) 1.8% per year of service; (2) one-third of final compensation*; or (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0504)
Elected Officers	Earned service retirement benefit. (§24.1707)
5. Industrial Disability Eligibility All Members	No age or service requirement (§24.0501)
Benefit Formula Per Year of Service General Members	Choice of: (1) 50% of final compensation*; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0505)
Safety Members	Choice of: (1) 50% of final compensation*; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0503)
Elected Officers	Earned service retirement benefit. (§24.1707)
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation. (§24.0702)
7. Non-Industrial Death After Eligible to Retire for Service	50% of earned benefit payable to eligible surviving spouse. (§24.0704)
8. Industrial Death General Members	50% of the final compensation divided into 12 equal payments each year. (§24.0705)
Safety Members	50% of the final compensation divided into 12 equal payments each year. (§24.0705)
9. Death After Retirement	50% of member's unmodified allowance continued to eligible spouse. (§24.0601) $2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§24.0710)

*Per Board decision, the 10% increase on final average compensation has been removed

Unified Port of San Diego	San Diego County Regional Airport Authority
Ten years of service credit. (§0503)	Ten years of service credit. (§0502)
Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§0505)	Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§0503)
Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§0504)	N/A
N/A	N/A
No age or service requirement. (§0500)	No age or service requirement. (§0500)
Greater of: (1) one-third of final compensation or (2) the earned service retirement benefit. (§0502)	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§0501)
Choice of: (1) one-half of final compensation or (2) the earned service retirement benefit. (§0501)	N/A
N/A	N/A
Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six months salary.	Refund of employee contributions with interest plus plus one month's salary for each completed year of service to a maximum of six months salary.
50% of earned benefit payable to eligible surviving spouse, domestic partner, or child under 21 years of age.	50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age.
50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age.	50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age.
50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age.	N/A
50% of member's unmodified allowance continued to eligible surviving spouse, domestic partner, or child under 21 years of age. $2,000 payable in lump sum to the beneficiary or the estate of the retiree.	50% of member's unmodified allowance continued to eligible surviving spouse, domestic partner, or child under 21 years of age. $2,000 payable in lump sum to the beneficiary or the estate of the retiree.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2008

	City of San Diego
10. Withdrawal Provisions	Pre-12/8/76 hires – if contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire. Post-12/7/76 hires – 1. Less than ten years of service - Refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§24.0206, 24.0306, 24.1005) 2. Ten or more years of service - If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire. (§24.0206, 24.0306)
11. Post-Retirement Cost-of-Living Benefits	
General Members	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)
Safety Members	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)
12. Cola Annuity	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§24.0103)
13. Member Contributions	Vary by age at time of entrance into SDCERS (§24.0201, 24.0301). Any portion of these contributions paid by the plan sponsor (employer), are not directly reflected in either the member (employee) contributions or related refund calculations.
14. Internal Revenue Code Compliance	Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code. (§24.1004)
15. Blended Benefit with Participating Agencies	Members may retire and receive benefits from multiple Plan IDs (e.g. – a City police officer could have also worked for the Airport Authority).

Unified Port of San Diego	San Diego County Regional Airport Authority
Pre 12/8/76 hires – if contributions are left on deposit, entitled to earned benefits commencing anytime after eligible to retire. Post 12/8/76 hires – 1. Less than five years of service credit (ten years of service if employee terminated before December 31, 2002) - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. 2. Five or more years of service credit (ten or more years of service if employee terminated before December 31, 2002) - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.	1. Less than five years of service credit - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. 2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.
Based on changes in Consumer Price Index, to a maximum of 2% per year. Based on changes in Consumer Price Index, to a maximum of 2% per year.	Based on changes in Consumer Price Index, to a maximum of 2% per year. N/A
Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement.	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement.
Vary by age at time of entrance into SDCERS (§0200). Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.	Vary by age at time of entrance into SDCERS (§0200). Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.
Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the"grandfather" election in Section 415(b)(10) of the Internal Revenue Code.	Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code.
Members may retire and receive benefits from multiple Plan IDs (e.g. – a Unified Port District Employee could have also worked for the Airport Authority).	Members may retire and receive benefits from multiple Plan IDs (e.g. – an Airport Authority member could have also worked for the Unified Port District).

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2008

Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is a voluntary program created by SDCERS' plan sponsors to provide some SDCERS' members with an alternative method to accrue benefits in SDCERS. For actuarial valuation purposes, SDCERS' members entering DROP are considered "retired" the date they enter DROP.

A SDCERS' member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, they will have access to a lump sum or annuity benefit in addition to his or her normal monthly retirement allowance when he or she retires. DROP was initially offered by SDCERS' sponsors on a trial basis for a three-year period ending March 31, 2000. It has since become a permanent retirement option. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for their respective plan sponsor and receives a regular paycheck. Both the plan sponsor and the DROP Participant no longer make retirement contributions to SDCERS, and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer-offered benefits available to regular employees.

A SDCERS' member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable and cannot be changed once the first payment is made into a DROP account.

SDCERS' members electing to enter DROP must agree to participate in the program for a specific period of time, up to a maximum of 5 years; this specific time period cannot be modified once agreed to. A DROP participant must end employment with his or her plan sponsor on or before the end of the selected DROP participation period.

When a SDCERS member participates in DROP, a DROP account is set up for that individual. The money credited to a DROP account comes from six sources:

1. A DROP participant's contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
2. The plan sponsor's contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
3. The DROP participant's monthly retirement allowance, as determined when entering DROP;
4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by SDCERS' Board.

The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. It is available either in a lump sum or periodic distribution. Once a participant leaves DROP, the member begins receiving a monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when the member leaves employment and begins retirement. The distribution is made as a single lump sum, periodic payments in 240 equal monthly payments, or as otherwise allowed by SDCERS' Board, subject to the applicable provisions of the Internal Revenue Code.

For further information on the DROP program, please contact SDCERS' office at (800) 774-4977 or (619) 525-3600, or visit SDCERS' Web site at www.sdcers.org.

5. Statistical

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how SDCERS' financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for SDCERS' net assets, additions, deductions, and different types of retirement benefits. The financial and operating trend information is located on the following pages.

San Diego City Employees' Retirement System
Changes in Net Assets
For the Years Ended June 30
10-Year Review (Dollars in Thousands)

				Net Assets	
Fiscal Year	Additions	Deductions	Net Change	Beginning of Year	End of Year
2009	($707,507)	$323,024	($1,030,531)	$4,384,847	$3,354,316
2008	(166)	296,707	(296,873)	4,681,720	4,384,847
2007	945,919	278,023	667,896	4,013,825	4,681,720
2006	822,060	259,987	562,073	3,451,752	4,013,825
2005	599,218	240,213	359,006	3,092,746	3,451,752
2004	751,637	200,990	550,647	2,542,100	3,092,746
2003	288,307	176,667	111,639	2,527,890	2,542,100
2002	86,720	158,929	(72,210)	2,599,281	2,527,890
2001	109,126	160,942	(51,816)	2,652,492	2,599,281
2000	460,445	117,679	342,766	2,309,726	2,652,492

San Diego City Employees' Retirement System
Additions to Plan Net Assets by Source
For Fiscal Years Ended June 30

	Fiscal Year	Plan Sponsors' Contributions	Members' Contributions Paid By Plan Sponsors	Members' Contributions	Members' Contributions for Service Purchased	Earned Interest on PSC Installment Contracts[1]	DROP Contributions (plus Pension Allowances)	Net Investment Income[2]	Other Income	Total Additions
Dollars	2009	$172,849,550	$25,283,878	$45,362,055	$4,166,883	$926,665	-	($956,420,787)	$325,250	($707,506,506)
% of total		24.43%	3.57%	6.41%	0.59%	0.13%	-	-135.18%	0.05%	100.00%
Dollars	2008	175,000,938	20,216,479	47,287,014	7,262,118	1,022,247	-[5]	(251,289,907)	335,210	(165,901)
% of total		105,485.16	12,185.87	28,503.15	4,377.38	616.18	-	-151,469.80	202.05	100.00
Dollars	2007	181,388,065	22,728,577	43,927,961	6,042,961	1,352,182	-[5]	689,860,139	619,044	945,918,889
% of total		19.18	2.40	4.64	0.64	0.14	-	72.93	0.07	100.00
Dollars	2006	282,770,428	23,632,010	32,959,653	9,645,793	1,825,921	-[5]	455,726,222	15,500,000	822,060,027
% of total		34.40	2.87	4.01	1.17	0.22	-	55.44	1.89	100.00
Dollars	2005	145,238,133	33,988,447	18,859,980	49,339,098	1,583,235	-[5]	350,209,486	-	599,218,379
% of total		24.24	5.67	3.15	8.23	0.26	-	58.45	-	100.00
Dollars	2004	87,861,650	33,951,427	16,299,646	75,419,976	907,814	-[5]	537,196,172	-	751,636,685
% of total		11.69	4.52	2.17	10.03	0.12	-	71.47	-	100.00
Dollars	2003	72,558,680[3]	31,606,145	20,917,653	40,016,896	477,758	-[5]	122,729,552	-	288,306,684
% of Total		25.17	10.96	7.26	13.88	0.17	-	42.57	-	100.00
Dollars	2002	49,962,365	28,794,143	24,192,104	29,353,981	N/A	$29,892,770	(75,934,760)	459,087	86,719,690
% of Total		57.61	33.20	27.90	33.85		34.47	-87.56	0.53	100.00
Dollars	2001	44,598,473	25,566,207	35,413,089[4]	N/A	N/A	28,303,009	(25,126,082)	371,123	109,125,819
% of Total		40.87	23.43	32.45			25.94	-23.02	0.34	100.00
Dollars	2000	40,001,210	24,271,821	28,874,726[4]	N/A	N/A	17,334,525	349,654,651	308,302	460,445,235
% of Total		8.69	5.27	6.27			3.76	75.94	0.07	100.00

[1] Earned Interest on PSC Installment Contracts was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' independent auditor to conform with generally accepted accounting principles. In prior years, Earned Interest on PSC Installment Contracts was included in Members (Employees) Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.

[2] Net Investment Income includes all SDCERS' earnings for both the Defined Benefit Pension Plan and the Post-Employment Healthcare Benefits Plan.

[3] Amount includes an additional plan sponsor (employer) contribution made by the City of San Diego for a portion of their net pension obligation applicable to fiscal years 1997 - 2002, totaling $9,923,538. For further details concerning this additional plan sponsor (employer) contribution, please see the Schedules of Plan Sponsors' (Employers') Contributions and the Notes to Schedules of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information located in the Financial Section.

[4] Prior to 2002, Members' Contributions included Contributions for Purchased Service.

[5] Reflects restatement of DROP as a plan liability effective June 30, 2004 with June 30, 2003 restated.

San Diego City Employees' Retirement System
Deductions from Plan Net Assets by Type
For Fiscal Years Ended June 30

	Fiscal Year	Retirement, Death and Disability Benefits	Health Insurance Payments[4]	Administrative Expenses	DROP Program Interest Expense[3]	Allowance for Uncollectable Purchased Service Payments[1]	Litigation Settlement Expense[2]	Refund of Members' Contributions	Total Deductions
Dollars	2009	$277,131,305	-	$14,725,755	$27,097,973	-	-	$4,068,746	$323,023,779
% of Total		85.79%	-	4.56%	8.39%	-	-	1.26%	100.00%
Dollars	2008	254,013,756	-	15,776,346	23,050,681	-	-	3,866,690	296,707,473
% of Total		85.61	-	5.32	7.77	-	-	1.30	100.00
Dollars	2007	235,262,751[3]	-	19,103,395	20,263,468	-	-	3,393,507	278,023,121
% of Total		84.62	-	6.87	7.29	-	-	1.22	100.00
Dollars	2006	214,704,695[3]	-	18,438,356	17,748,612	-	$4,535,682	4,559,977	259,987,322
% of Total		82.58	-	7.09	6.83	-	1.74%	1.76	100.00
Dollars	2005	201,006,814[3]	$7,910,366[4]	11,960,392	16,520,216	$12,096	N/A	2,802,986	240,212,870
% of Total		83.67	3.29%	4.98	6.88	0.01%		1.17	100.00
Dollars	2004	161,658,640[3]	12,829,903	10,163,263	12,735,149	244,704	1,249,292	2,108,909	200,989,860
% of Total		80.43	6.38	5.06	6.34	0.12	0.62	1.05	100.00
Dollars	2003	146,396,141[3]	11,450,200	8,155,205	9,218,281	68,693	N/A	1,378,787	176,667,307
% of Total		82.86	6.48	4.62	5.22	0.04		0.78	100.00
Dollars	2002	141,037,774	8,882,138	7,866,835	N/A	147,913	N/A	994,740	158,929,400
% of Total		88.74	5.59	4.95		0.09		0.63	100.00
Dollars	2001	145,991,812	7,207,618	6,279,578	N/A	N/A	N/A	1,462,746	160,941,754
% of Total		90.71	4.48	3.90				0.91	100.00
Dollars	2000	105,179,379	5,413,222	5,835,241	N/A	N/A	N/A	1,250,997	117,678,839
% of Total		89.38	4.60	4.96				1.06	100.00

[1] Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' prior independent auditor. SDCERS current independent auditor approves of management's practice to show purchased service receivables at gross values, since any contract cancellation reduces contract liability by an offsetting amount.

[2] Litigation Settlement Expense is SDCERS' portion of the plaintiff's attorney fee awarded as a result of the FY 2005 Gleason settlement and the Hanson, Bridgett settlement in FY 2006. For additional information on these expenses and the the associated settlements, refer to Note 6. Legal Action in the Notes to the Financial Statements in the Financial Section.

[3] A change in accounting treatment of DROP assets to report DROP as a plan liability was implemented in FY 2004 and applied retroactively to FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the DROP program as a liability, rather than as a component of plan net assets. As a result, DROP payments are now processed through the DROP liability account instead of through the Statement of Plan Net Assets and interest granted on DROP program balances as a deduction.

[4] In FY 2005, the City started funding healthcare benefits directly by making contributions to a separate healthcare insurance fund for this plan.

San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries
As of Years Ended June 30

City of San Diego

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement[2]	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2008	4,597	1,244	28	1,071	6,940
Annual Allowances		$205,288,070	$34,628,149	$617,394	$13,360,775	$253,894,388
No. of Allowances	2007	4,354	1,245	28	1,052	6,679
Annual Allowances		187,827,706	33,422,130	605,485	12,306,821	234,162,142
No. of Allowances	2006	4,118	1,237	29	1,017	6,401
Annual Allowances		170,186,825	31,992,059	594,020	10,974,416	213,747,320
No. of Allowances	2005	3,728	1,239	30	998	5,995
Annuals Allowances		141,153,674	29,094,290	568,576	9,372,487	180,189,027
No. of Allowances	2004	3,480	1,247	31	965	5,723
Annual Allowances		123,675,151	28,351,092	588,900	8,679,475	161,294,618
No. of Allowances	2003	3,260	1,239	30	938	5,467
Annuals Allowances		109,471,010	27,164,406	509,400	7,771,772	144,916,588
No. of Allowances	2002	3,043	1,247	42	811	5,143
Annual Allowances		89,330,198	25,716,957	599,081	5,908,340	121,554,576
No. of Allowances	2001	2,945	1,238	40	789	5,012
Annuals Allowances		81,737,884	24,732,266	543,007	5,624,401	112,637,558
No. of Allowances	2000	2,753	1,207	38	791	4,789
Annual Allowances		66,442,363	23,253,156	499,506	5,153,726	95,348,751
No. of Allowances	1999	2,673	1,181	38	765	4,657
Annuals Allowances		60,775,471	21,753,769	457,814	4,763,209	87,750,263

[1] The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies (plan sponsors). All retirees remained with the Port as of December 21, 2002; therefore, no allowances were paid on behalf of the Airport.

[2] Total Deaths Before Retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

Unified Port of San Diego[1]

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement [2]	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2008	246	60	1	54	361
Annual Allowances		$8,693,247	$1,184,093	$11,177	$689,165	$10,577,683
No. of Allowances	2007	233	61	1	54	349
Annual Allowances		7,910,274	1,175,107	10,970	689,993	9,786,344
No. of Allowances	2006	211	62	1	51	325
Annual Allowances		6,949,595	1,175,661	10,106	595,775	8,731,137
No. of Allowances	2005	192	60	1	53	306
Annuals Allowances		6,003,129	1,081,191	9,908	558,626	7,652,854
No. of Allowances	2004	180	59	1	50	290
Annual Allowances		5,220,223	1,054,400	9,714	496,204	6,780,541
No. of Allowances	2003	162	60	1	51	274
Annuals Allowances		4,343,496	1,022,188	28,160	498,358	5,892,202
No. of Allowances	12/31/2002[1]	167	62	1	48	278
Annual Allowances		4,242,311	1,021,125	9,337	439,769	5,712,542
No. of Allowances	2002	158	60	2	43	263
Annuals Allowances		3,892,413	988,565	19,653	359,284	5,259,915
No. of Allowances	2001	142	58	2	44	245
Annual Allowances		3,108,368	883,234	18,438	336,892	4,346,932
No. of Allowances	2000	145	57	2	38	242
Annuals Allowances		3,106,843	800,421	17,854	219,680	4,144,798
No. of Allowances	1999	138	55	2	37	232
Annual Allowances		2,800,000	755,817	17,530	203,177	3,776,524

San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

San Diego County Regional Airport Authority[1]

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2008	16	-	-	1	17
Annual Allowances		$457,761	-	-	$22,478	$480,239
No. of Allowances	2007	11	-	-	1	12
Annual Allowances		305,518	-	-	22,040	327,558
No. of Allowances	2006	6	-	-	1	7
Annual Allowances		186,077	-	-	21,612	207,689
No. of Allowances	2005	7	-	-	-	7
Annuals Allowances		220,945	-	-	-	220,945
No. of Allowances	2004	3	-	-	-	3
Annual Allowances		71,779	-	-	-	71,779
No. of Allowances	2003	1	-	-	-	1
Annual Allowances		25,112	-	-	-	25,112

[1] The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies (plan sponsors. All retirees remained with the Port as of December 31, 2002; therefore, no allowances were paid on behalf of the Airport.

San Diego City Employees' Retirement System
Retired Members by Type of Benefit
For the Year Ended June 30, 2008

City of San Diego

		Type of Retirement		
Amount of Monthly Benefit	Total Allowances Paid	Service Retirements	Disability Retirements	Death Beneficiaries
$0 - $1,000	1,430	434	259	737
$1,001 - $2,000	1,491	797	451	243
$2,001 - $3,000	1,265	894	300	71
$3,001 - $4,000	732	620	81	31
$4,001 - $5,000	691	626	55	10
$5,001 - $6,000	601	542	55	4
$6,001 - $7,000	368	337	30	1
$7,001 - $8,000	185	175	8	2
$8,001 - $9,000	80	77	3	-
$9,001 - $10,000	50	49	1	-
Over $10,000	47	46	1	-
	6,940	4,597	1,244	1,099

United Port District

		Type of Retirement		
Amount of Monthly Benefit	Total Allowances Paid	Service Retirements	Disability Retirements	Death Beneficiaries
$0 - $1,000	78	33	6	39
$1,001 - $2,000	105	59	36	10
$2,001 - $3,000	82	61	17	4
$3,001 - $4,000	39	38	1	-
$4,001 - $5,000	23	22	1	-
$5,001 - $6,000	17	17	-	-
$6,001 - $7,000	7	6	1	-
$7,001 - $8,000	3	3	-	-
$8,001 - $9,000	3	3	-	-
$9,001 - $10,000	2	2	-	-
Over $10,000	2	2	-	-
	361	246	62	53

Airport Authority

		Type of Retirement		
Amount of Monthly Benefit	Total Allowances Paid	Service Retirements	Disability Retirements	Death Beneficiaries
$0 - $1,000	2	2	-	-
$1,001 - $2,000	3	2	-	1
$2,001 - $3,000	9	9	-	-
$3,001 - $4,000	2	2	-	-
$4,001 - $5,000	1	1	-	-
$5,001 - $6,000	-	-	-	-
$6,001 - $7,000	-	-	-	-
$7,001 - $8,000	-	-	-	-
$8,001 - $9,000	-	-	-	-
$9,001 - $10,000	-	-	-	-
Over $10,000	-	-	-	-
	17	16	-	1

Note: Data above reflects the number of retirement allowances paid. Death beneficiaries includes lump sum payments to beneficiaries for members who died before or after retirement.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts
As of Years Ended June 30

City of San Diego

Fiscal Year	Number of Allowances	Annual Allowances Paid	Averages: Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
2008	6,940	$253,894,388	$36,584	4.35%	66.6	55.0	23.5
2007	6,679	234,162,141	35,059	4.99	66.5	54.8	23.5
2006	6,401	213,747,320	33,393	11.10	66.6	54.8	23.4
2005	5,995	180,189,027	30,057	6.65	67.1	54.8	23.1
2004	5,723	161,294,618	28,184	6.32	67.2	54.2	22.9
2003	5,467	144,916,588	26,508	12.15	67.2	54.2	22.7
2002	5,143	121,554,576	23,635	5.17	67.7	54.2	21.7
2001	5,012	112,637,558	22,474	12.88	67.5	54.2	21.2
2000	4,789	95,348,751	19,910	5.58	68.1	54.4	20.9
1999	4,657	87,823,437	18,858	8.92	68.0	54.5	20.9

Unified Port of San Diego[1]

Fiscal Year	Number of Allowances	Annual Allowances Paid	Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
2008	361	$10,577,683	$29,301	4.49%	68.2	57.6	17.7
2007	349	9,786,345	28,041	4.38	67.9	57.6	17.5
2006	325	8,731,137	26,865	7.42	68.2	57.5	17.5
2005	306	7,652,853	25,009	6.96	68.5	57.6	17.4
2004	290	6,780,540	23,381	8.73	68.3	57.6	17.0
2003	274	5,892,202	21,504	4.65	68.2	57.3	16.7
12/31/02	278	5,712,542	20,549	2.75	68.6	57.4	16.6
2002	263	5,259,914	20,000	13.18	68.4	57.4	16.5
2001	246	4,346,932	17,670[2]	3.17	68.3	57.4	15.8
2000	242	4,144,798	17,127	5.22	68.5	57.7	16.1
1999	232	3,776,524	16,278	23.45	68.5	58.0	16.0

San Diego County Regional Airport Authority[1]

Fiscal Year	Number of Allowances	Annual Allowances Paid	Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
2008	17	$480,239	$28,249	3.49%	64.1	62.7	17.0
2007	12	327,559	27,297	-8.00	65.4	64.6	14.6
2006	7	207,688	29,670	-6.00	64.1	63.8	14.7
2005	7	220,945	31,564	31.92	64.9	63.7	14.7
2004	3	71,779	23,926	-4.72	67.1	66.1	12.9
2003	1	25,112	25,112	N/A	66.1	65.0	10.2

[1] San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies. As of December 31, 2002, the Airport had no retirees or beneficiaries receiving benefits; all retirees and beneficiaries are counted as retiring from the Port as of the date of this actuarial valaution.

[2] Prior to Andrecht Settlement; $18,907 average annual allowance after 7% Andrecht increase.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement[1]
As of Fiscal Years Ended June 30

		Years Of Creditable Service						
		0-5	5-10	10-15	15-20	20-25	25-30	30+
City of San Diego								
2008	Average Monthly Benefit	$128	$1,101	$1,716	$2,358	$3,421	$5,357	$5,455
	Average Final Monthly Salary	5,022	3,553	5,098	4,828	5,623	6,951	6,128
	Number of New Retirees	2	9	34	23	122	106	69
2007	Average Monthly Benefit	1,323	1,744	1,498	2,245	3,091	5,737	5,277
	Average Final Monthly Salary	2,624	9,753	4,766	4,545	5,250	7,271	5,938
	Number of New Retirees	1	5	35	26	147	92	78
2006	Average Monthly Benefit	228	2,068	1,712	2,316	3,340	5,250	5,150
	Average Final Monthly Salary	5,998	6,112	4,804	5,152	5,445	6,564	5,705
	Number of New Retirees	1	3	32	24	165	149	112
Unified Port of San Diego								
2008	Average Monthly Benefit	$222	$490	$1,237	$2,308	$4,223	$5,484	$–
	Average Final Monthly Salary	5,225	3,263	2,951	4,425	6,940	6,512	–
	Number of New Retirees	2	1	6	7	2	6	–
2007	Average Monthly Benefit	133	1,419	2,311	3,625	2,893	3,127	5,023
	Average Final Monthly Salary	5,347	5,155	6,829	7,494	4,870	4,446	6,304
	Number of New Retirees	3	3	4	9	10	1	1
2006	Average Monthly Benefit	369	2,861	1,440	3,415	4,175	5,949	5,196
	Average Final Monthly Salary	4,437	7,552	4,632	7,449	6,544	7,670	6,127
	Number of New Retirees	4	3	2	3	8	4	2
San Diego County Regional Airport Authority								
2008	Average Monthly Benefit	$928	$–	$–	$2,929	$2,169	$3,339	$–
	Average Final Monthly Salary	8,466	–	–	5,484	3,908	4,424	–
	Number of New Retirees	1	–	–	2	1	1	–
2007	Average Monthly Benefit	–	1,038	2,827	2,271	–	–	–
	Average Final Monthly Salary	–	3,951	6,470	4,504	–	–	–
	Number of New Retirees	–	2	1	2	–	–	–
2006	Average Monthly Benefit	–	–	–	–	–	–	–
	Average Final Monthly Salary	–	–	–	–	–	–	–
	Number of New Retirees	–	–	–	–	–	–	–

[1] Retirees only (including DROP participants); beneficiaries excluded. Historical data prior to 2006 unavailable due to system constraints.

San Diego City Employees' Retirement System
Active Members
As of Years Ended June 30

City of San Diego

Fiscal Year	Totals: Number of Members	Totals: Salaries	Averages: Annual Salary	Averages: Percentage Increase Over Prior Year	Averages: Current Age	Averages: Years Service Credit[2]
2008	8,487	$535,774,438	$63,129	4.64%	43.5	13.2
2007	8,494	512,440,197	60,330	0.38	43.6	13.1
2006	8,887	534,102,801	60,099	1.70	43.3	12.9
2005	9,436	557,630,735	59,096	6.65	43.0	12.7
2004	9,749	540,180,940	55,409	4.88	42.8	11.5
2003	10,100	533,595,405	52,831	2.76	42.4	11.3
2002	10,409	535,156,545	51,413	5.54	42.4	10.7
2001	9,892	481,863,319	48,712	7.67	42.1	10.7
2000	9,913	448,501,827	45,244	2.89	42.2	10.7
1999	9,654	424,515,969	43,973	3.13	41.9	10.8

Unified Port of San Diego[1]

Fiscal Year	Number of Members	Salaries	Annual Salary	Percentage Increase Over Prior Year	Current Age	Years Service Credit[2]
2008	565	$38,634,835	$68,380	2.87%	44.3	9.7
2007	559	37,159,870	66,476	4.24	44.5	9.9
2006	532	33,927,372	63,773	1.45	44.8	10.0
2005	558	35,077,367	62,863	3.52	44.6	9.6
2004	575	34,915,741	60,723	8.24	44.5	9.1
2003	609	34,163,647	56,098	5.70	44.7	8.7
12/31/02	606	33,995,335	56,098	N/A	44.6	8.2
2002	736	39,063,314	53,075	6.95	44.4	8.2
2001	734	36,425,136	49,626	5.99	43.8	7.7
2000	654	30,621,242	46,821	3.04	43.9	7.8
1999	661	30,034,900	45,439	4.94	43.7	7.5

San Diego County Regional Airport Authority[1]

Fiscal Year	Number of Members	Salaries	Annual Salary	Percentage Increase Over Prior Year	Current Age	Years Service Credit[2]
2008	341	$23,488,283	$68,881	1.64%	45.5	7.2
2007	324	21,956,656	67,767	4.58	45.4	7.2
2006	295	19,115,804	64,799	4.51	44.9	7.2
2005	284	17,608,879	62,003	5.29	44.0	6.5
2004	265	15,605,857	58,890	5.80	43.4	5.9
2003	208	11,577,857	55,659	8.54	43.5	6.0
12/31/02	173	8,871,283	51,279	N/A	42.9	6.5

[1] The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies.

[2] Actuarial valuations include purchased service credit from June 30, 2002 forward.

San Diego City Employees' Retirement System
Inactive Members[1]
As of Years Ended June 30

City of San Diego

As of Years Ended	Total: Number of Inactive Members	Total: Total Contribution Balances	Averages: Member Age	Averages: Service Years Earned[3]	Averages: Contribution Balance
2008	2,743	$100,703,014	44.2	7.7	$36,713
2007	2,606	90,347,344	43.8	7.7	34,669
2006	2,359	71,328,108	43.6	7.4	30,237
2005	1,998	50,420,350	44.1	7.0	25,235
2004	1,884	39,051,767	43.7	6.7	20,728
2003	1,723	31,484,749	43.7	6.4	18,273
2002	1,499	25,808,549	43.1	6.6	17,217
2001	1,438	23,501,628	42.9	6.8	16,343
2000	1,016	18,620,827	44.3	7.5	18,328
1999	800	12,244,598	43.1	6.6	15,306

Unified Port of San Diego[2]

As of Years Ended	Number of Inactive Members	Total Contribution Balances	Member Age	Service Years Earned[3]	Contribution Balance
2008	276	$3,987,972	46.6	4.6	$14,449
2007	254	3,345,129	46.1	4.6	13,170
2006	261	3,909,366	46.2	5.1	14,978
2005	250	3,355,126	45.6	4.8	13,421
2004	228	2,252,989	44.7	4.5	9,882
2003	194	1,348,216	44.7	3.9	6,950
12/31/02	186	1,235,981	43.9	4.1	6,645
2002	196	1,276,922	43.4	4.1	6,515
2001	163	1,135,633	44.2	4.3	6,967
2000	142	938,416	41.6	3.7	6,609
1999	99	631,050	42.6	3.6	6,374

San Diego County Regional Airport Authority[2]

As of Years Ended	Number of Inactive Members	Total Contribution Balances	Member Age	Service Years Earned[3]	Contribution Balance
2008	62	$1,033,782	46.4	4.1	$16,674
2007	52	736,406	47.6	4.3	14,162
2006	45	597,226	46.6	4.1	13,272
2005	26	243,263	47.5	4.1	9,356
2004	12	47,659	45.3	3.3	3,972
2003	7	9,808	45.9	0.9	1,401

[1] Inactive members are former active members of SDCERS who have left employment of the plan sponsor and have contributions still on deposit with SDCERS. Inactive SDCERS' members may or may not be vested to receive a retirement benefit in the future.

[2] San Diego County Regional Airport Authority was established effective as of January 1, 2003 from the Unified Port of San Diego (Port); interim actuarial valuations were performed to reflect the two separate employers. All inactive SDCERS members remained with the Port as of December 31, 2002; therefore, all contributions for inactive Port SDCERS members remained with the Port.

[3] Actuarial valuations include purchased service credit from June 30, 2002 forward.

San Diego City Employees' Retirement System
Participating Plan Sponsors

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