San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

San Diego City Employees' Retirement System

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Employees of the City of San Diego, the San Diego Unified Port District
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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
Chief Executive Officer

Mary J. Lewis
Chief Financial Officer

Rolando Charvel
Controller

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Table of Contents

3. Investment Section

4. Actuarial Section

5. Statistical Section

1. INTRODUCTORY

Transmittal Letter

SDCERS
San Diego City Employees' Retirement System

December 3, 2012

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

We are pleased to present the San Diego City Employees' Retirement System's (SDCERS) Comprehensive Annual Financial Report (CAFR) as of and for the fiscal year ended June 30, 2012 (FY 2012).

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 San Diego Unified Port District became members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority became members in 2003.

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 equity, fixed income, real estate, private equity, and infrastructure investments. 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. SDCERS' investment returns for Fiscal Year (FY) 2012 were 0.9%, compared to 24.2% for FY2011. As of June 30, 2012, SDCERS' annualized total investment return was 12.4% over the past three years and 1.8% over the past five years. Over the past ten years, SDCERS' investment returns were 7.3%, *which is in the top 8% for public pension plans*.

SDCERS' investment philosophy and strategy remain focused on long-term results. We believe this long-standing, disciplined strategy of a well-balanced portfolio will continue to provide members with sustainable benefits for generations to come. In September 2011, the SDCERS Board reduced our investment return assumption from 7.75% to 7.50%.

Funding Status. SDCERS engages an independent actuary to conduct annual actuarial valuations. The June 30, 2011 actuarial valuations, the most recent available, for our three Plan Sponsors are summarized in this CAFR, and show that the City's plan is 68.5% funded, the Unified Port District's plan is 73.1% funded and the Airport Authority's plan is 102.7% funded. The City and Unified Port District ratios are relatively stable from a year ago, while the Airport Authority ratio now shows a small funding surplus. All three plan sponsors paid 100% of their Annual Required Contribution (ARC) in FY2011 and FY2012. Historical trend information regarding funded status is provided in the Financial and Actuarial Sections of this report.

FY 2011 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2011 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." This award continues our renewed recognition that began with the FY 2008 CAFR and is the direct result of extraordinary work by our Finance, Investment and Legal teams.

Status of Pension Reform Initiatives. "Pension reform" has been a rallying cry across the country and SDCERS is in the midst of these discussions. The City electorate voted in favor of a pension reform initiative ("Proposition B") in June 2012 to discontinue providing a defined benefit retirement option to newly-hired employees, other than for sworn police officers, and this became law on July 20, 2012. The California legislature in September 2012 passed the California Public Employees' Pension Reform Act requiring reduced defined benefit formulas for local public entities, which would include new Port and Airport members, and this law becomes effective January 1, 2013. SDCERS is working with all three plan sponsors to ensure a smooth transition on these benefit changes.

Improved Pension Administration System. SDCERS continues to work with its consultants, Sagitec Solutions LLC and L.R. Wechsler, on the design of a new Pension Administration System that will enhance operating efficiencies and functionality over our current software. This multi-year project is on track to go live in January 2014 and is expected to deliver more timely, accurate data and important efficiency improvements.

Member Communications, New Facts Sheets and Booklets on Website. SDCERS held its annual meeting in September for retired and active members with the executive team presenting the investment performance of the portfolio and new initiatives. SDCERS staff designed 23 separate Booklets addressing the different benefit tiers for SDCERS members. In addition, topical Fact Sheets have been developed for all other key benefit provisions, including Death Benefits, Retiree Health, and Purchase of Service Credit (PSC). A PSC calculator has also been added to the SDCERS website allowing members a fast and easy way to estimate purchases. Further web site enhancements are planned in the coming year to provide members with easier and more current information on their retirement benefits.

Operational Initiative to Correct Historical Purchase of Service Credit Underpricing. In response to a June 2010 appellate court ruling, SDCERS undertook a major operational initiative to correct PSC underpricing of contracts issued in calendar years 2003 and 2004. Approximately 2,000 current and former City and Airport employees were affected by the PSC underpricing. The correction process is now substantially complete and resolved approximately $65 million in associated underpricing.

Investment Team Making Strategic Adjustments. In FY2012, SDCERS continued to make progress towards its long-term strategic investment goals, with investment allocation changes in several areas. A five percent allocation to Global Equity was established, reflecting that the majority of equity markets today are truly global and not just U.S.-based. A three percent allocation to Emerging Market Debt was established and has generated positive returns since inception. Private Equity investments are now three percent of the portfolio and have recorded returns that exceed our targeted investment return. Finally, a three percent allocation to Infrastructure funding has commenced, which also serves to diminish investment risk while providing returns that are accretive to our investment target of 7.5%.

SDCERS Employees Receive Recognition. In October 2012, SDCERS recognized three employee "Superstars" for FY2012: Rosa Ceja-Manzo, Avy O'Brien and Mateo Osorio. These colleagues had an extremely positive impact on SDCERS and our participants, and we are very proud of their accomplishments. Their contributions have been, and will continue to be, invaluable to SDCERS.

Audited Financial Statements. The financial statements included in this CAFR have been prepared by SDCERS' management, who is responsible for the integrity and fairness of the data presented, including the 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 relevant standards prescribed by the Governmental Accounting Standards Board (GASB). 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 auditor, and should be read in conjunction with it.

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

Internal Controls. 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 free from material misstatement. 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 reports regularly to the Board's Audit Committee, which reviews the audit findings and recommendations for improvement in internal controls and the actions of management to implement these recommendations, if any.

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

We would particularly like to thank former Board member Raymond G. Ellis, who finished his service on the SDCERS Board in December, 2011. Ray served on the Board for three years, and was elected Board President in April 2011. His excellent leadership will be missed. This past year, SDCERS also welcomed appointed members William W. Haynor and Valentine S. Hoy to the Board.

Finally, we would like to thank the SDCERS staff. Each one works very hard to support our Mission: *To deliver accurate and timely benefits to our members, retirees and beneficiaries, and to ensure the Trust Fund's safety, integrity and growth.* Their individual efforts, combined with those of a great group of professional advisors and investment managers, are key to our ongoing success.

In your service,

Mark A. Hovey
Chief Executive Officer

Herb W. Morgan
President, SDCERS Board of Administration

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, 2011

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

Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2012

BOARD OF ADMINISTRATION

Herb W. Morgan, President
MAYORAL APPOINTEE

Gregory J. Bych, Vice President
EX-OFFICIO, MAYORAL DESIGNEE

Alan J. Arrollado
ELECTED SAFETY (FIRE) MEMBER

William W. Haynor
MAYORAL APPOINTEE

Valentine S. Hoy
MAYORAL APPOINTEE

V. Wayne Kennedy
MAYORAL APPOINTEE

Edward W. Kitrosser
MAYORAL APPOINTEE

Patrick S. Lane
ELECTED GENERAL MEMBER

Steven W. Meyer
ELECTED GENERAL MEMBER

Mark E. Oemcke
MAYORAL APPOINTEE

Thomas A. Sullivan
ELECTED SAFETY (POLICE) MEMBER

Richard R. Tartre
MAYORAL APPOINTEE

Richard E. Wilken
ELECTED RETIREE

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2012

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, 2012 were as follows:

Audit Committee

Marilyn Creson Brown (Chair)* **H. Michael Collins*** **Edward W. Kitrosser** **David W. Kramer*** **Herb W. Morgan**	Responsible for providing oversight of financial reporting process; the system of internal controls; and the independent audit process. Recommends to the full Board the acceptance of the CAFR, as well as acknowledgment and receipt of the external auditor's Report to the Board of Administration and opinion on the audited financial statements. Develops the performance plan and evaluates the performance of the Internal Auditor. The Audit Committee Charter requires three members to be independent, non-Board members appointed by the Board and such members are denoted by the "*" at left.

Business and Governance Committee

Edward W. Kitrosser (Chair) **Herb W. Morgan** **Valentine S. Hoy** **V. Wayne Kennedy** **Steven W. Meyer** **Thomas A. 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.

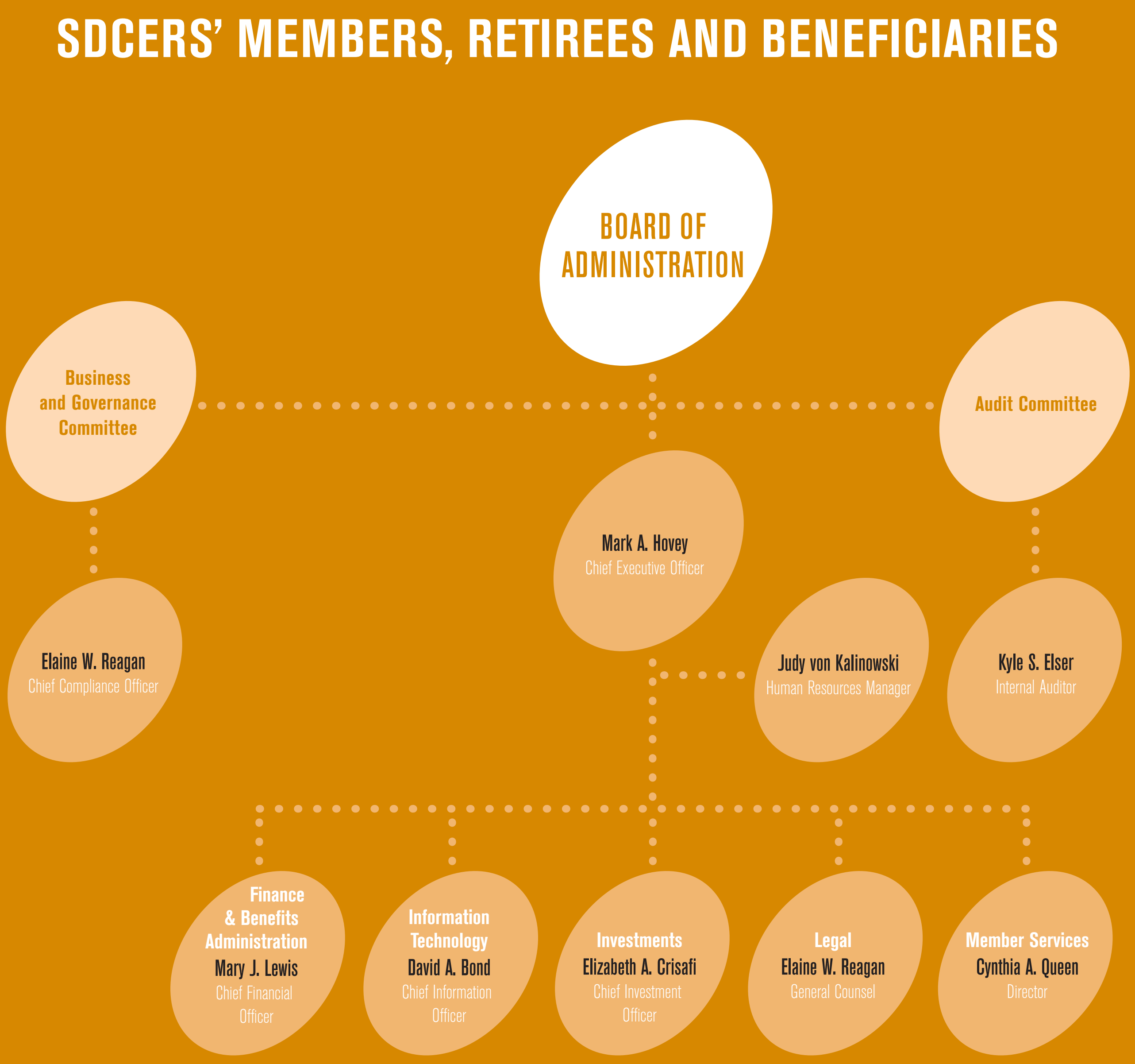
Disability Committee

Alan J. Arrollado (Chair) **Herb W. Morgan** **Edward W. Kitrosser** **Patrick S. Lane** **Richard R. Tartre** **Richard E. Wilken**	Responsible for reviewing staff recommendations on disability applications and making recommendations to the Board; 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.

Investment Committee

Steven W. Meyer (Chair) **Gregory J. Bych** **William W. Haynor** **Herb W. Morgan** **Mark E. Oemcke** **Richard R. Tartre**	Responsible for monitoring investment performance; hiring and terminating investment managers and consultants; and recommending changes to the Investment Policy Statement.

San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2012



San Diego City Employees' Retirement System
Professional Services
As of June 30, 2012

Actuary

Cheiron
McLean, VA

Consulting and Professional Services

San Diego Data Processing Corporation
San Diego, CA

Barney & Barney, LLC
San Diego, CA

Aon Risk Services, Inc. of So Cal
Irvine, CA

Sagitec Solutions, LLC
Little Canada, MN

L.R. Wechsler, LTD
Fairfax, VA

Levi, Ray & Shoup
Springfield, IL

Custodian

State Street Bank & Trust Company
Sacramento, CA

Independent Auditor

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

Investment Consultant

Hewitt EnnisKnupp, Inc.
Chicago, IL

Real Estate Consultant

Hewitt EnnisKnupp, Inc.
Chicago, IL

Private Equity and Infrastructure Consultants

Credit Suisse Private Equity, Inc.
New York, NY

StepStone Group LLC
San Diego, CA

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

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2. FINANCIAL

MGO Certified Public Accountants.

San Diego
225 Broadway, Suite 1750
San Diego, CA 92101
619.573.1112

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

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 basic financial statements of the San Diego City Employees' Retirement System (SDCERS), a component unit of the City of San Diego, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. 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' 2011 financial statements and, in our report dated December 5, 2011, we expressed an unqualified opinion on the basic financial statements.

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 the 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 previously present fairly, in all material respects, the financial position of the San Diego City Employees' Retirement System as of June 30, 2012, and where applicable, the changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the basic financial statements, based on the most recent actuarial valuations of the defined benefit pension plans of the City of San Diego and the Unified Port District as of June 30, 2011, SDCERS' third-party actuary determined that the actuarial accrued liability exceeded the actuarial value of assets by $2.2 billion, and $95.5 million, respectively.

The financial statements include summarized prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's basic financial statements for the fiscal year ended June 30, 2011, from which such summarized comparative information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, and schedules of plan sponsor contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on SDCERS' basic financial statements. The other supplemental schedules, introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

San Diego, California
November 30, 2012

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis provides an overview and analysis of SDCERS' financial condition for the fiscal year ended June 30, 2012, with results also compared to the fiscal year ended June 30, 2011 (FY 2011).

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 San Diego Unified Port District (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 plans are treated as separate plans, with assets of each pooled for investment purposes only. Separate financial statements for FY 2012 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 2012 and FY 2011 for the total of all three plans. See Note 1. *Summary of Significant Accounting Policies* for more details on the Group Trust.

Financial Highlights

As of June 30, 2012, the SDCERS Group Trust had $4.711 billion in total net assets held in trust for the payment of pension benefits compared to total net assets of $4.770 billion at June 30, 2011. This represents a $59.3 million decrease (1.2%) from FY 2011. The FY 2012 decrease reflects plan sponsor and member contributions ($313.7 million) plus net investment gains ($32.1 million), offset by benefit payments and administrative expenses ($405.1 million).

For FY 2012, total contributions plus net investment gains resulted in total additions of $345.8 million to the Group Trust net assets, a decrease of $1.049 billion from FY 2011 total additions of $1.395 billion. A decrease in net investment earnings of $1.007 billion was the main factor in the decline over last year.

As of June 30, 2012, deductions from Group Trust net assets for benefits and expenses totaled $405.1 million, a $6.0 million decrease (1.5%) compared to FY 2011 deductions of $411.1 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 a 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.

In September 2011, the Board approved several actuarial assumption changes resulting from a Plan Experience Study for the period July 1, 2007 through June 30, 2010 conducted by the actuarial consultant. These changes included demographic and economic assumptions recommended by the actuarial consultant. The demographic changes deal with expected membership behavior and were analyzed separately for the City, Port and Airport and include retirement, termination and disability rates; mortality; and miscellaneous assumptions including reciprocity, marital status, purchased service rates, salary experience and the Cost of Living (COL) Annuity. The economic assumptions incorporate system-wide elements such as investment returns and wage inflation. The Board approved two economic assumption changes: the discount rate assumption was lowered from 7.75% to 7.50% and the wage inflation assumption was reduced from 4.00% to 3.75% with an assumption for a two-year salary freeze for the City and the Airport. Assumption changes were implemented in the June 30, 2011 actuarial valuations for all three plan sponsors.

The revised assumptions also affected the computation of substantially equal contribution rates for City employees. The Airport and the Port are not governed by substantially equal provisions in plan documents and employee contribution rates did not change. The revised contribution rates for City employees were approved by the Board in April 2012 and were implemented July 1, 2012.

As of June 30, 2011, the City's funded status, calculated pursuant to the Entry Age Normal (EAN) actuarial funding method, was 68.5%. This means that for every dollar of current and future benefits due, the City had approximately 68.5 cents in actuarial assets available for payment.

As of June 30, 2011, the Port's funded status under EAN was 73.1%. For every dollar of current and future benefits due, the Port had approximately 73.1 cents in actuarial assets available for payment.

As of June 30, 2011, the Airport's funded status under EAN was 102.7%. For every dollar of current and future benefits due, the Airport had approximately 102.7 cents in actuarial assets available for payment.

Six years of historical funding progress 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 www.sdcers.org.

As discussed in Note 8. *Legal Action*, 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.

As discussed in Note 9. *Subsequent Events* a San Diego voter approved ballot initiative closed the current City defined benefit plan to non-Police Members hired on or after July 1, 2012. Also, the California Public Employees' Pension Reform Act of 2013 was enacted affecting the Port District and Airport Authority retirement plans.

On June 7, 2010, final judgment was rendered in the case, City of San Diego v. San Diego City Employees' Retirement System (see Note 8. *Legal Action*) regarding underpricing of certain purchase of service credit contracts (PSCs) issued in 2003 and 2004. The judgment required SDCERS to correct the underpricing, based on each member's individual selection, by either collecting the amount of the underpricing from the member, cancelling the PSC contract and issuing a refund to the member or adjusting the amount of purchased service time to reflect the underpaid amount. (Although this case was closed in June 2010, the ensuing correction process resulted in new litigation being brought against SDCERS. See Note 8. *Legal Action*, for more specifics on the new litigation.)

A total of 2,007 City and Airport PSCs were affected. The Port chose to not require correction of any impacted contracts. As of June 30, 2012 corrections were substantially complete, with 1,956 contracts corrected. The net impact resulting from refunds to members and purchase of service revenue was recognized in FY2011 based on estimates determined at that time. Adjustments to those estimates are reported in fiscal year 2012 to reflect the actual net impact of these transactions.

Overview of Financial Statements

SDCERS' 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 Assets and Liabilities - Agency Funds;
4. Notes to the Basic Financial Statements;
5. Required Supplementary Information; and
6. Other Supplemental Information.

The **Statement of Plan Net Assets** is a balance sheet presentation of assets and liabilities for the Group Trust. It presents the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2012, with comparative totals as of June 30, 2011. 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 in the 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 Group Trust plan assets for FY 2012, with comparative totals for FY 2011. The FY 2012 Statement also presents separate reporting for the City, Port and Airport, consistent with the Statement of Plan Net Assets.

Both statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year-end, as well as the changes in those resources during the year. Both Statements comply with all applicable Governmental Accounting Standards Board (GASB) statements that require certain disclosures and the use of the full accrual method of accounting.

Both Statements 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 **Statement of Assets and Liabilities - Agency Funds** is a balance sheet presentation of assets and liabilities for the Agency Funds. It discloses the assets available to cover future payments to members eligible for Preservation of Benefit distributions and City Retiree Health costs. It also reflects liabilities owed as of June 30, 2012.

The **Notes to the Basic 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 also provides the basis for accounting treatment of stated values under Generally Accepted Accounting Principles (GAAP) that are unique to a public employee retirement system.

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

The **Other Supplemental Information** includes a Schedule of Administrative Expenses, a Schedule of Investment Expenses, a Schedule of Payments to Consultants and a Statement of Changes in Assets and Liabilities – Agency Funds.

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 summarize and compare SDCERS' financial position and the changes in financial position 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, 2012 totaled $4.711 billion, a $59.3 million decrease (1.2%) compared to net assets of $4.770 billion as of June 30, 2011. 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 below.

Table 1: Plan Net Assets (Dollars in Thousands)

	2012	2011	Percentage Change
Cash & Cash Equivalents	$166,455	$386,667	-57.0%
Receivables	171,954	85,479	101.2
Investments, at Fair Value	5,188,935	4,920,326	5.5
Securities Lending Collateral	265,439	326,600	-18.7
Prepaid Expenses & Capital Assets	3,720	2,313	60.8
Total Assets	$5,796,503	$5,721,385	1.3%
Current Liabilities	$358,200	$188,489	90.0%
Net Pension and Other Post Employment Obligations	2,141	1,949	9.9
Supplemental Benefits Payable	5,459	–	N/A
DROP Liabilities	453,019	434,547	4.3
Securities Lending Obligations	267,176	326,600	-18.2
Total Liabilities	$1,085,995	$951,585	14.1%
Plan Net Assets	$4,710,508	$4,769,800	-1.2%

Reserves

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

The largest reserve balance is for accumulated benefits payable to retired SDCERS members. This comprises approximately 51.8% of plan assets ($2.440 billion reserved out of $4.498 billion in total reserves) as of June 30, 2012. Reserves for Plan Sponsor Contributions at June 30, 2012 were $1.334 billion, down $175.2 million from June 30, 2011. A complete listing of SDCERS' reserves and corresponding balances for FY 2012 are set out in Note 5. *Reserve Balances.*

Current Year Results

Key elements of FY 2012 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 2012, contributions and investment gains combined to provide total additions of $345.8 million, a decrease of $1.049 billion over FY 2011 total additions of $1.395 billion.

Deductions from 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 2012 were $405.1 million, a decrease of $6.0 million from FY 2011 deductions of $411.1 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)

	2012	2011	Percentage Change
Additions:			
Plan Sponsor Contributions	$247,600	$245,098	1.0%
Member Contributions and Other Contributions	66,090	110,899	-40.4
Net Investment Earnings	32,088	1,038,900	-96.9
Total Additions	$345,778	$1,394,897	-75.2%
Deductions:			
Benefit Payments	$361,018	$336,460	7.3%
Refunds of Member Contributions	5,346	35,119	-84.8
Administrative Expenses	11,839	14,600	-18.9
DROP Interest Expense	26,867	24,878	8.0
Total Deductions	$405,070	$411,057	-1.5%
Changes in Plan Net Assets	(59,292)	983,840	-106.0
Beginning Plan Net Assets	4,769,800	3,785,960	26.0
Ending Plan Net Assets	$4,710,508	$4,769,800	-1.2%

FY 2012 plan sponsor contributions totaled $247.6 million, an increase of $2.5 million (1.0%) compared to contributions of $245.1 million in FY 2011. The total of the Annual Required Contribution (ARC) for all three plan sponsors in FY 2012 was slightly higher than the ARC in FY 2011. For further information about plan sponsor contributions, see Note 4. *Contributions* in the Notes to the Basic Financial Statements and the Schedules of Plan Sponsor Contributions in the Required Supplementary Information.

FY 2012 member contributions and member contributions paid by plan sponsors totaled $66.1 million, down $44.8 million, or 40.4%, from FY 2011. The decrease was largely driven by prior year contributions of $32.8 million associated with the PSC correction process.

In FY 2012, net investment earnings totaled $32.1 million, a decrease of $1.007 billion (96.9%) due to the minimal growth in investments (0.9%) compared to FY 2011. Depreciation in the fair value of equity holdings accounted for $851.1 million of the decrease, real estate holdings decreased by $54.4 million, fixed income holdings by $94.0 million and Securities Lending Cash Collateral by $1.7 million. Private equity improved by $6.8 million and Infrastructure by $5.8 million. Dividend, interest and other income of $89.5 million decreased $22.2 million from FY 2011.

A report on SDCERS' investment activity prepared by Hewitt EnnisKnupp, 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 2012 and long-term investment performance.

SDCERS' one-year investment return as of June 30, 2012 was 0.9%, net of investment management fees. According to the Hewitt EnnisKnupp database of public fund performance, SDCERS' investment performance was in the 48th percentile for the year ended June 30, 2012. SDCERS annualized total investment return was 7.3% for the past ten years, which is the top 8% for public pension plans.

In FY 2012, member benefit payments totaled $361.0 million, $24.6 million (7.3%) more than FY 2011's payments of $336.5 million. A 3.8% increase in the number of total retirees and Deferred Retirement Option Plan (DROP) participants in FY 2012 and annual cost of living increases contributed to the increased payments.

In FY 2012, refunds of member contributions totaled $5.3 million, a $29.8 million decrease compared to FY 2011 refunds. The annual fluctuation was due to prior year refunds of member contributions associated with the PSC correction process.

FY 2012 administrative expenses totaled $11.8 million, a decrease of $2.8 million (18.9%) over FY 2011 expenses of $14.6 million. Legal costs associated with litigation contributed to the higher level of expenses in the prior year. See the Schedule of Payments to Consultants in the Other Supplemental Information of the Financial Section for more details.

FY 2012 DROP interest expenses totaled $26.9 million, an increase of $2.0 million (8.0%) from FY 2011 expenses of $24.9 million.

Analysis of Balances and Results by Plan Sponsor

Tables 3 and 4 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, 2012			As of June 30, 2011		
	City	Port	Airport	City	Port	Airport
Cash & Cash Equivalents	$154,753	$8,730	$2,972	$360,302	$19,973	$6,392
Receivables	159,378	9,540	3,036	79,976	3,348	2,155
Investments, at Fair Value	4,824,321	272,228	92,386	4,584,838	254,154	81,334
Securities Lending Collateral	246,779	13,922	4,738	304,331	16,870	5,399
Prepaid Expenses & Capital Assets	3,459	195	66	2,155	120	38
Total Assets	$5,388,690	$304,615	$103,198	$5,331,602	$294,465	$95,318
Current Liabilities	$333,019	$18,786	$6,395	$177,263	$8,215	$3,011
Net Pension and Other Post Employment Obiligations	1,991	113	37	1,949	–	–
Supplemental Benefits Payable	5,459	–	–	–	–	–
DROP Liabilities	440,467	10,838	1,714	423,668	9,830	1,049
Securities Lending Obligations	248,394	14,013	4,769	304,331	16,870	5,399
Total Liabilities	$1,029,330	$43,750	$12,915	$907,211	$34,915	$9,459
Plan Net Assets	$4,359,360	$260,865	$90,283	$4,424,391	$259,550	$85,859

City plan net assets of $4.359 billion at June 30, 2012 were down $65.0 million (1.5%) from $4.424 billion at June 30, 2011. Due to minimal growth in investments, contribution revenue of $290.1 million accounted for most of the total additions for FY 2012. The decrease in net assets was due to payments to members and administrative costs of $384.8 million exceeding total additions of $319.8 million.

Port plan net assets of $260.9 million at June 30, 2012 were up $1.3 million (0.5%) from $259.6 million at June 30, 2011. Payment to members and administrative costs of $18.1 million were slightly lower than contribution revenue plus investment earnings of $19.4 million.

Airport plan net assets of $90.3 million at June 30, 2012 were up $4.4 million (5.2%) from $85.9 million at June 30, 2011. Contribution revenue and investment earnings of $6.6 million exceeded payments to members and administrative costs of $2.2 million.

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

	For the year ended June 30, 2012			For the year ended June 30, 2011		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	$231,200	$12,600	$3,800	$229,297	$11,501	$4,300
Member Contributions and Other Contributions	58,948	5,035	2,107	100,644	6,378	3,877
Net Investment Earnings	29,665	1,747	676	969,471	53,778	15,651
Total Additions	$319,813	$19,382	$6,583	$1,299,412	$71,657	$23,828
Deductions:						
Benefit Payments	$342,428	$16,925	$1,665	$321,227	$14,113	$1,120
Refunds of Member Contributions	5,010	77	259	34,380	272	467
Administrative Expenses	11,139	517	183	13,586	736	278
DROP Interest Expense	26,267	548	52	24,366	477	35
Total Deductions	$384,844	$18,067	$2,159	$393,559	$15,598	$1,900
Changes in Plan Net Assets	(65,031)	1,315	4,424	905,853	56,059	21,928
Beginning Plan Net Assets	4,424,391	259,550	85,859	3,518,538	203,491	63,931
Ending Plan Net Assets	$4,359,360	$260,865	$90,283	$4,424,391	$259,550	$85,859

City plan net assets decreased $65.0 million in FY 2012, as total additions decreased $979.6 million over FY 2011. Net investment earnings of $29.7 million, reflecting a year-over-year reduction of $939.8 million, accounted for most of the decrease. Plan sponsor contributions in FY 2012 were up $1.9 million (0.8%) over FY 2011, and member contributions in FY 2012 were down $41.7 million (41.4%) from FY 2011. The decrease in member contributions is due to greater than normal revenue related to the PSC correction process reported in the prior year. Benefit payments of $342.4 million were up $21.2 million (6.6%) in FY 2012, reflecting a combination of increased number of retirees, cost of living adjustments and higher average benefit payment amounts. Refunds of member contributions were down $29.4 million, primarily due to PSC correction related refunds made in the prior year. DROP interest expense of $26.3 million was up $1.9 million (7.8%) from FY 2011 as the result of an increase in DROP liabilities.

Port plan net assets increased $1.3 million in FY 2012, despite a decrease in total additions of $52.3 million over FY 2011. Net investment earnings were $52.0 million lower in FY 2012 compared to net investment earnings of $53.8 million in FY 2011. Plan Sponsor contributions increased 9.6% in FY 2012 compared to FY 2011 due to an increase in the Port's ARC, which was fully paid. Member contributions decreased by 21.1% due to higher purchase of service revenue reported in the prior year. Benefit payments were up $2.8 million (19.9%) in FY 2012, reflecting an increased number of retirees and cost of living adjustments in FY 2012. Year-over-year changes in other deduction line items were not significant.

Airport plan net assets increased $4.4 million in FY 2012, despite a decrease in total additions of $17.2 million over FY 2011. The increase in net assets was mostly driven by plan sponsor and member contributions of $3.8 million and $2.1 million, respectively, exceeding total deductions for the year. Total deductions were $2.2 million in FY 2012, up $259 thousand from FY 2011 due mainly to the increase in benefit payments, offset by prior year PSC correction refunds.

Other Information

Proposition B: Amendments to the San Diego City Charter Affecting Retirement Benefits

The San Diego voter-approved ballot initiative "Comprehensive Pension Reform" (Proposition B) was passed on June 5, 2012 and became effective July 20, 2012 (see *Note 9. Subsequent Events*). This law closes the current City defined benefit (DB) plan to non-Police Members hired on or after July 1, 2012, with a defined contribution (DC) plan replacing the DB plan for non-Police Members hired after that date. This law will affect future contribution rates of both the City as plan sponsor and City employees, and will be incorporated into the actuarial consultant's June 30, 2012 valuation that establishes contributions for FY 2014.

SDCERS is working with its actuary and investment consultants to assess the long term implications of a partially closed plan. An analysis by SDCERS' actuarial consultant in March 2012 indicated that partially closing the plan would accelerate the City's FY 2014 ARC by $25 - $30 million, up to a cumulative $90 million over six years before savings would begin to be realized.

The initiative also contains other provisions intended to limit pension benefits for existing employees by imposing a six-year freeze on inflation based salary increases (merit and promotional increases are not affected), thereby limiting the base compensation used to calculate pension benefits. The initiative allows the City to negotiate salary increases with employees, in lieu of freezing employees' salaries, with a two thirds vote of the City Council. Salary increases or freezes must be negotiated with the labor unions and cannot be imposed more than one year at a time, so the effect of such a freeze on the City ARC would be reflected by the actuary only as negotiated with the labor unions.

AB 340: California Public Employees' Pension Reform Act of 2013 ("PEPRA")

The California Public Employees' Pension Reform Act of 2013 ("PEPRA") was enacted as a result of Assembly Bill 340, effective January 1, 2013. PEPRA's application to SDCERS plan sponsors was reviewed by legal counsel and it has been determined that the Port District and Airport Authority are subject to the generally applicable PEPRA provisions. PEPRA, however, does not apply to the City of San Diego retirement plan as charter cities are exempt from the general law provisions of PEPRA. SDCERS is working with its outside actuary and legal consultants to implement applicable provisions of PEPRA by January 1, 2013.

Requests For Information

This Financial Report is designed to provide a general overview of SDCERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: SDCERS, Finance Department, 401 West A Street, Suite 400, San Diego, CA, 92101, or by calling 800-774-4977.

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San Diego City Employees' Retirement System

Statement of Plan Net Assets

As of June 30, 2012 (with Comparative Totals as of June 30, 2011)

(Dollars in Thousands)

	2012				2011
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash on Deposit with Wells Fargo Bank	$1,226	$69	$24	$1,319	$944
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	153,527	8,661	2,948	165,136	385,723
Total Cash and Cash Equivalents	154,753	8,730	2,972	166,455	386,667
Receivables					
Plan Sponsor and Member Contributions	3,687	177	112	3,976	4,315
Members - Purchased Service Contracts	5,713	902	44	6,659	40,497
Investment Income Receivable	10,967	619	211	11,797	12,302
Securities Sold	139,011	7,842	2,669	149,522	28,365
Total Receivables	159,378	9,540	3,036	171,954	85,479
Investments, at Fair Value					
Domestic Fixed Income Securities	1,462,716	82,517	28,085	1,573,318	1,330,134
International Fixed Income Securities	152,913	8,626	2,936	164,475	252,934
Domestic Equity Securities	1,426,991	80,502	27,399	1,534,892	1,673,462
International Equity Securities	875,404	49,385	16,808	941,597	1,057,038
Global Equity Securities	244,515	13,862	4,473	262,850	-
Real Estate	497,151	28,046	9,545	534,742	519,754
Private Equity	144,879	8,173	2,782	155,834	87,004
Infrastructure	19,752	1,117	358	21,227	-
Total Investments	4,824,321	272,228	92,386	5,188,935	4,920,326
Securities Lending Collateral	246,779	13,922	4,738	265,439	326,600
Total Investments Including Securities Lending Collateral	5,071,100	286,150	97,124	5,454,374	5,246,926
Prepaid Expenses	333	19	6	358	265
Capital Assets at Cost, Net of Accumulated Depreciation of $1,190	3,126	176	60	3,362	2,048
TOTAL ASSETS	$5,388,690	$304,615	$103,198	$5,796,503	$5,721,385
LIABILITIES					
Accounts Payable	$1,484	$114	$39	$1,637	$3,625
Accrued Investment Fees	3,319	187	64	3,570	3,075
Accrued Wages and Benefits	766	43	15	824	858
Member - Purchased Service Contracts Payable	544	–	–	544	28,999
Net Pension and Other Post Employment Obiligations	1,991	113	37	2,141	1,949
Supplemental Benefits Payable	5,459	–	–	5,459	–
DROP Liability	440,467	10,838	1,714	453,019	434,547
Securities Purchased	326,906	18,442	6,277	351,625	151,932
Securities Lending Obligations for Cash Collateral	248,394	14,013	4,769	267,176	326,600
TOTAL LIABILITIES	$1,029,330	$43,750	$12,915	$1,085,995	$951,585
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$4,359,360	$260,865	$90,283	$4,710,508	$4,769,800

The accompanying notes are an integral part of these financial statements.

San Diego City Employees' Retirement System
Statement of Changes in Plan Net Assets
For the Fiscal Year Ended June 30, 2012 (with Comparative Totals for the Fiscal Year Ended June 30, 2011)
(Dollars in Thousands)

	2012				2011
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	$231,200	$12,600	$3,800	$247,600	$245,098
Member Portion Paid by Plan Sponsor	896	2,726	1,822	5,444	11,247
Member	60,680	1,220	859	62,759	58,094
Member for Purchased Service	(2,890)	1,039	(577)	(2,428)	40,935
Earned Interest on Purchased Service Installment Contract	262	50	3	315	623
Total Contributions	290,148	17,635	5,907	313,690	355,997
Investment Earnings (Losses)					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity Securities	(135,487)	(7,546)	(2,238)	(145,271)	705,778
Fixed Income Securities	51,789	2,915	916	55,620	149,574
Real Estate	33,473	1,860	594	35,927	90,320
Private Equity	14,325	809	257	15,391	8,571
Infrastructure	5,428	308	100	5,836	–
Securities Lending Collateral	(1,615)	(92)	(30)	(1,737)	–
Total Net Appreciation (Depreciation) in Fair Value of Investments	(32,087)	(1,746)	(401)	(34,234)	954,243
Dividend Income	25,282	1,421	444	27,147	47,972
Interest Income	38,525	2,166	680	41,371	38,294
Real Estate Income	15,186	883	272	16,341	17,464
Private Equity Income	1,536	87	28	1,651	5,992
Infrastructure Income	621	35	11	667	–
Other Income	800	45	15	860	306
Securities Lending Income					
Gross Earnings	1,931	109	34	2,074	2,868
Less: Borrower Rebates & Bank Charges	(594)	(33)	(10)	(637)	(1,273)
Net Securities Lending Income	1,337	76	24	1,437	1,595
Total Investment Income	51,200	2,967	1,073	55,240	1,065,866
Investment Expenses	(21,535)	(1,220)	(397)	(23,152)	(26,966)
Net Investment Income	29,665	1,747	676	32,088	1,038,900
TOTAL ADDITIONS	$319,813	$19,382	$6,583	$345,778	$1,394,897
DEDUCTIONS					
Benefit Payments					
Monthly Retirement and Disability Allowances	$326,358	$16,685	$1,558	$344,601	$319,871
13th Check	4,515	220	15	4,750	5,275
Corbett Benefit	10,957	–	–	10,957	10,954
Death Benefit	598	20	92	710	360
Total Benefit Payments	342,428	16,925	1,665	361,018	336,460
Refunds of Member Contributions	5,010	77	259	5,346	35,119
Administrative Expenses	11,139	517	183	11,839	14,600
DROP Interest Expense	26,267	548	52	26,867	24,878
TOTAL DEDUCTIONS	$384,844	$18,067	$2,159	$405,070	$411,057
NET INCREASE (DECREASE)	(65,031)	1,315	4,424	(59,292)	983,840
NET ASSETS AT JULY 1	4,424,391	259,550	85,859	4,769,800	3,785,960
NET ASSETS AT JUNE 30	$4,359,360	$260,865	$90,283	$4,710,508	$4,769,800

The accompanying notes are an integral part of these financial statements.

San Diego City Employees' Retirement System
Statement of Assets and Liabilities - Agency Funds
As of June 30, 2012
(Dollars in Thousands)

ASSETS	Total
Cash and Cash Equivalents	$17
LIABILITIES	
Sundry Trust Liability	$17

The accompanying notes are an integral part of these financial statements.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements
June 30, 2012

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, Port and Airport 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 become 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 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 and for the Airport retirement plan and trust in September 2010 (see Note 9. *Subsequent Events*). The financial statements for each plan are presented in separate columns in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan.

SDCERS acts as agent for the City's and Port's Preservation of Benefit (POB) Plan and for the City's Post-Employement Healthcare Benefit Plan (HCB Plan). The agency funds account for assets held by SDCERS in an agent capacity 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 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 Preservation of Benefits section later in this note.

SDCERS' financial statements are prepared using the accrual basis of accounting, and accounted for on the flow of economic resources measurement focus. 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). SDCERS is included in the City's CAFR as a blended component unit and reported as a pension trust fund in its fiduciary funds.

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 management fees and related expenses.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Receivables

SDCERS' receivables reflect accrued plan sponsor and member contributions due to SDCERS and member contributions for executed purchase of service credit contracts where payment is pending, net of an allowance for contract cancellations. See Note 4. *Contributions* and Note 9. *Subsequent Events* for additional discussion and disclosure regarding purchase of service credit contracts.

In accordance with GASB Statement No. 25, securities sold represent 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 Bank and Trust Company (State Street), provides the market values of exchange traded assets (fixed income and equity investments). 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. Private equity and infrastructure assets are valued by their respective investment managers giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. These fair values are reviewed by SDCERS' Private Equity and Infrastructure Consultants.

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
Intangible Assets	5 years

Liabilities

Liabilities reflect 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 (OPEB) Obligation is shown representing that portion of the City's NPO and OPEB that is apportioned to SDCERS' employees.

Certain supplemental benefits commonly known as the 13th Check and the Corbett settlement are contingent on the realization of sufficient investment earnings as established under San Diego Municipal Code Sections 24.1501 through 24.1503.5. In years in which sufficient earnings are not realized, the 13th Check and the Corbett benefits are not paid. The Corbett benefit is carried forward and paid in future years when sufficient earnings are realized and is accrued yearly. The 13th Check does not carry forward to future years and is accrued only in fiscal years when there are sufficient realized earnings as established in the Municipal Code to pay the benefit. Unpaid balances as of the end of the fiscal year are reported as Supplemental Benefits Payable in the Statement of Net Assets.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Expenses

SDCERS' administrative expenses are financed by investment earnings and contributions from plan sponsors and members. 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. 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 and for the Airport plan and trust in September 2010. The IRS issued favorable determination letters for the City and Port plans and trusts subsequent to June 30, 2012. See Note 9. *Subsequent Events*.

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. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the comparative totals as of and for the fiscal year ended June 30, 2011 to conform to the presentation as of and for the fiscal year ended June 30, 2012.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SDCERS' financial statements for the year ended June 30, 2011, from which the summarized information was derived.

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, Port and Airport. However, as of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

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, except for employees hired after July 1, 2005.

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. See Note 9. *Subsequent Events.*

SDCERS' participants consist of Retirees (retired members and beneficiaries receiving benefits, and DROP participants) and Members (active members and inactive members who will be entitled to benefits but are 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 225 in FY 2012. This was comprised of a net decrease of 97 Members and an increase of 322 Retirees and DROP participants.

As of June 30, 2012

	City General Members	City Safety Members	Port All Members	Airport All Members	Total Members
Active	5,468	2,253	434	341	8,496
Inactive	2,353	542	292	76	3,263
Retirees	4,472	2,819	444	35	7,770
DROP Participants	487	427	31	11	956
Totals	12,780	6,041	1,201	463	20,485

City Post-Employment Healthcare Benefit 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 (HCB Plan) for 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 activity is reported within this CAFR's Agency Fund financial statements and disclosures and is also included in the City's CAFR.

Preservation of Benefit (POB) Plan Activity

In 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

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 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 made monthly payments into the POB Plan in FY 2012 totaling $1.7 million. A balance of $4 thousand remained in the fund at June 30, 2012 and will be carried forward to pay the City's FY 2013 POB Plan expenses, currently estimated at $1.8 million.

The Port made monthly payments into the POB Plan in FY 2012 totaling $0.3 million. A balance of $3 thousand remained in the fund at June 30, 2012 and will be carried forward to pay the Port's FY 2013 POB Plan expenses, currently estimated at $0.3 million.

POB Plan activity is presented within this CAFR as Agency Funds and is also included in the City's and Port's CAFRs.

3. Deposits and Investments

Cash

At June 30, 2012, SDCERS' cash balance was $1.3 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was $165.1 million, which includes cash collateral for SDCERS' cash overlay program of $52.9 million, residual cash held in each manager's portfolio of $108.7 million, which is invested overnight by SDCERS' custodial bank, and cash balances available to pay benefits and expenses of $3.5 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, common stock, preferred stock, real estate investments, private equity, infrastructure 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 fair value each day and must be settled at expiration date. Changes in the fair value of the contracts results in the recognition of a gain or loss under GASB Statement No. 25.

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 gains that totaled $50.3 million for the year ended June 30, 2012. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year. Realized gains and losses are reported in the net appreciation (depreciation) in fair value of investments on the financial statements.

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 evaluated.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Securities Lending

SDCERS has entered into an agreement with State Street Bank and Trust Company (State Street), its custodial 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 102% for domestic loans and 105% for international loans. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During FY 2012, 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 in SDCERS' financial statements.

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. 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, as well as all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2012, securities on loan collateralized by cash had a fair value of $264.1 million, and SDCERS received cash collateral of $267.2 million, which was reported as securities lending obligations in the accompanying Statement of Plan Net Assets in accordance with GASB Statement No. 28. The collateral value exceeds the fair value of the securities on loan because borrowers are required to deliver collateral for each loan up to 102% for domestic loans and 105% for international loans. As of June 30, 2012, securities on loan collateralized by securities, irrevocable letters of credit or tri-party collateral had a fair value of $52.4 million, and a collateral value of $55.2 million, which were not reported as assets or liabilities in the accompanying Statement of Plan Net Assets in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at June 30, 2012 for its securities lending activities was $322.4 million.

SDCERS and the borrowers maintain the right to terminate securities lending transactions upon notice. The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund, or collateral pool. In July 2010, State Street restructured the securities lending collateral funds creating two pools, a liquidity pool and a duration pool. As of June 30, 2012, these collateral pools are not rated by the nationally-recognized statistical rating organizations (NRSROs).

As of June 30, 2012, SDCERS had $245.9 million invested in the Quality D liquidity collateral pool, which had an average duration of 36 days and an average weighted final maturity of 73 days; SDCERS had $19.5 million invested in the Quality D duration pool, which had an average duration of 40 days and an average weighted final maturity of 1,329 days. Duration is the weighted time average until cash flows are received in the collateral pool, and is measured in days. Alternatively, the weighted average final maturity measures when all final maturities in the portfolio will occur. The duration of the investments made with cash collateral does not generally match the duration of the loans. This is because the loans are terminable at any time by SDCERS or the borrower.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Portfolio Risk

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' long term target allocation to fixed income strategies as of June 30, 2012 was 25%, which includes domestic fixed income and emerging market debt. The fixed income allocation is externally-managed and is comprised as follows: 22% to core domestic fixed income, which is benchmarked against the Barclays Capital Aggregate Bond Index; and 3% to emerging market debt, which is benchmarked to 50% JP Morgan Emerging Market Bond Index Global Diversified and 50% JP Morgan Global Bond Index-Emerging Market Global Diversified. A 2% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch Convertible Index, All Qualities, is not included in the fixed income allocation, but instead is included in the domestic equity allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the Portfolio Risk analysis. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio at 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.

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 bond managers that invest primarily in U.S. fixed income and derivative securities, fixed income mutual funds and some non-U.S. fixed income securities. SDCERS also invests in two emerging market debt commingled funds and one passive core fixed income index fund. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core fixed income manager is limited to U.S. fixed income investments only.

The permitted securities and derivatives for the two domestic core fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, commercial mortgage backed securities, asset backed securities, futures, forwards, options, interest rate swaps and credit default swaps. Investment guidelines include minimum average portfolio quality of AA- rating (market value weighted); and, minimum credit quality at time of purchase of BBB- for the two domestic fixed income managers.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2012.

Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)
As of June 30, 2012

(Dollars in Thousands)

S&P Quality Rating	Total Fair Value	Adjustable-Rate Mortgages	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates[1]	Government & Agency Obligations[2]	Mortgage-Backed Securities	Short-Term/ Other
US Treasury	$203,689	$–	$–	$–	$–	$–	$203,689	$–	$–
GNMA Securities	8,309	650	–	–	4,084	–	3,575	–	–
AAA	349,796	2,431	10,898	16,552	26,995	3,199	289,700	21	–
AA+	25,969	–	4,127	1,101	–	4,474	16,267	–	–
AA	4,847	–	–	–	–	2,836	2,011	–	–
AA-	22,397	–	3,876	1,733	–	8,377	8,411	–	–
A+	29,019	–	–	5,469	–	9,655	13,895	–	–
A	34,721	–	944	2,187	–	18,823	7,067	–	5,700
A-	73,545	–	–	4,824	–	61,511	7,210	–	–
BBB+	12,645	–	854	–	–	11,791	–	–	–
BBB	17,198	–	–	–	–	15,027	2,171	–	–
BBB-	25,547	–	–	109	–	25,438	–	–	–
BB+	11,077	–	–	–	–	9,309	1,768	–	–
BB	4,948	–	–	–	–	4,948	–	–	–
BB-	5,015	–	–	–	57	4,958	–	–	–
B+	3,372	–	–	–	107	3,265	–	–	–
B-	4,036	–	–	–	487	1,865	1,684	–	–
CCC	2,494	–	–	–	–	2,494	–	–	–
NR	873,218	–	23,702	6,308	13,702	132,625	21,744	–	675,137[3]
A-2	25,951	–	–	–	–	–	–	–	25,951
Totals	$1,737,793	$3,081	$44,401	$38,283	$45,432	$ 320,595	$579,192	$21	$706,788

[1] Corporates include convertible bonds from SDCERS' convertible bond manager.

[2] Includes international and municipal holdings.

[3] Includes fixed income mutual fund investments of $675,705, which includes derivatives in liability positions. These institutional quality fund investments are not directly rated by major credit rating agencies, such as S&P, although the underlying securities are rated. Instead, these fund investments are managed to an average credit rating for the entire fund. Following is a table which depicts the average credit rating for each fund.

Name of Institutional Mutual Fund	(Dollars in Thousands) Fair Value	Average Credit Rating
BlackRock U.S. Debt NL Fund	$311,268	AA
MetWest Enhanced TALF Strategy	25,900	AAA
MetWest High Yield Fund B	19,714	B+
PIMCO PAPS Real Return Bond Portfolio	41,565	AAA
PIMCO PAPS International Portfolio	17,393	AA+
PIMCO PAPS Short-Term Floating NAV II Portfolio	100,991	AAA
Stone Harbor Emerging Markets Debt Blend Portfolio	76,950	BBB
Wellington Trust Company CIF II Opportunistic Emerging Markets Debt Portfolio	81,924	BBB
Total	$675,705	

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

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.

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, 2012, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS' cash deposits held in a demand deposit account (DDA) are subject to custodial credit risk. In FY 2012 cash deposits were covered by unlimited Federal Depository Insurance Corporation (FDIC) insurance. Cash on deposit with SDCERS' custodial bank totaled $5.9 million as of June 30, 2012. SDCERS does not have a specific policy relating to custodial credit risk. SDCERS' custodied assets held by State Street are not available to satisfy the obligations of State Street to its creditors.

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 non-cash collateral totaled $55.2 million as of June 30, 2012. The non-cash collateral 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 $267.2 million as of June 30, 2012, is also at risk as it is invested in pooled vehicles managed by the custodian. The investment characteristics of the collateral pools are disclosed in the Securities Lending section in this Note.

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, 2012, SDCERS had no single issuer that exceeded 5% of total investments as required to be disclosed by GASBS No. 40 or 5% of plan net assets as required to be disclosed by GASBS No. 25, 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 place limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact. The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2012.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2012
(Dollars in Thousands)

Type of Security	Effective Duration (in years)	Fair Value[1,4]
Asset-Backed Securities		
Asset-Backed Securities	1.52	$44,401
Adjustable Rate Mortgages		
Adjustable Rate Mortgages	0.85	3,081
Commercial Mortgage-Backed Securities		
Commercial Mortgage-Backed Securities	3.21	38,283
Collateralized Mortgage Obligations		
Collateralized Mortgage Obligations	1.38	45,432
Corporate Bonds[2]		
Corporate Bonds	4.45	211,408
Government & Agency Obligations		
Agency Securities	3.19	28,625
Municipals	11.45	35,141
Other Government Securities	6.62	12,920
Pass-Thru Securities	2.57	298,817
Treasury Securities	7.84	203,689
Mortgage-Backed Securities		
Mortgage-Backed Securities	-0.31	21
Short-Term/Other[3]		
Foreign Currency[4]	0.08	109,495
Money Market Securities	0.07	31,652
Total	3.99	$1,062,965

[1] Fair Value does not include convertible bonds, mutual funds and derivative instruments of $674,829. These securities do not exhibit interest rate risk and duration cannot be calculated.

[2] Corporates do not include convertible securities of $109,187.

[3] Short Term/Other does not include derivative instruments, short term instruments and mutual funds of $565,642.

[4] Foreign Currency has been added to this schedule as the duration was available.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

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, 2012, that are highly sensitive to interest changes due to factors other than term to maturity are shown in the following table.

Investments Highly Sensitive to Interest Rate Changes
As of June 30, 2012
(Dollars in Thousands)

Type of Security	Fair Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	$10,015	0.6%
Asset Backed Securities	45,521	2.6
Floating Rate Notes	95,489	5.5
Total	$151,025	8.7%

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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

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, 2012:

Foreign Currency Risk[1]

As of June 30, 2012
(Dollars in Thousands)

Local Currency Name	Cash	Equity	Fixed Income	Real Estate	Total
Australian Dollar	$94	$9,832	$–	$5,097	$15,023
Canadian Dollar	(513)	12,232	10,926	2,915	25,560
Chinese Renminbi	(57)	–	–	–	(57)
Chinese Yuan	57	–	–	–	57
Danish Krone	5	3,215	–	–	3,220
Euro Currency	9,579	90,633	17,641	19,500	137,353
Hong Kong Dollar	17	11,175	–	5,583	16,775
Israeli Shekel	126	1,656	–	–	1,782
Japanese Yen	1,401	84,962	–	5,816	92,179
New Zealand Dollar	11	1,036	–	–	1,047
Norwegian Krone	2	–	–	260	262
Singapore Dollar	20	2,803	–	2,720	5,543
South Korean Won	29	2,995	–	–	3,024
Swedish Krona	1	6,444	–	569	7,014
Swiss Franc	105	23,609	–	788	24,502
Taiwan Dollar	28	–	–	–	28
United Kingdom Pound	85	65,982	1,386	3,485	70,938
Totals	$10,990	$316,574	$29,953	$46,733	$404,250

[1] This schedule does not include the foreign currency exposure to two international equity, one global equity, and three fixed income institutional mutual fund investments.

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 Basic Financial Statements (continued)
June 30, 2012

Derivative Instruments

Pursuant to the requirements of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, SDCERS has provided a summary of derivative instrument activities during the reporting period and the related risks. As of June 30, 2012, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the Statement of Changes in Plan Net Assets.

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, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e. use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are addressed in the Portfolio Risk discussion, which precedes this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2012:

Investment Derivative Disclosure (Dollars in Thousands)

	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2012			
Investment Derivative Instruments	Amount	Classification	Amount	Notional (Dollars)	Notional (Shares)
Credit Default Swaps	$(715)	Domestic Fixed Income	$(1,242)	$69,590	
Fixed Income Futures	3,983	Domestic Fixed Income	–	52,400	
Fixed Income Options	(895)	Domestic Fixed Income	(132)	(276,200)	
Foreign Currency Futures	(739)	Domestic Fixed Income	–	4,600	
Futures Options Written	992	Domestic Fixed Income	(19)	(82)	
Foreign Currency Forwards	5,508	Domestic Fixed Income	(7)	37,159	
Index Futures	(26,144)	Domestic Fixed Income	–	79	
Interest Rate Swaps	(2,204)	Domestic Fixed Income	(642)	18,110	
Rights	35	Domestic Equity	–		–
Warrants	36	Domestic Equity	–		9
Total Derivative Instruments	$(20,143)		$(2,042)	$(94,344)	9

Some derivative instruments, such as credit default swaps and interest rate swaps, are not exchange traded and are priced using quarterly Over-the-Counter trading data.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2012. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2012.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2012:

Counterparty Credit Risk (Dollars in Thousands)

Counterparty Name	Fair Value	S&P Rating
BNP Paribas SA	$117	AA-
Bank of America N.A.	95	A
Credit Suisse FOB CME	91	A+
Goldman Sachs International	81	A-
Citibank N.A.	57	A
Morgan Stanley CME	53	A-
UBS CME	24	A
JPMorgan Chase Bank	20	A+
Deutsche Bank AG London	18	A+
JPMorgan Chase Bank N.A.	15	A+
Royal Bank of Scotland PLC	6	A
Westpac Banking Corporation	6	AA-
Total	$583	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2012 was $0.6 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2012, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40. At June 30, 2012, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Interest Rate Risk

At June 30, 2012, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options and credit default swaps. The table below illustrates the maturity periods of these derivative instruments.

Investment Maturities (Dollars in Thousands)

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Credit Default Swaps	$(1,242)	$25	$(657)	$(610)	$-
Fixed Income Options	(132)	(83)	(7)	(42)	-
Interest Rate Swaps	(642)	-	24	-	(666)
Total	$(2,016)	$(58)	$(640)	$(652)	$(666)

Derivative Instruments Highly Sensitive to Interest Rate Changes

Credit default swaps, fixed income futures, options and interest rate swaps are highly sensitive to changes in interest rates. The table below reflects the fair value and notional amount of these derivative instruments.

Derivative Instruments Highly Sensitive to Interest Rate Changes
As of June 30, 2012
(Dollars in Thousands)

Investment Type	Fair Value	Notional
Credit Default Swaps	$(1,242)	$69,590
Fixed Income Futures	-	52,400
Fixed Income Options	(132)	(276,200)
Interest Rate Swaps	(642)	18,110
Total	$(2,016)	$(136,100)

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Foreign Currency Risk

At June 30, 2012, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

		Foreign Currency Forwards			
Currency Name	Options	Net Receivables	Net Payables	Swaps	Total
Australian Dollar	$ –	$12	$(15)	$ –	$(3)
Canadian Dollar	–	–	(71)	–	(71)
Euro Currency	–	97	(11)	(62)	24
Pound Sterling	–	–	(19)	–	(19)
Subtotal	$–	$109	$(116)	$(62)	$(69)
Investments Denominated in USD	(151)	–	–	(1,822)	(1,973)
Total	$(151)	$109	$(116)	$(1,884)	$(2,042)

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of $3.5 million. As indicated previously, futures variation margin amounts are settled each trading day and recognized as realized gains/losses as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2012.

Contingent Features

At June 30, 2012, SDCERS did not hold any positions in derivatives containing contingent features.

Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established the following portfolio composition targets: 10% in public real estate securities and 90% in private real estate investments. The private portfolio is further diversified with a target of 70% in core real estate and 30% in value-add and opportunistic 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.

Certain real estate investments are leveraged. In those cases, partnerships have been established to purchase properties through a combination of equity contributions from SDCERS, other investors and through the utilization of debt. SDCERS engages real estate advisors and operating partners who are responsible for managing a portfolio's daily activities, performance and reporting. As of June 30, 2012, real estate investments totaled $534.7 million and unfunded capital commitments totaled $154.7 million. SDCERS' share of outstanding debt in the real estate portfolio is $127.0 million, excluding obligations of limited partnership interests in commingled funds. This balance of debt is comprised of all non-recourse loans that currently bear interest at rates ranging from 3.45% to 6.04% and maturity dates that range from June 2013 through November 2025. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2012, SDCERS' real estate portfolio had leverage of 38.7%.

Private Equity

SDCERS' target allocation to private equity is 5%, with a portfolio composition focused on value and current income-producing strategies. Unfunded capital commitments as of June 30, 2012 totaled $167.1 million. As of June 30, 2012, private equity investments totaled $155.8 million.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Infrastructure

SDCERS' target allocation to infrastructure is 3%, with a portfolio composition focused on value and current income-producing strategies. Unfunded capital commitments as of June 30, 2012 totaled $181.2 million. As of June 30, 2012, infrastructure investments totaled $21.2 million.

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined amounts designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. Contributions are calculated under the Entry Age Normal (EAN) actuarial funding method.

The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability (UAL). The UAL as of the June 30, 2011 actuarial valuation, the most recent available, is split into several tiers, each using a different amortization period. See Note 6. *Funded Status and Actuarial Methods and Assumptions.*

The City, Port and Airport make annual plan sponsor contributions to SDCERS based upon the Annual Required Contribution (ARC) as determined by SDCERS' actuary.

The following table illustrates the required FY 2012 plan sponsors' contribution rates, as a percent of payroll, as calculated annually by SDCERS' actuary, Cheiron.

FY 2012 Contribution Rates

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2010, Actuarial Valuation)							
	General Old Plan	General 2009 Plan	Elected Officers	Police Old Plan	Police 2009 Plan	Fire	Lifeguard	Weighted Total
Normal Cost[1]	9.73%	9.18%	30.27%	14.92%	14.48%	14.53%	16.79%	11.66%
Amortization Payment[1,2]	29.56	0.00	37.07	41.31	0.00	44.49	30.70	31.02
Total Contribution Rate	39.29	9.18	67.34	56.23	14.48	59.02	47.49	42.68

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego Unified Port District (June 30, 2010, Actuarial Valuation)			
	General	Executives	Police	Weighted Total
Normal Cost[1]	13.55%	17.33%	17.64%	15.01%
Amortization Payment[1,2]	18.24	25.84	17.07	18.15
Total Contribution Rate	31.79	43.17	34.71	33.16

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2010, Actuarial Valuation)		
	General	Executives	Weighted Total
Normal Cost[1]	13.74%	15.64%	13.85%
Amortization Payment[1,2]	0.67	1.20	0.70
Total Contribution Rate	14.41	16.84	14.54

[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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Members are required to contribute a percentage of their annual salary to fund the annuity portion of their individual benefit. Contributions vary according to the member's age at the time of enrollment and member's group (e.g. safety, general, miscellaneous and elected officers).

In September 2011, the Board approved several actuarial assumption changes resulting from a Plan Experience Study for the period July 1, 2007 through June 30, 2010 conducted by the actuarial consultant. The revised assumptions affected the computation of substantially equal rates for City employees. The Airport and the Port are not governed by substantially equal provisions in plan documents and employee contributions rates did not change. The revised contribution rates for City members were approved by the Board in April 2012 and were implemented July 1, 2012. See Note 6. *Funded Status and Actuarial Assumptions.*

Member average contribution rates for FY 2012 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[1.]	10.34%	10.18%	10.43%
Safety Members[2.]	14.95	13.11	n/a
All Members	12.14	11.07	10.43

[1]General Members include Elected Officers and Executives.

[2]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 2012 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary:

For Elected Officers:	0.00%
For General Members:	0.00% to 0.40%
For Police Members:	0.00%
For Fire Members:	0.00%
For Lifeguard Members:	0.00% to 2.30%

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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

For FY 2012, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	6.00% to 7.50%
For Safety Members:	8.80%
For Management Members:	8.50% to 10.30%

For FY 2012, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

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

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 July 1, 2005, 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 biweekly installment payment plans. The Internal Revenue Service allows payment plans to be funded with post-tax dollars only. 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.

In December 2008, the Board approved a revised pricing methodology for purchase of service applications received after that date. The new pricing formula was based on the age and service of each requesting member, with an automated calculator being utilized instead of published tables. An update to the pricing in the automated calculator was approved by the Board in June 2012 and implemented July 1, 2012.

As of June 30, 2012, a total of 296 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, net of an allowance for contract cancellations, totaling $6.7 million has been included in the accompanying Statement of Plan Net Assets at June 30, 2012.

On June 7, 2010, final judgment was rendered in the case, City of San Diego v. San Diego City Employees' Retirement System (see Note 8. *Legal Action*) regarding underpricing of certain purchase of service credit contracts (PSCs) issued in 2003/2004. At the October 1, 2010 Board meeting, the Board authorized staff to submit this correction process to the Internal Revenue Service under the Voluntary Correction Program (VCP) for review and approval by the IRS to ensure that SDCERS maintains the tax-qualified status of the Plan. The VCP filings were made with the IRS on December 3, 2010. The IRS returned the VCP filing in FY 2012, allowing SDCERS to self-correct under its Employee Plans Compliance Resolution System (EPCRS). The IRS advised SDCERS that the correction procedures instituted by the Board were consistent with the IRS correction guidelines.

The judgment required SDCERS to correct the underpricing, based on each member's individual selection, by either collecting the amount of the underpricing from the member, cancelling the PSC contract and issuing a refund to the member or adjusting the amount of purchased service time to reflect the underpaid amount. SDCERS has substantially completed the correction process for the underpriced PSC contracts to comply with the court ruling.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

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, 2012 (Dollars in Thousands):

Reserve for Receivables	$6,659
Reserve for Member Contributions	855,976
Reserve for Plan Sponsor Contributions	1,333,810
Reserve for Current Retired Members	2,439,885
Reserve for Supplemental COLA	3,360
Undistributed Earnings (Losses) Reserve	(141,889)
Total Reserves[1]	$4,497,801

[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. The cumulative unrealized gains at June 30, 2012 totaled $212.7 million.

Reserve 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.

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

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

Reserve for Current Retired Members. Upon retirement, member contribution balances are transferred from Reserve for Member Contributions to this reserve, along with sufficient funds from the Plan Sponsor Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Reserve 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 (Losses) Reserve. This represents the balance of earnings remaining after the annual distribution to the member and plan sponsor reserve accounts in accordance with the Board-established assumed rate of interest. At the beginning of each fiscal year, any Undistributed Earnings (Losses) from the prior fiscal year are credited to the Reserve for Plan Sponsor Contributions.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2011 is as follows (Dollars in Thousands):

	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAL) (Funding Excess) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b – a) / c)
City	$4,739,399	$6,917,175	$2,177,776	68.5%	$514,265	423.5%
Port	259,315	354,837	95,522	73.1	34,633	275.8
Airport	86,309	84,042	(2,267)	102.7	25,148	-9.0

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.

Additional information as of the latest actuarial valuation follows:

	City	Port	Airport
Valuation date	June 30, 2011	June 30, 2011	June 30, 2011
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	16 years for 2007 UAL; 12 years for 2008 exp. loss; 27 years for 2008 assumption changes; 13 years for 2009 exp. loss; 14 years for 2010 exp. loss; 13 years for 2010 PSC gain; 15 years for 2011 exp. gain; 30 years for 2011 assumption changes; no negative amortization	10 years for 2007 UAL; 12 years for 2008 exp. loss; 27 years for 2008 assumption changes; 13 years for 2009 exp. loss; 14 years for 2010 exp. loss; 15 years for 2011 exp. gain; 20 years for 2011 plan change (ERIP)[2]; 30 years for 2011 assumption changes; no negative amortization	10 years for 2007 UAL; 12 years for 2008 exp. gain; 27 years for 2008 assumption changes; 13 years for 2009 exp. loss; 14 years for 2010 exp. gain; 14 years for 2010 PSC gain; 15 years for 2011 exp. gain; 30 years for 2011 assumption gain; no negative amortization
Asset valuation method[1]	Smoothed market 25% current market and 75% expected AVA	Smoothed market 25% current market and 75% expected AVA	Smoothed market 25% current market and 75% expected AVA
Actuarial Assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Wage inflation	3.75%[3]	3.75%	3.75%[3]
Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	0.5% - 5.0%
Cost of living increase	2%	2%	2%

[1]In no event will the actuarial value of assets ever be less than 80% of the market value of assets nor greater than 120% of the market value of assets.
[2]Employee Early Retirement Incentive Program
[3]Following a two year freeze for City and Airport

The complete Actuarial Valuations for the City, Port and Airport are available at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

7. Lease

Operating Lease

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, 2012:

Year Ending June 30	(Dollars in Thousands)
2013	$ 997
2014	1,031
2015	1,069
2016	1,107
2017	1,144
2018-2019	1,284
Total	$6,632

Rent expense related to the operating lease was $1.0 million for the year ended June 30, 2012.

8. Legal Action

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 the City's retirement plan effective July 1, 2005. SDCERS contended that 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 filed an amended complaint naming a defendant class of employees. Notice of the litigation was sent to class members and defendant class counsel was assigned. All parties filed cross-motions for summary judgment, and on June 17, 2010, the Court ruled the effective date of the contested plan changes is July 1, 2005. On September 10 and 23, 2010 the defendant subclasses of affected employees appealed the judgment entered upon the Court's ruling. On October 21, 2010, SDCERS also appealed the judgment and on November 15, 2010 voluntarily dismissed its appeal. On June 29, 2012, the Court of Appeal issued its ruling affirming the trial court judgment. This case is now concluded. SDCERS' implementation of the judgment requires that SDCERS correct the benefits of some members but will not have a material financial effect on the financial statements.

San Diego City Firefighters, Local 145 et al. v. San Diego City Employees' Retirement System 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 for termination of the "Presidential Leave" and "Cashless Leave" programs. The City and SDCERS terminated these programs in compliance with the IRS's Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects. On March 12, 2010, the Court sustained SDCERS' demurrer to the first amended complaint without leave to amend, and final judgment was entered thereon. On May 6, 2010, plaintiffs appealed the judgment. All of the parties have requested oral argument on the appeal but no hearing date has been scheduled by the Court of Appeal. On May 25, 2012, the Court of Appeal issued its opinion affirming the judgement. The case is now concluded.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

City of San Diego vs. San Diego City Employees' Retirement System, San Diego Superior Court, Case Number 37 2010 00091207 CU WM CTL

On May 3, 2010, the city filed a petition for writ of mandate ordering SDCERS to charge City employees half of the pension plan's investment losses. Without ruling on the merits, on September 24, 2010, the court denied SDCERS' motion to dismiss the lawsuit at the pleading stage. On November 14, 2010, the court granted the motion to intervene filed by unions representing City employees. On January 19, 2011, SDCERS and the intervening unions separately moved to change venue. On February 10, 2011, the court granted SDCERS' motion to change venue and ordered that the case be transferred to the Superior court in Los Angeles County. On February 28, 2011, the City petitioned the court of appeal for a writ of mandate challenging the venue transfer order. On November 10, 2011, the court of appeal issued its ruling granting the City's Writ in part. The Court of Appeal instructed the trial court to vacate its order transferring the case to Los Angeles and to, instead, request that the Judicial council assign a disinterested judge from a neutral county to hear the case in San Diego. A retired judge from El Centro was appointed to the case. Trial is currently set for May 14, 2013. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. If the lawsuit were successful, it would not change the City's pension plan assets or liabilities. Rather, the City seeks to increase the amount City employees must contribute to the pension plan, and decrease the amount the City must contribute to cover any investment losses.

Ananta Baidya, et al. v. San Diego City Employees' Retirement System, et al., San Diego Superior Court, Case No. 37-2011-00096237-CU-PO-CTL

On August 12, 2011, a complaint was filed against SDCERS on behalf of a class of SDCERS members who are or were City employees (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal decision of June 7, 2010, in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL ("PSC I"). In the PSC I litigation, the court held that the Board could not recover the underfunding related to the underpriced PSC contracts from the City through the Unfunded Actuarial Liability ("UAL"). The Baidya complaint seeks unspecified money damages pursuant to causes of action for breaches of common law and constitutional fiduciary duties arising out of the Board's November 2007 decision to continue to recover the underfunding related to underpriced PSC contracts through the UAL. On August 17, 2012, the court granted SDCERS' demurrer without leave to amend as to all causes of action against SDCERS except two causes of action alleging breach of fiduciary duty relating to SDCERS' defense of the underlying litigation (PSC I) and the alleged reopening of the statute of limitations by the Board's November 2007 decision. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. If the lawsuit were successful, SDCERS cannot estimate at this time what damages would be assessed.

Kelly Lancaster, et al. v. San Diego City Employees' Retirement System, et al., San Diego Superior Court, Case No. 37-2011-00096238-CU-PO-CTL.

On August 12, 2011, a complaint was filed against SDCERS on behalf of a class of certain SDCERS members who are or were employees of the San Diego County Regional Airport Authority (or their beneficiaries) who purchased underpriced PSCs between April 16 and June 29, 2004. (See description and status in Baidya above.)

Patrick Lenhart, et al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2011-00096587-CU-BC-CTL

On August 19, 2011, a complaint was filed against SDCERS on behalf of a class of certain SDCERS "safety members" who are or were city employees (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSC contracts were thereafter not honored following the Court of Appeal decision of June 7, 2010 in the case City Of San Diego V. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description and status in Baidya above.)

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

Thomas Abbe, et. al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2011-00102161-CU-NP-CTL.

On December 8, 2011, a complaint was filed by 54 members of SDCERS who are or were employees of the City (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal's decision of June 7, 2010 in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description and status in Baidya on preceding page.)

Rodito Arbitria, et al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2011-00096899-CU-PO-CTL

On August 26, 2011, a complaint was filed by an excess of 300 members of SDCERS who are or were employees of the City (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal's decision of June 7, 2010 in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description and status in Baidya on preceding page.)

9. Subsequent Events

Plan Sponsor Contributions

On July 1, 2012, SDCERS received a total of $246.9 million in FY 2013 Plan Sponsor contributions: $231.1 million from the City, $13.2 million from the Port and $2.6 million from the Airport.

The plan sponsors historically have 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 ARC.

Proposition B: Amendments to the San Diego City Charter Affecting Retirement Benefits

The San Diego voter-approved ballot initiative "Comprehensive Pension Reform" (Proposition B) was passed on June 5, 2012 and became effective on July 20, 2012. It provides that, with the exception of sworn Police Officers, City employees initially hired on or after its effective date are not eligible for membership in SDCERS, closing the City defined benefit plan to non-Police Members hired on or after July 1, 2012 and replacing it with a defined contribution plan for non-Police Members hired after that date. It has not yet been determined if SDCERS will be the administrator of the DC plan.

Proposition B also contains other provisions intended to limit pension benefits for existing employees by imposing a six-year freeze on inflation based salary increases, thereby limiting the base compensation used to calculate pension benefits. While legal challenges to Proposition B have been filed by several City labor organizations, SDCERS is following this new law until a judicial court instructs otherwise.

SDCERS is working with its actuary and investment consultants to assess the long-term implications of a partially closed plan. The short-term implications of a partially closed plan, under current GASB standards, are that pension deficits (UAL) must be amortized more rapidly than under an open plan.

AB 340: California Public Employees' Pension Reform Act of 2013 ("PEPRA")

The California Public Employees' Pension Reform Act of 2013 ("PEPRA") was enacted as a result of Assembly Bill 340, effective January 1, 2013. PEPRA's application to SDCERS plan sponsors was reviewed by legal counsel and it has been determined that the Port District and Airport Authority are subject to the generally applicable PEPRA provisions. PEPRA, however, does not apply to the City of San Diego retirement plan as charter cities who have adopted their own retirement plans are exempt from the general law provisions of PEPRA.

PEPRA is a complex body of law that affects both current and future hires of the Port and Airport effective as of January 1, 2013. PEPRA requires, generally, that "New Members" (those who are hired after December 31, 2012 and who either were never members of a public retirement system before January 1, 2013 or who were

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2012

previously members of a public retirement system but experienced a break in service of more than six months before commencing employment with the Port or Airport) must be provided the retirement benefit formula set forth in PEPRA and are subject to a pensionable pay cap unless SDCERS' actuary certifies that the formula currently provided in the Port or Airport plan provides a lower benefit factor at normal retirement age and results in a lower normal cost than that required by PEPRA. For New Members, PEPRA also limits the items of pay that can be included in pensionable compensation for purposes of calculating a member's retirement allowance, requires that New Members pay at least 50% of the normal cost of the defined benefit plan and prohibits an employer from paying any portion of the New Members contributions. For current and new members, PEPRA eliminates the ability to purchase non-qualified service credit for all employees covered under the plan unless an application to purchase is filed with SDCERS before January 1, 2013. Effective January 1, 2013, any person receiving a retirement benefit from SDCERS may not be employed by the Port or Airport while that person is receiving a retirement benefit, except under limited conditions provided in PEPRA. If the terms of an existing MOU between the employer and employee would be impaired by the cost-sharing requirements of PEPRA, PEPRA is not applicable to that employer until the expiration of that MOU.

SDCERS is working with its plan sponsors, outside actuary and legal consultants to implement applicable provisions of PEPRA by January 1, 2013.

IRS Determination Letters for Plan Sponsors

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 favorable determination letters for the Group Trust in September 2009, and for the Airport plan and trust in September 2010. The Internal Revenue Service issued favorable determination letters for the City and Port plans and trusts in August 2012.

New Accounting Standards (Statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions* of the Governmental Accounting Standards Board)

Key changes include differences in accounting and funding:

- The asset valuation method used for funding purposes will allow asset smoothing while the asset valuation method required for accounting purposes will be the fair market value of assets.
- The discount rate used for funding purposes will continue to be the long term expected rate of return on plan assets. The discount rate for accounting purposes will potentially include a portion based on tax exempt municipal bond yields. This reduced discount rate will be used to project future benefit payments for which plan assets are not expected to be available for long term investment in a qualified trust.
- GASB Statement No. 68 will require that plan sponsors report in the statement of net position a net pension liability, which is the difference between the portion of the present value of projected benefit payments that is attributable to past service (using the EAN method) and the trust assets restricted to pay future retirement benefits.
- Ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes will be incorporated into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.

The System will be subject to the provisions of GASB Statement No. 67 beginning with the fiscal year ending June 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, it requires the presentation of new information about the annual money-weighted rates of return on pension plan investments in the notes to the financial statements and in 10-year required supplementary information schedules.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Funding Progress

City of San Diego

		Continuation Indicators				
Valuation Date	AVA	AAL	UAL	Funded Ratio	Member Payroll	UAL Ratio to Member Payroll
6/30/11[1]	$4,739,399	$6,917,175	$2,177,776	68.5%	$514,265	423.5%
6/30/10	4,382,047	6,527,224	2,145,176	67.1	530,238	404.6
6/30/09	4,175,229	6,281,636	2,106,407	66.5	536,591	392.6
6/30/08[1]	4,660,346	5,963,549	1,303,203	78.1	535,774	243.2
6/30/07[2]	4,413,411	5,597,653	1,184,242	78.8	512,440	231.1
6/30/06[3]	3,981,932	4,982,699	1,000,768	79.9	534,103	187.4

San Diego Unified Port District

		Continuation Indicators				
Valuation Date	AVA	AAL	UAL	Funded Ratio	Member Payroll	UAL Ratio to Member Payroll
6/30/11[1]	$259,315	$354,837	$95,521	73.1%	$34,632	275.8%
6/30/10	233,788	310,467	76,679	75.3	39,165	195.8
6/30/09	223,879	288,698	64,819	77.5	40,370	160.6
6/30/08[1]	245,580	267,036	21,456	92.0	38,635	55.5
6/30/07[2]	230,585	246,538	15,953	93.5	37,160	42.9
6/30/06[3]	203,286	220,637	17,351	92.1	33,927	51.1

San Diego County Regional Airport Authority

		Continuation Indicators				
Valuation Date	AVA	AAL	UAL (Funding Excess)	Funded Ratio	Member Payroll	UAL Ratio to Member Payroll
6/30/11[1]	$86,309	$84,042	$(2,266)	102.7%	$25,148	-9.0%
6/30/10	73,401	76,447	3,047	96.0	25,596	11.9
6/30/09	58,981	67,871	8,890	86.9	24,693	36.0
6/30/08[1]	58,096	56,808	(1,288)	102.3	23,488	-5.5
6/30/07[2]	50,812	46,637	(4,176)	109.0	21,957	-19.0
6/30/06[3]	41,222	36,905	(4,317)	111.7	19,116	-22.6

[1]Reflects revised actuarial assumptions

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

[3]Reflects revised actuarial methodologies

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of a retirement plan. The most recent actuarial valuations for the City, Port and Airport were performed as of June 30, 2011.

San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress

1. Key Actuarial Assumptions

In the June 30, 2011 valuation, the normal cost and actuarial accrued liability are determined using the EAN actuarial funding method.

The June 30, 2011 valuation results reflect a number of assumption changes that were approved by the SDCERS Board based on an experience study completed by Cheiron in September 2011. These changes include:

- The investment return assumption was lowered from 7.75% to 7.50%;
- The wage inflation assumption was lowered from 4.00% to 3.75% (following a two-year freeze for the City and Airport Authority);
- Rates of termination were increased for General Members and changed to be based on service as opposed to the age and service of a member;
- Disability rates were decreased;
- The mortality rates for active lives for General and Safety Members were decreased;
- The mortality rates for retired healthy lives for Safety Members were decreased;
- The mortality rates for retired disabled lives for General and Safety Members were increased at younger ages and decreased at older ages;
- Rates of retirement were increased for the City and Port and decreased for the Airport Authority. All Plan sponsor rates of retirement were changed to be based on age and service as opposed to just the service of a member;
- For the Port and Airport Authority, the reciprocity assumption was reduced from 20% to 10%;
- The percent married assumption was increased from 50% to 55% for females, and the assumed age difference between husbands and wives was reduced from four years to three years;
- For the Cost-of-Living (COL) Annuity, the valuation method was changed from load factors to a direct valuation of existing member accounts and load factors only for prospective contributions.

For the June 30, 2010 valuation of the City of San Diego, $50 million ($1.75 million for the Airport Authority) was added to the actuarial value of assets to reflect the anticipated impact of the PSC correction on the unfunded actuarial liability. For the June 30, 2011 valuation, this was replaced by updated estimates of the impact on both the assets and liabilities.

The DROP interest crediting and annuity rates used to value the liability for account balances were reduced from 2.3% to 1.9% and from 4.8% to 4.4%, respectively, to reflect the Board's adoption of these rates at its December 2011 meeting.

The assumed annual pension cost-of-living adjustment is generally 2.0% 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 online at www.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.

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

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. The Actuarial Value of Assets is equal to 100% of the prior year's expected actuarial value of assets (assuming 7.50% earnings for the year) plus 25% of the difference between the current actual market value of assets and the expected actuarial value of assets.

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 Actuarial Value of Assets by the 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) / Funding Excess: When the AAL are greater than the Actuarial Value of Assets, the difference is termed Unfunded Actuarial Liability, also called Unfunded Actuarial Accrued Liability (UAAL). When the Actuarial Value of Assets is greater than the AAL the difference is termed Funding Excess.

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, 2011, the City had a funded status of 68.5%, using the EAN funding method.

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

As of the June 30, 2011 actuarial valuation, the City's UAL was $2.2 billion, using the EAN funding method. The City's then-existing June 30, 2007 UAL is being amortized over a closed 20-year period, with 16 years remaining at June 30, 2011. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2011, are each amortized over a closed 15-year period. Changes in the UAL due to assumption changes are amortized over closed 30-year periods.

San Diego Unified Port District

As of June 30, 2011, the Port had a funded status of 73.1%, using the EAN funding method.

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

As of the June 30, 2011 actuarial valuation, the Port had a UAL of $95.5 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 10 years remaining at June 30, 2011. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2011, are each amortized over a closed 15-year period. Changes in the UAL due to assumption changes are amortized over closed 30-year periods.

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

San Diego County Regional Airport Authority

As of June 30, 2011, the Airport had a funded status of 102.7%, using the EAN funding method.

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

As of the June 30, 2011 actuarial valuation, the Airport had funding excess of $2.3 million using the EAN funding method. The Airport's June 30, 2007 UAL is being amortized over a closed 14-year period, with 10 years remaining at June 30, 2011. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2011, are each amortized over a closed 15-year period. Changes in the UAL due to assumption changes are amortized over closed 30-year periods.

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

City of San Diego
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2012 - 2007)
(Dollars in Thousands)

SDCERS' actuary calculates annual employer contribution rates using the EAN actuarial funding methodology. The City's contributions made to SDCERS have differed from the 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.

	2012	2011	2010	2009	2008	2007
Annual Required Contributions (ARC)[1]	$231,200	$229,100	$154,200	$161,700	$137,700	$162,000
Contributions Made to SDCERS	231,200[5]	229,297[5]	192,533[4]	162,475[5]	165,581[3]	169,126[2]
Difference - Over Contributed	–	197	38,333	775	27,881	7,126
Percentage of ARC Contributed	100.0%	100.0%	124.9%	100.5%	120.2%	104.4%

[1]ARC figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

[2]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.

[3]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.

[4]Contributions for 2010 were made at a full actuarially-determined rate using the Entry Age Normal method. In addition, the City made contributions above this amount associated with final settlement of certain resolved litigation.

[5]Contributions for 2009, 2011 and 2012 were made at a full actuarially-determined rate using the Entry Age Normal method.

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

San Diego Unified Port District
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2012 - 2007)
(Dollars in Thousands)

	2012	2011	2010	2009	2008	2007
Annual Required Contributions (ARC)[1]	$12,600	$11,500	$7,200	$7,300	$6,900	$8,300
Contributions Made to SDCERS	12,600	11,501	7,201	7,340	6,900	9,300
Difference - Over/ (Under) Contributed	–	1	1	40	–	1,000
Percentage of ARC Contributed	100.0%	100.0%	100.0%	100.5%	100.0%	112.1%

[1] ARC figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

San Diego County Regional Airport Authority
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2012 - 2007)
(Dollars in Thousands)

	2012	2011	2010	2009	2008	2007
Annual Required Contributions (ARC)[1]	$3,800	$4,300	$3,000	$3,000	$2,200	$2,600
Contributions Made to SDCERS	3,800	4,300	7,600	3,035	2,520	2,962
Difference - Over/ (Under) Contributed	–	–	4,600[2]	35	320	362
Percentage of ARC Contributed	100.0%	100.0%	253.3%	101.2%	114.5%	113.9%

[1] ARC figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

[2] In 2010, in addition to the full ARC payment, the Airport voluntarily contributed an additional $4.6 million to achieve certain funding level thresholds.

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

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 schedules of plan sponsor contributions on the preceding pages, are the ARC necessary to fund the promised benefits to SDCERS' members.

City of San Diego

The Schedule of Plan Sponsor 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 for FY 2007 and FY 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. 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 2007 through FY 2008, the City made full actuarial contributions based upon the terms of a legal settlement.

Contributions for FY 2009 through FY 2012 were made at a full actuarially-determined rate using the EAN method. In addition, in FY 2011 the City made contributions above this amount associated with final settlement of a resolved legal case. Over the past six years, the City has contributed 100% or more of the amount recommended by SDCERS' actuary. The City's current funded status is 68.5%.

San Diego Unified Port District

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 73.1%.

San Diego County Regional Airport Authority

The Schedule contains six years of historical information comparing the Airport's ARC to its contributions. Over the past six years, the Airport has contributed 100% or more of the amount recommended by SDCERS' actuary and has a current funded status of 102.7%.

San Diego City Employees' Retirement System
Other Supplemental Information

Schedule of Administrative Expenses
For the Year Ended June 30, 2012
(Dollars in Thousands)

Salaries and Personnel[1]	$5,690
Information and Technology Services	
Data Processing and Computer Services	1,039
Contracted Services	632
Total Data Processing	1,671
Legal/External	
Litigation/Fiduciary/Tax/General	788
Disability	100
Total Legal/External	888
General Operations	
Rent	966
Office Operations Expenses	790
Actuary Services	578
Fiduciary Insurance	582
Depreciation Expense	376
Disability Processing	126
Audit Services	105
Travel & Training	67
Total General Operations	3,590
GRAND TOTAL	$11,839

[1] Personnel expenses of $1.1 million can be readily identified as investment related costs and are reported as investment expenses in the Statement of Changes in Plan Net Assets.

San Diego City Employees' Retirement System
Other Supplemental Information

Schedule of Investment Expenses
For the Year Ended June 30, 2012
(Dollars in Thousands)

	Market Value of Assets Under Management[1]	Total Fees Paid
Domestic Equity Managers	$1,683,474	$4,748
International Equity Managers	950,871	3,747
Global Equity Managers	263,351	181
Domestic Fixed Income Managers	1,493,960	1,840
International Fixed Income Managers	5,607	621
Emerging Market Debt Strategies	158,874	340
Real Estate Managers	543,372	5,810
Private Equity Managers	156,997	1,651
Infrastructure Managers	21,227	667
Cash & Cash Overlay	76,340	193
Total Investment Manager Fees	$5,354,073	$19,798
Other Investment Service Fees		
SDCERS Salaries and Personnel		$1,110
Custodian Services		258
Investment Consultants		585
Investment Accounting Applications		55
Legal Services		41
Taxes		678
Other		627
Total Other Investment Service Fees		$3,354
Total Fees Paid to Investment Professionals		$23,152

[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 Supplemental Information

Schedule of Payments to Consultants
For the Year Ended June 30, 2012
(Dollars in Thousands)

Individual or Firm		Nature of Service
Sagitec Solutions, LLC	$1,524	Pension Administration System Consulting
San Diego Data Processing Corporation	1,447	Computer/Applications Support
Legal Firms & Professional Legal Services[1]	888	Legal, Arbitration, Mediation Court Reporting
Cheiron, Inc.	534	Actuary
Barney & Barney LLC	397	Fiduciary Insurance
L.R. Wechsler, LTD	382	Pension Administration System Consulting
Levi, Ray & Shoup	261	Member Benefit Systems Development
Aon Risk Services, Inc.	198	Fiduciary Insurance
Macias Gini & O'Connell LLP	105	Audit
Doctors & Disability Services[1]	91	Medical Consulting
Various Providers	56	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	$5,882	

[1]See next page for full listing

San Diego City Employees' Retirement System
Other Supplemental Information

Schedule of Payments to Consultants (continued)
For the Year Ended June 30, 2012

SDCERS used the following Doctors' services:

California Orthopaedic Institute Medical Associates, Inc.
- William S. Adsit, M.D.
- Drew Peterson, M.D
- Michael Kimball, M.D.
- Stephen Sigler, M.D.

Other Doctors
- Dominick Addario, M.D.
- Daniel J. Bressler, M.D.
- William P. Curran, Jr., M.D.
- William Hughson, M.D.
- L. Mercer McKinley, M.D.
- Gregory Schwab, M.D.
- Donald Green, D.P.M.
- Jerrold Sherman, M.D.
- Thomas Terramani, M.D.
- Daniel Bressler, M.D.
- John Bokosky, M.D.
- Douglas Schuch, M.D.

SDCERS paid the following Legal & Professional Legal Services Firms:

Cooley Godward Kronish, LLP
Cox, Castle & Nicholson, LLP
Gibbs & Fuerst
Ice Miller Legal and Business Advisors
JAMS (Judicial Arbitration Services)
Judicate West
Kirby Noonan Lance & Hoge LLP
Law Offices of Sean D. Stephens
Manatt, Phelps & Phillips, LLP
Nossaman LLP
Paul Hastings, Janofsky & Walker, LLP
Peterson & Associates

San Diego City Employees' Retirement System
Other Supplemental Information

Statement of Changes in Assets and Liabilities - Agency Funds
For the Year Ended June 30, 2012
(Dollars in Thousands)

	City of San Diego Preservation of Benefits Fund			
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	$3	$1,678	$1,677	$4
Accounts Receivable	15	–	15	–
TOTAL ASSETS	$18	$1,678	$1,692	$4
LIABILITIES				
Accounts Payable	$15	$–	$15	$–
Sundry Trust Liability	3	1,678	1,677	4
TOTAL LIABILITIES	$18	$1,678	$1,692	$4

	San Diego Unified Port District Preservation of Benefits Fund			
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	$18	$281	$296	$3
Accounts Receivable	7	–	7	–
TOTAL ASSETS	$25	$281	$303	$3
LIABILITIES				
Accounts Payable	$7	$–	$7	$–
Sundry Trust Liability	18	281	296	3
TOTAL LIABILITIES	$25	$281	$303	$3

	Preservation of Benefits Funds - Combined			
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	$21	$1,959	$1,973	$7
Accounts Receivable	22	–	22	–
TOTAL ASSETS	$43	$1,959	$1,995	$7
LIABILITIES				
Accounts Payable	$22	$–	$22	$–
Sundry Trust Liability	21	1,959	1,973	7
TOTAL LIABILITIES	$43	$1,959	$1,995	$7

San Diego City Employees' Retirement System
Other Supplemental Information

Statement of Changes in Assets and Liabilities — Agency Funds (continued)
For the Year Ended June 30, 2012
(Dollars in Thousands)

	Post Employment Healthcare Benefit Plan Fund			
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash on Deposit with Wells Fargo Bank	$(10)	$44,712	$44,692	$10
Accounts Receivable	10		10	–
TOTAL ASSETS	$–	$44,712	$44,702	$10
LIABILITIES				
Sundry Trust Liability	$–	$44,712	$44,702	$10
TOTAL LIABILITIES	$–	$44,712	$44,702	$10

	Total Agency Funds			
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	$21	$1,959	$1,973	$7
Cash on Deposit with Wells Fargo Bank	(10)	44,712	44,692	10
Accounts Receivable	32		32	–
TOTAL ASSETS	$43	$46,671	$46,697	$17
LIABILITIES				
Accounts Payable	$22	$–	$22	$–
Sundry Trust Liability	21	46,671	46,675	17
TOTAL LIABILITIES	$43	$46,671	$46,697	$17

3. INVESTMENT

Investment Consultant's Statement

Hewitt ennisknupp
An Aon Company

October 29, 2012

Mr. Mark Hovey
Chief Executive Officer
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Mr. Hovey:

This letter provides a brief overview of the performance of the investments of the San Diego City Employees' Retirement System (SDCERS) during the Fiscal Year ending June 30, 2012 (FY 2012).

Performance was mixed across capital markets for FY 2012, as markets continued to experience high levels of volatility. Best characterized as a "risk-on / risk-off" environment, recurring macro themes continued to cause large swings in investor sentiment. The fiscal year began on a down beat due to slow global economic growth, persistently high unemployment rates, an unprecedented U.S. debt downgrade, and the failure of Eurozone leaders to form an adequate solution to their sovereign debt crisis. With investor sentiment low, equity markets sold off considerably and investors fled to the safety of U.S. Treasuries, causing long-term bond yields to hit multi-decade lows. The poor sentiment did not last long though. Positive, yet modest, U.S. economic data and additional monetary easing measures provided reassurance that the U.S. would not dip back into a recession. Furthermore, European policy makers made meaningful progress towards a solution to the sovereign debt crisis, which eased fears of a complete Eurozone breakup. Not only did the markets experience relief in the fourth quarter of 2011, but during the following quarter, the S&P 500 Index experienced its best first quarter in fourteen years. Unfortunately, the "risk-on" attitude gave way in April and May to uncertainty and caution. Markets turned negative as Eurozone fears flared up, only to bounce back in June as positive developments were made at the EU Summit.

Despite the volatility, the broad domestic equity market remained in positive territory with a 4.0% return for FY 2012. Riskier U.S. small cap securities were not as resilient, and declined 2.1%. International equity markets performed significantly worse than the U.S. equity market, declining 14.6% for the year as the Eurozone debt crisis was closer to home. The broad U.S. fixed income market returned a favorable 7.5%, though the main beneficiaries for the year were longer-dated U.S. Treasuries as investors fled to safe-haven assets. As yields reached multi-decade lows, 10-year U.S. Treasuries returned 17.8%, and 30-year U.S. Treasuries returned an even greater 38.9% during the year.

Given the continued sluggish economic recovery, it is to no surprise that the Federal Open Markets Committee maintained the Federal Funds Target Range of 0.00 - 0.25% throughout the year. The

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Page 2
October 29, 2012

Committee also confirmed that weak economic conditions will likely warrant a low Federal Funds Rate at least through late-2014. In September 2011, the Fed announced additional easing measures, termed Operation Twist, whereby the Fed pledged to buy longer term U.S. Treasuries to keep long-term interest rates low. As the unemployment rate remained high and the economic recovery sluggish, investors anticipated a third round of quantitative easing, dubbed QE3. The Fed instead decided to extend Operation Twist, which was initially scheduled to conclude in June 2012. However, subsequent to June, QE3 was launched and consists of an open-ended commitment of the Fed to purchase additional assets until the economic recovery strengthens. While the impact of the additional monetary easing on spending and hiring is uncertain, the Fed's commitment to the economic recovery has helped the economy avoid sliding back into a recession and has bolstered investor sentiment.

Amidst the volatile year, the SDCERS' Trust Fund ended FY 2012 relatively flat. The Total Fund returned a positive 0.9%, net-of-fees, and modestly trailed its Policy Benchmark return of 1.8% for the year. The Fund's assets remained mostly unchanged as compared to the prior year, ending the year at $5.4 billion. Despite the lackluster FY 2012 returns, SDCERS' portfolio performed favorably and in line with expectations. Fixed Income and Real Estate provided strong absolute returns, returning 7.1% and 9.4%, respectively. Though Non-U.S. Equity produced negative results, favorable active management made it the greatest relative contributor to Total Fund performance. The main detractor from relative performance was U.S. Equity. Although it was a difficult year for U.S. equity active managers, nearly half of the U.S. Equity underperformance is attributable to the portfolio's small cap bias. During the year, small cap securities were out-of-favor, trailing their larger cap counterparts by 7.5 percentage points.

During FY 2012, the SDCERS' Trust Fund continued to make significant progress towards its long term strategic goals. The Non-U.S. Fixed Income asset class was eliminated at the beginning of the fiscal year and Global Equity was funded in May 2012. The Real Estate portfolio restructure is well underway, and Private Equity has been funded to nearly 3% of Total Fund assets at year-end. Furthermore, during the year, the Infrastructure portfolio was initiated and represents roughly 0.4% of assets. The portfolio was managed during the year with a continued focus on managing risk and keeping costs low. The investment structure is continually monitored and evaluated to assure it is in line with SDCERS' long term goals. While the history with the new structure has been short, it has been favorable and in line with expectations.

Sincerely,

Steve Voss
Principal

Satya Kumar
Satya Kumar, CFA
Principal

San Diego City Employees' Retirement System
Asset Class Investment Returns[1, 2, 3]
For the Periods Ended June 30, 2012

	Annualized Performance			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Domestic Equity Performance	**1.8%**	**16.8%**	**0.5%**	**7.0%**
Benchmark: Dow Jones U.S. Total Stock Market (100% weight)	4.0%	17.7%	1.3%	6.5%
International Equity Performance	**-14.1%**	**6.8%**	**-6.7%**	**6.5%**
Benchmark: MSCI AC World Ex-US IMI Index (100% weight)	-14.8%	7.6%	-4.5%	7.5%
Global Equity Peformance[5]	**N/A**	**N/A**	**N/A**	**N/A**
Benchmark: MSCI AC World Index (100% weight)	-6.5%	10.8%	-2.7%	5.7%
Domestic Fixed Income Performance	**7.1%**	**10.5%**	**7.8%**	**7.1%**
Benchmark: Barclays Capital Aggregate Bond Index (100% weight)	7.5%	6.9%	5.8%	5.4%
Emerging Market Debt Performance	**5.6%**	**N/A**	**N/A**	**N/A**
Benchmark: JPM EMBI Global Diversified (50% weight) JPM GBI-EM Global Diversified (50% weight)	4.0%	12.0%	9.1%	N/A
Opportunity Fund Performance[4]	**-1.4%**	**N/A**	**N/A**	**N/A**
Benchmark: Barclays Capital Aggregate Bond Index (100% weight)	7.5%	6.9%	6.8%	5.6%
Real Estate Performance	**9.4%**	**11.3%**	**-1.3%**	**8.5%**
Benchmark: NFI-ODCE + 50 basis points (90% weight) FTSE EPRA/NAREIT Developed REIT Index (10% weight)	7.6%	11.2%	1.8%	9.3%
Private Equity Performance[5]	**12.9%**	**N/A**	**N/A**	**N/A**
Benchmark: S&P 500 + 3.0% (100% weight)	8.6%	19.8%	3.2%	8.5%
Infrastructure Performance[5]	**N/A**	**N/A**	**N/A**	**N/A**
Benchmark: 10-Year CPI + 3% (100% Weight)	4.7%	5.1%	5.0%	5.5%
Total Fund Performance[6]	**0.9%**	**12.4%**	**1.8%**	**7.3%**
Benchmark comprised of: Dow Jones U.S. Total Stock Market Index (34.2%); MSCI AC World ex-US IMI (20.3%); Barclays Capital Agg (24%); Custom Real Estate Benchmark (11%) MSCI AC World Index (5%); Emerging Market Debt Benchmark (3.0%) and Private Equity Benchmark (2.5%);	1.8%	12.0%	2.6%	7.1%

[1] Basis of calculation is time-weighted rates of return based on market values.

[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.

[3] Net of fees returns began to be calculated in FY2011. Prior to that, all returns are gross of fees.

[4] As of June 30, 2012, the Opportunity Fund only had one investment, which is benchmarked to the Barclays Capital Aggregate Index. As more investments are added, the Opportunity Fund will begin using the benchark of 78% MSCI All Country World Index and 22% Barclays Capital Aggregate Bond Index. The 3, 5 and 10-year performance numbers are not available as this investment was funded in 2009.

[5] This allocation is currently being funded. Performance will not be available until a meaningful allocation is reached.

[6] The 1-year gross of fees return for the Total Fund Performance was 1.15%.

San Diego City Employees' Retirement System
Investment Managers
As of June 30, 2012

Domestic Equity Investment Managers

Allianz Global Investors Capital
San Diego, CA

Dodge & Cox
San Francisco, CA

Perimeter Capital Management
Atlanta, GA

BlackRock Institutional Trust Company
New York, NY

Fisher Investments
Woodside, CA

Wall Street Associates
La Jolla, CA

Dimensional Fund Advisors
Santa Monica, CA

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

Domestic Fixed Income Investment Managers

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

The TCW Group, Inc./MetWest
Los Angeles, CA

BlackRock Institutional Trust Company
New York, NY

Global Equity Investment Managers

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

Walter Scott & Partners Limited
Edinburgh, Scotland

International Equity Investment Managers

Aberdeen Asset Management
Philadelphia, PA

Brandes Investment Partners
San Diego, CA

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

BlackRock Institutional Trust Company
New York, NY

Globeflex Capital, L.P.
San Diego, CA

Emerging Market Debt Investment Managers

Stone Harbor Investment Partners
New York, NY

Wellington Management Company
Boston, MA

Real Estate Investment Managers

Colony Capital, LLC
Los Angeles, CA

Invesco Real Estate
Dallas, TX

Pacific Coast Capital Partners
El Segundo, CA

Cornerstone Real Estate Advisers
Glastonbury, CT

J.P. Morgan Asset Management
New York, NY

RREEF Funds
San Francisco, CA

Europa Capital
London, England

Long Wharf Real Estate Partners (Fidelity)
Boston, MA

RREEF Funds (REITs)
Chicago, IL

Greystar Real Estate Partners, LLC
Charleston, SC

Normandy Real Estate Partners (Capmark)
Morristown, NJ

UBS Realty Investors
Hartford, CT

Private Equity and Infrastructure Consultants

Credit Suisse Private Equity, Inc.
New York, NY

StepStone Group, LLC
San Diego, CA

San Diego City Employees' Retirement System
Summary of Investment Goals and Philosophy
As of June 30, 2012

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 7.5%.
- SDCERS should seek to earn a return in excess of its policy benchmark over the long term.
- SDCERS' assets will be managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve these objectives, SDCERS allocates its investment assets with a strategic, long-term perspective of the capital markets.

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. In addition, SDCERS manages its investment program based on principles outlined under the Prudent Expert standard. SDCERS also diversifies the investments so as to maximize the probability of achieving the actuarial rate of return while minimizing risk.

* * *

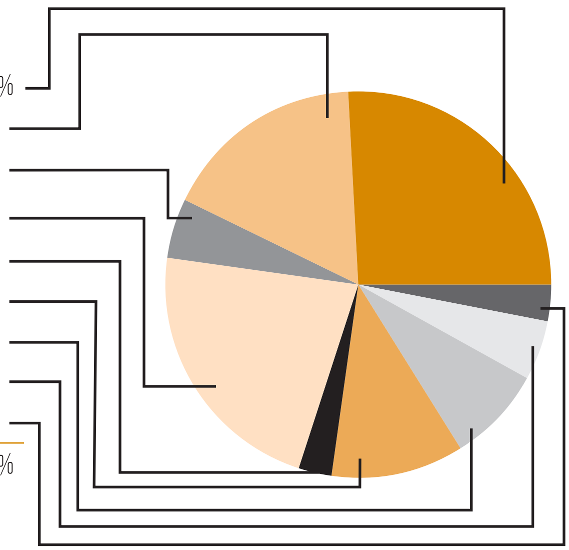
These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS' 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, 2012

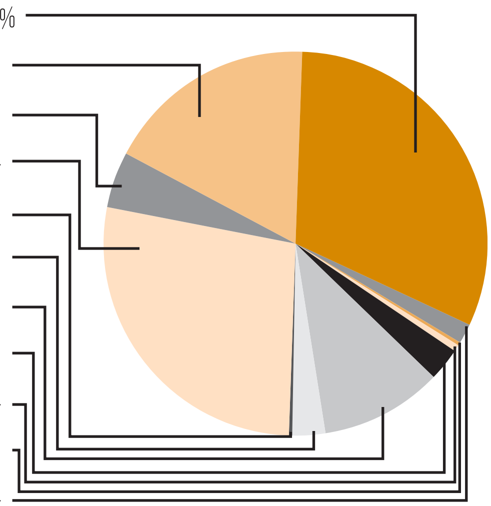
Target Asset Allocation

Domestic Equity	26.0%
International Equity	17.0
Global Equities	5.0
Domestic Fixed Income	22.0
Emerging Market Debt	3.0
Real Estate	11.0
Opportunistic	8.0
Private Equity	5.0
Infrastructure	3.0
Total	100.0%



Actual Asset Allocation[1]

Domestic Equity	31.5%
International Equity	17.8
Global Equity	4.9
Domestic Fixed Income	27.4
International Fixed Income[2]	0.1
Emerging Market Debt	3.0
Real Estate	10.1
Private Equity[3]	2.9
Infrastructure[5]	0.4
Opportunistic[4]	0.5
Cash	1.4
Total	100.0%



	(Dollars in Thousands)
Domestic Equity	$1,683,474
International Equity	950,871
Global Equity	263,351
Domestic Fixed Income	1,468,060
International Fixed Income	5,607
Emerging Market Debt	158,874
Real Estate	543,372
Private Equity[3]	156,997
Infrastructure[5]	21,227
Opportunistic[4]	25,900
Cash[6]	76,338
Total Investments, At Fair Value[7]	$5,354,071
Less Pending Transactions	(202,103)
Total Net Investments[8]	$5,151,968

[1]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. 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 classified by security type: i.e., cash, equities, fixed income, real estate, private equity and infrastructure, not by investment strategy.

[2]SDCERS does not have a target allocation to International Fixed Income Strategies. This is a residual balance from a terminated manager and will decrease over time.

[3]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. This allocation will be funded from domestic equity.

[4]In September 2010, an allocation to Opportunistic Strategies was approved. Investments in Opportunistic Strategies will be funded pro-rata from domestic and international equities and domestic fixed income.

[5]In August 2011, infrastructure was added as a new asset class at a target allocation of 3%, which is expected to be funded over several years. This allocation will be funded from domestic equity.

[6]SDCERS does not have a target allocation to cash.

[7]Total Investments at fair value include amounts reported as Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents in the Audited Financial Statements.

[8]Investment balances are presented using the accrual basis of accounting.

San Diego City Employees' Retirement System
At June 30, 2012 (Dollars in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	347	Microsoft Corp.	594918104	$10,599	0.2%
2	302	Wells Fargo & Co.	949746101	10,083	0.2
3	299	Comcast Corp Class A	20030N101	9,569	0.2
4	439	General Electric Co.	369604103	9,157	0.2
5	159	Capital One Financial Corp.	14040H105	8,675	0.2
6	207	Merck & Co., Inc.	58933Y105	8,624	0.2
7	117	Schlumberger Ltd.	806857108	7,581	0.1
8	107	Wal-Mart Stores, Inc.	931142103	7,460	0.1
9	318	Pfizer Inc.	717081103	7,310	0.1
10	325	Eni S.p.A.	714505906	6,929	0.1
		Total		$85,987	1.6%

Schedule of Largest Fixed Income Holdings

Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	51,000	FNMA TBA July 30 Single Family 4% 01 Dec 2099	01F040677	$54,275	1.1%
2	45,315	U.S. Treasury Note 1.75% 15 May 2022	912828SV3	45,683	0.9
3	43,700	U.S. Treasury Note 1.125% 31 May 2019	912828SX9	43,768	0.8
4	38,000	FNMA TBA 3.5% 01 Dec 2099	01F032682	39,835	0.8
5	26,000	FNMA TBA August 30 Single Family 4.5% 01 Aug 2041	01F042681	27,869	0.5
6	23,000	FNMA TBA July 15 Single Family 3.5% 01 Dec 2099	01F032476	24,301	0.5
7	22,000	U.S. Treasury Note 1.375% 30 Nov 2018	912828RT9	22,502	0.4
8	16,185	U.S. Treasury Note 3.125% 15 Feb 2042	912810QU5	17,384	0.3
9	16,000	FNMA TBA Aug 30 Single Family 4% 01 Dec 2099	01F040685	16,997	0.3
10	11,814	U.S. Treasury Inflation Protection Bond 1.25% 15 Jul 2020	912828NM8	13,717	0.3
		Total		$306,331	5.9%

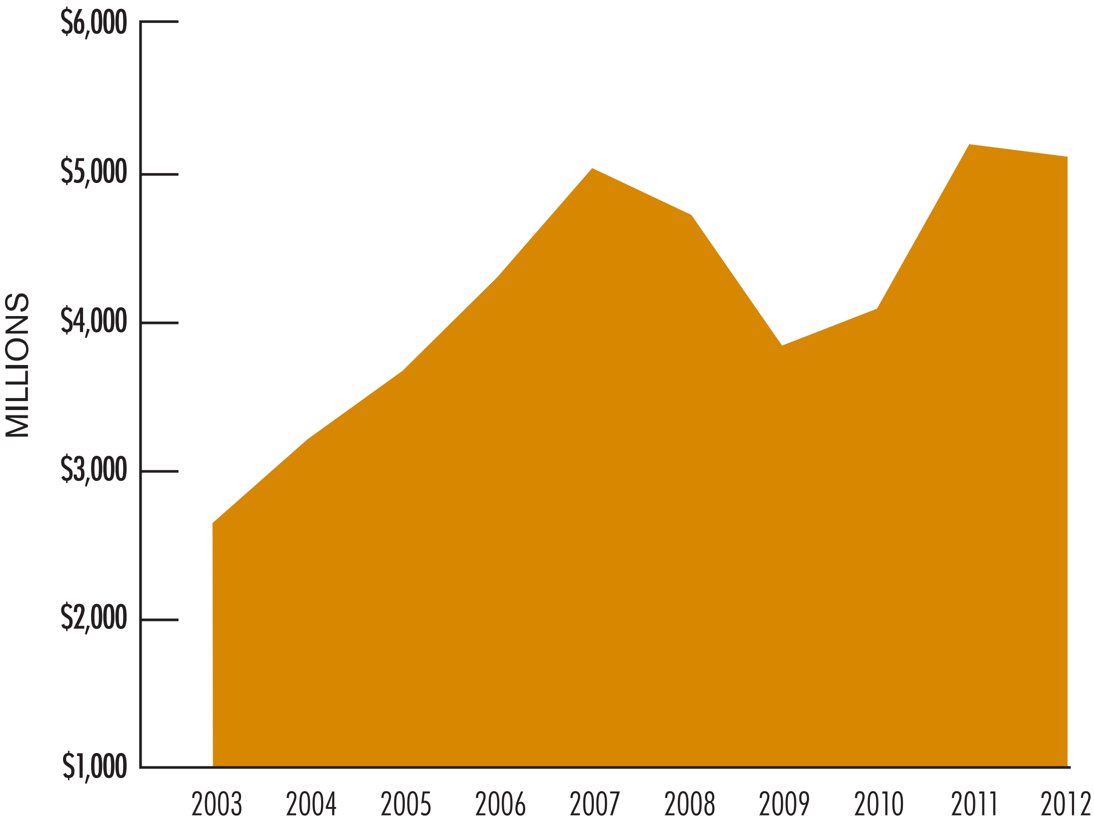
A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Commissions[1]
Top 25 Brokerage Firms Used
For the Year Ended June 30, 2012 (Dollars in Thousands)

Rank	Broker Name	Shares	Base Commission	Commission Per Share
1	Goldman Sachs & Co.	824,500	$ 247	$0.0003
2	UBS Securities LLC	593,269	94	0.0002
3	JPMorgan Chase & Co.	797,664	91	0.0001
4	Merrill Lynch & Co., Inc.	49,219	89	0.0018
5	Jefferies & Company, Inc.	16,140	75	0.0046
6	William Blair & Co. LLC	3,178	69	0.0217
7	Knight Equity Markets L.P.	3,072	69	0.0224
8	Citigroup Global Markets, Inc.	895,680	56	0.0001
9	Barclays Capital Inc.	1,323,123	55	0.0000
10	Credit Suisse Securities	1,400,864	54	0.0000
11	Liquidnet Holdings, Inc.	1,963	49	0.0249
12	Instinet Inc.	5,663	48	0.0085
13	Morgan Stanley & Co., Inc.	1,058,923	47	0.0000
14	Nomura Securities International, Inc.	443,333	46	0.0001
15	Deutsche Bank Securities, Inc.	1,725,354	38	0.0000
16	CLSA Asia-Pacific Markets	3,059	35	0.0115
17	Craig-Hallum Capital Group LLC	975	33	0.0336
18	BNY ConvergEX Group	1,256	32	0.0259
19	JonesTrading Institutional Services LLC	847	31	0.0366
20	Raymond James Financial, Inc.	833	30	0.0356
21	Stifel, Nicolaus & Co., Inc.	5,097	29	0.0058
22	Weeden & Co., L.P.	1,755	28	0.0160
23	Sanford C. Bernstein & Co., Inc.	2,331	26	0.0110
24	RBC Royal Bank	43,287	25	0.0006
25	Direct Access Partners, LLC	1,997	25	0.0125
	All Other Brokers	6,149,131	549	0.0001
	Total	15,352,513	$1,970	$0.0001

[1]This schedule contains trading information which includes equities and fixed income. Commissions for fixed income trades are implicitly included in the price of a security that is bought or sold, rather than explicitly stated for equities. This will cause some of the commission per share numbers to seem artifically low.

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



Fiscal Year	Fair Value[1] (Dollars in Thousands)
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
2010	4,161,807
2011	5,182,482
2012	$5,151,968

[1]Fair value includes investments, cash and cash equivalents on deposit, net of pending transactions (receivable for securities sold and liability for securities purchased). Investment balances are presented using the accrual basis of accounting.

San Diego City Employees' Retirement System
Fiscal Year Investment Results
For Ten Years Ended June 30

*Total Fund returns are shown net of investment management fees beginning July 1, 2010. Returns prior to July 1, 2010 are gross of investment management fees.

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4. ACTUARIAL

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

November 1, 2012

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, 2011 actuarial valuation of SDCERS are summarized in this letter.

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.

Funding Method
The actuarial funding method for the actuarial valuation is the **Entry Age Normal** actuarial funding method. 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.

Amortization of Unfunded Actuarial Liability
In May 2007, the SDCERS Board adopted the following closed amortization periods which have been used to calculate the portion of the June 30, 2011 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 adopted an additional UAL cost component to ensure that there is no negative amortization of the UAL in any year.

Assumptions
The June 30, 2011 valuation results reflect a number of assumption changes that were approved by the SDCERS Board based on an experience study completed by Cheiron in September 2011. These changes are explained in the Actuarial Assumptions and Methods section of this CAFR.

In addition to the assumption changes, the valuation results reflect a revised estimate of the impact of the Purchased Service Correction implemented for affected members of the City and Airport Authority Plans.

All other assumptions and methods remain the same as in the June 30, 2010 valuation. The assumptions as a whole represent our best estimate for the future experience of SDCERS. The results of this report are dependent upon future experience conforming to these assumptions. To

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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*.

Plan Provisions
All plan provisions remain the same as in the June 30, 2010 valuation.

Reliance on Others
In preparing our report, we relied without audit, on information (some oral and some written) supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, member 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 along with results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and most in the Statistical Section. We have also reviewed for accuracy the trend data prepared by SDCERS' staff in the Required Supplementary Information of the Financial Section.

Compliance with Code of San Diego §24.0100-0200 and Charter section 149
As we are not attorneys we cannot confirm with absolute certainty, but to the best of our knowledge 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
In preparing our report, we relied without audit, on information supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

I hereby certify that, to the best of my knowledge, this report and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Gene Kalwarski, FSA
Principal Consulting Actuary

San Diego City Employees' Retirement System
Summary of June 30, 2011 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; and
9. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

1. General Comments

The June 30, 2011 valuation results reflect a revised estimate of the impact of the Purchased Service Correction implemented for affected members of the City and Airport Authority Plans. For the City, the revised financial impact has increased the previously estimated UAL reduction from $50 million to $65 million. For the Airport Authority, the revised financial impact has decreased the previously estimated UAL reduction from $1.75 million to $1.33 million.

In addition, the June 30, 2011 valuation results reflect a number of assumption changes that were approved by the SDCERS Board based on an experience study completed by Cheiron in September 2011. These changes are explained in the Actuarial Assumptions and Methods section of this CAFR.

For the City, member contribution rates were recalculated based on the revised actuarial assumptions in accordance with the requirement in San Diego City Charter Section 143 for "substantially equal" employer and employee contributions.

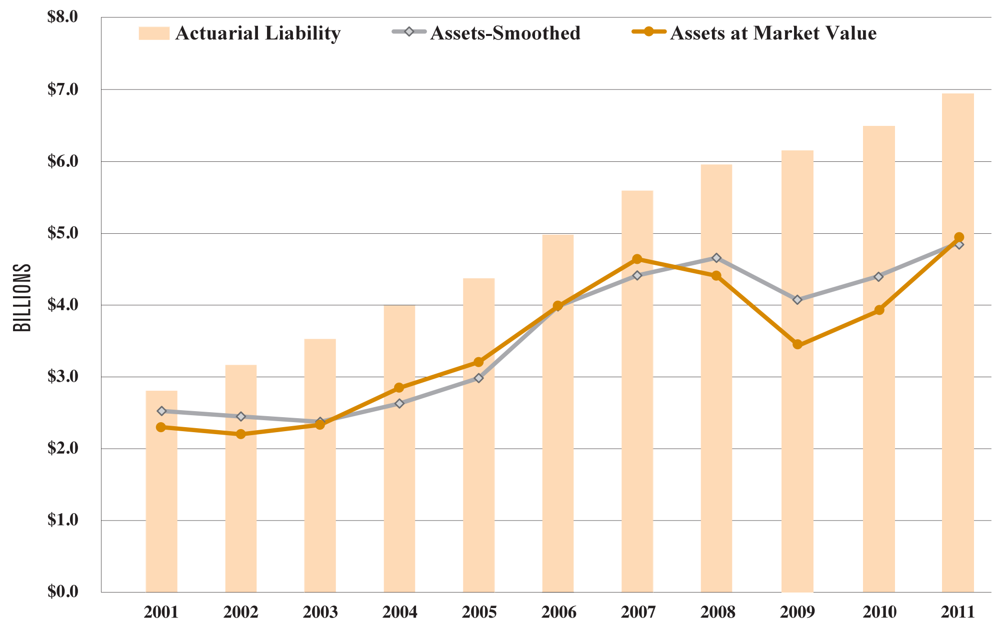
The UAL for each plan sponsor is split into several tiers, each using a different amortization period. The outstanding balance at June 30, 2011 of the June 30, 2007 UAL was amortized over 16 years for the City and over 10 years for the UPD and the Airport Authority. For all three plan sponsors, the outstanding balance at June 30, 2011 of the June 30, 2008 UAL due to assumption changes was amortized over 27 years, and the outstanding balance of the June 30, 2008 UAL due to actuarial experience was amortized over 12 years. The outstanding balance at June 30, 2011 of the June 30, 2009 UAL due to actuarial experience was amortized over 13 years, and the outstanding balance of the June 30, 2010 UAL due to actuarial experience was amortized over 14 years. The June 30, 2010 UAL reduction from the anticipated impact of the PSC correction for the City and the Airport Authority was amortized over 13 years and 14 years, respectively. The June 30, 2011 UAL due to actuarial experience was amortized over 15 years and the UAL due to assumption changes was amortized over 30 years. For the Port, the June 30, 2011 UAL due to the Early Retirement Incentive Program (ERIP) was amortized over 20 years. Finally, if necessary, 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, 2011 Valuation Results (continued)

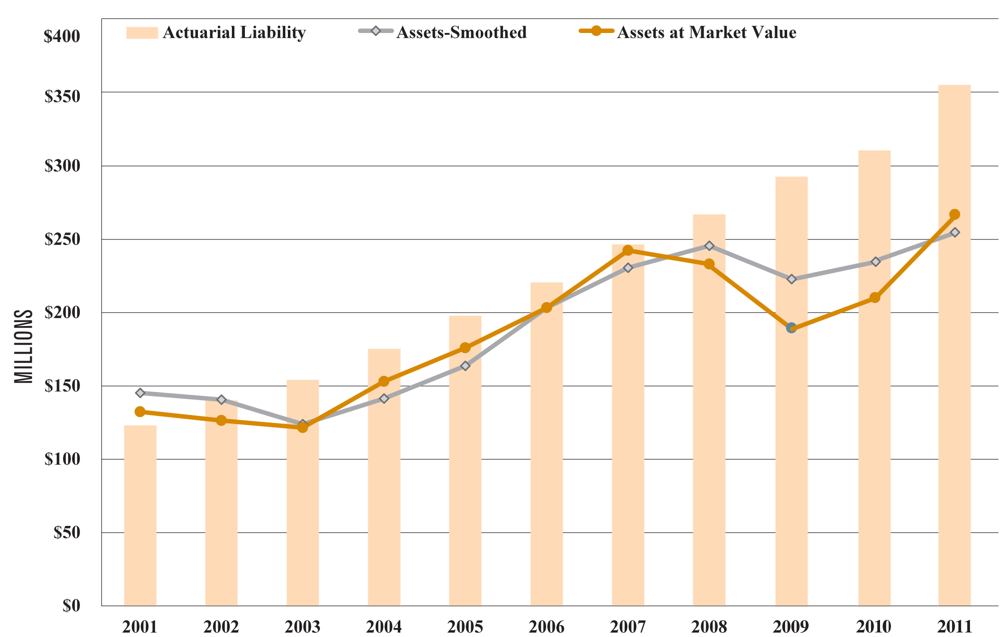
2. Historical Trends
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 2001 - 2011



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Funding Ratio	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%	78.1%	66.5%	67.1%	68.5%	
UAL (billions)	$ 0.28	$ 0.72	$ 1.16	$ 1.37	$ 1.39	$ 1.00	$ 1.18	$ 1.30	$ 2.11	$ 2.15	$ 2.18	*

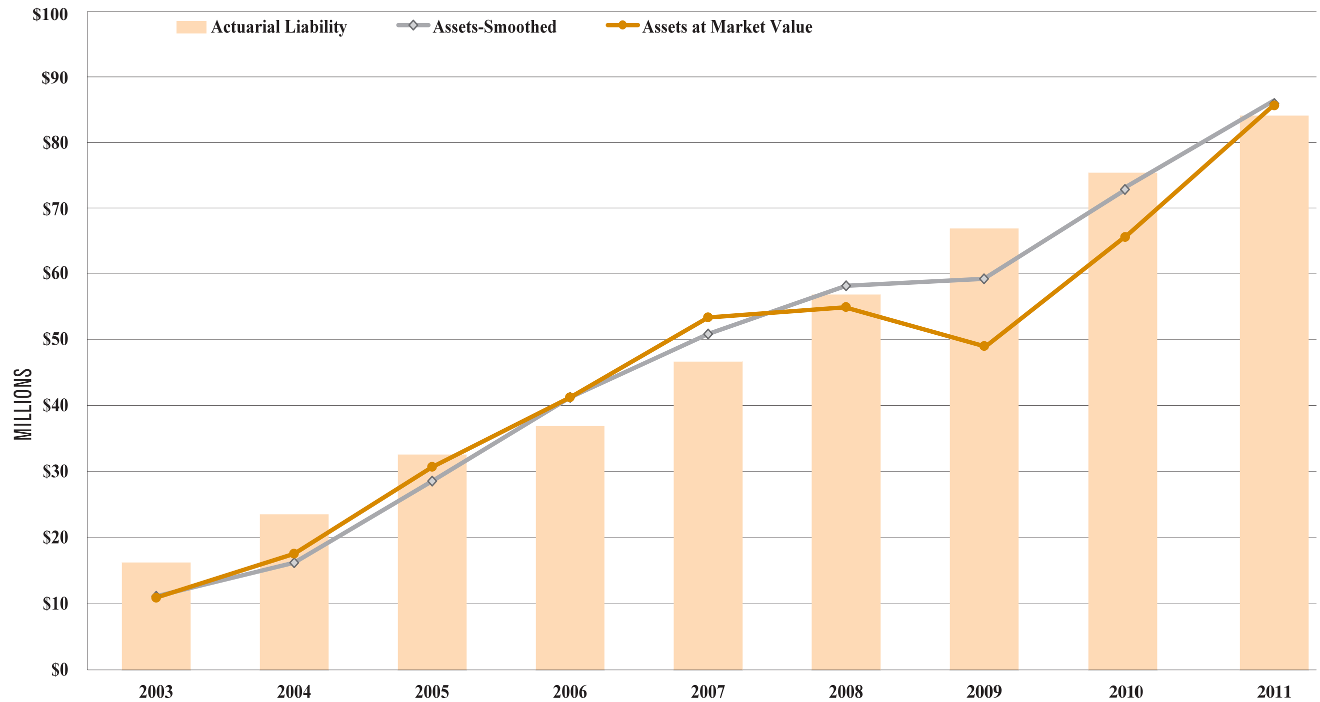
SDCERS - Unified Port District Assets and Liabilities 2001 - 2011



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Funding Ratio	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%	92.0%	77.5%	75.3%	73.1%	
UAL (millions)	$ (22.2)	$ (0.4)	$ 30.4	$ 34.0	$ 34.4	$ 17.4	$ 16.0	$ 21.5	$ 64.8	$ 76.7	$ 95.5	*

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

SDCERS - Airport Authority Assets and Liabilities 2003 - 2011



	2003	2004	2005	2006	2007	2008	2009	2010	2011
Funding Ratio	68.4%	68.8%	87.6%	111.7%	109.0%	102.3%	86.9%	96.0%	102.7%
UAL (millions)	$ 5.1	$ 7.4	$ 4.1	$ (4.3)	$ (4.2)	$ (1.3)	$ 8.9	$ 3.0	$ (2.3) *

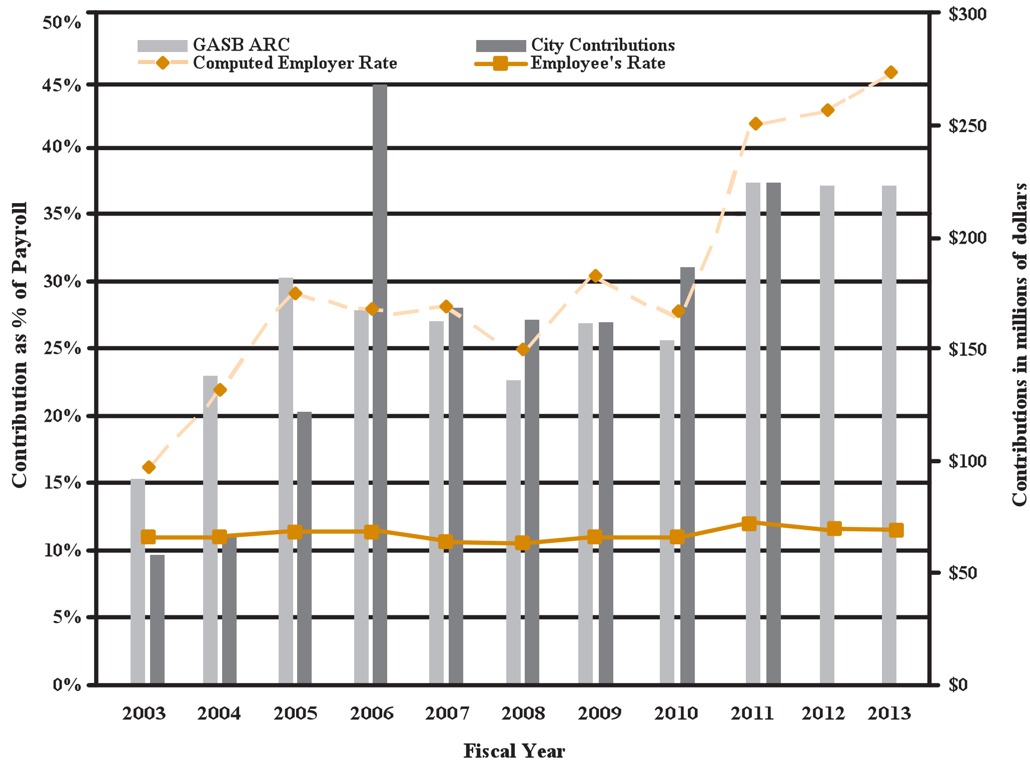
* The UAL for 2007 and after is calculated using the Entry Age Normal method, 2006 and prior years are calculated using the Projected Unit Credit method.

For funding purposes, the target amount is represented by the top of the 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.

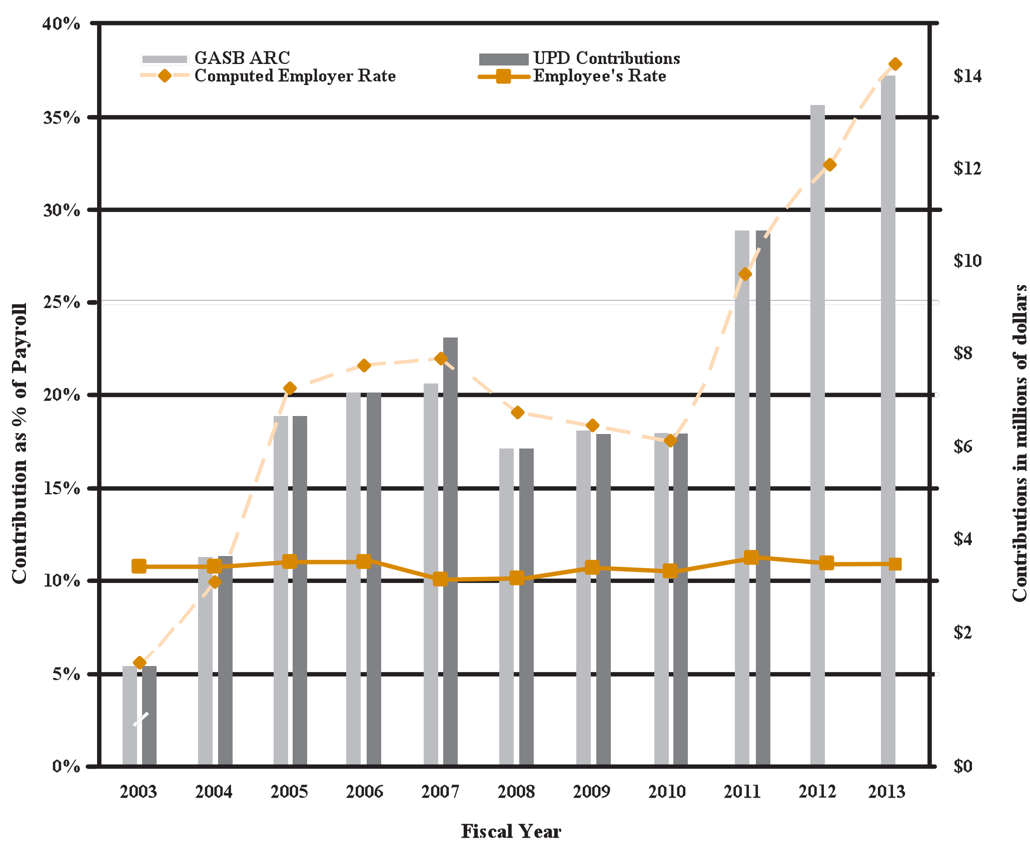
The System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. From 2003 to 2006, the funded percentage improved due to the increase in investment returns among other factors. In 2008, negative investment returns and a change in actuarial assumptions caused the funded percentage to decrease, and in 2009 the funded percentage decreased significantly due to investment losses.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)
Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates FY 2003 - 2013

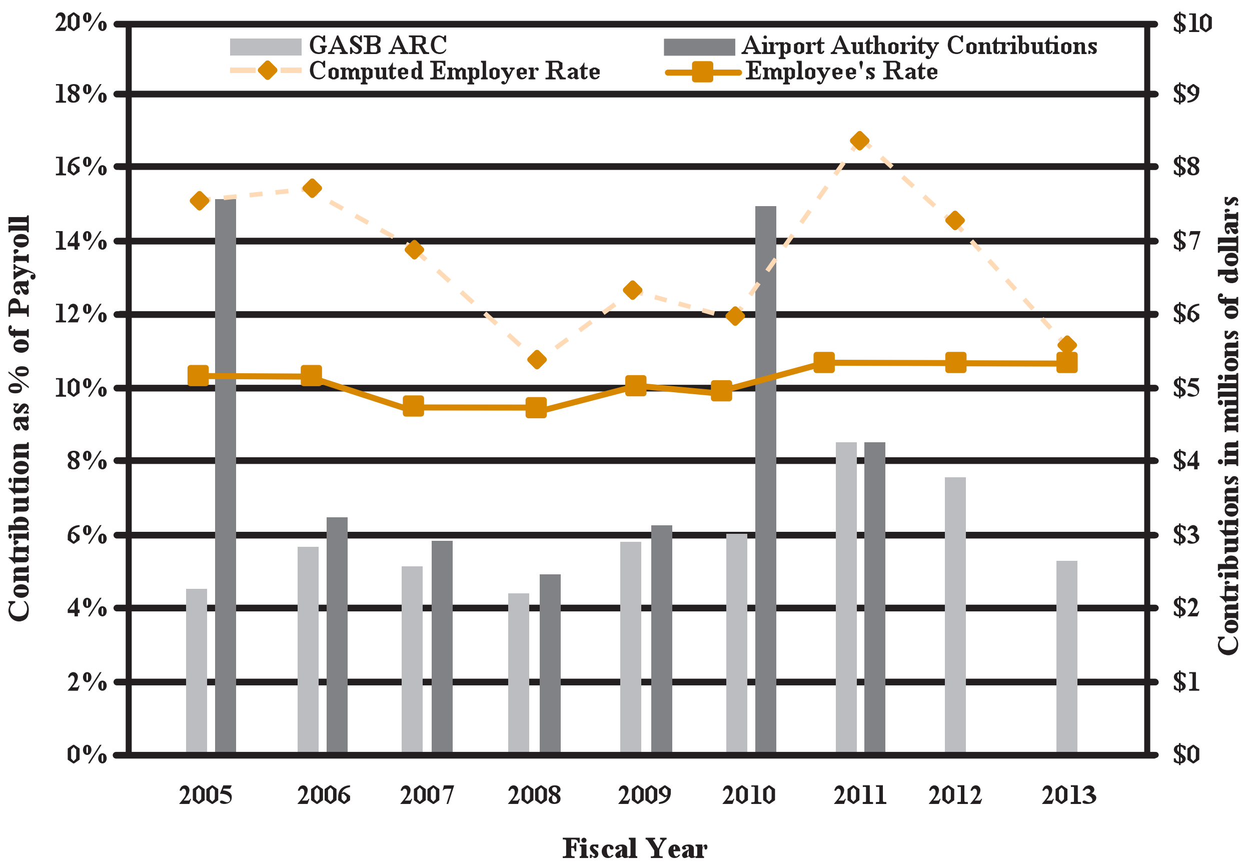


SDCERS - Unified Port District and Member Contribution Rates FY 2003 - 2013



San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)
Contribution Rates

SDCERS - Airport Authority and Member Contribution Rates 2005 - 2013



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

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

Valuation Date	June 30, 2011	June 30, 2010
Unfunded Actuarial Liability (millions)	$2,177.8	$2,145.2
Funding Ratio	68.5%	67.1%
City Contribution Rate	46.59%	42.68%

Fiscal Year	2013	2012
Annual Required Contribution (GASB):		
• if paid at the beginning of the year	$231.1 million	$231.2 million
• if paid throughout the year	$239.6 million	$240.0 million

SDCERS - City of San Diego - Membership Total

Item	June 30, 2011	June 30, 2010	% Change
Active Counts	7,792	8,120	-4.0%
Terminated Vested	2,894	2,874	0.7
Disabled	1,236	1,241	-0.4
Retirees	5,480	5,189	5.6
Beneficiaries	1,186	1,151	3.0
Total City Members	18,588	18,575	0.1%
Active Member Payroll	$514,264,749	$530,238,355	-3.0%
Average Pay per Active Member	65,999	65,300	1.1

SDCERS - City of San Diego - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2011	June 30, 2010	% Change
Actives	$2,290,825,686	$2,350,543,474	-2.5%
Terminated Vested	282,131,441	264,567,702	6.6
Disabled	444,219,844	414,366,545	7.2
Retirees	3,731,195,224	3,344,070,643	11.6
Beneficiaries	168,802,807	153,675,387	9.8
Total Actuarial (EAN) Liability	$6,917,175,002	$6,527,223,751	6.0%
Market Value Assets	$4,848,054,164	$3,900,537,904	24.3%
Actuarial Value Assets	4,739,398,719	4,382,047,254	8.2
Unfunded Actuarial Liability	$2,177,776,283	$2,145,176,496	1.5%
Funding Ratio-Actuarial Value	68.5%	67.1%	1.4%

SDCERS - City of San Diego-Change in UAL
(Dollars in Millions)

1. UAL at June 30, 2010	$2,145.2
2. Expected change in UAL	(14.6)
3. Investment experience gain	(89.3)
4. Liability experience gain	(40.7)
5. Liability loss due to change in assumptions	188.3
6. Decrease in UAL due to updated PSC correction estimate	(10.9)
7. Contributions paid in excess of expected	(0.2)
8. Purchased service credits paid for during the year *	0.2
9. Revised substantially equal contribution rates	(0.2)
10. Total change in UAL: sum of 2 through 9	32.6
11. UAL at June 30, 2011: 1 + 10	$2,177.8

*Attributable to Members who have entered into a purchased service credit contract after June 30, 2010. Only Members hired before July 1, 2005 are still eligible to purchase additional "airtime" service credits.

SDCERS - City of San Diego-Change in ARC
(Dollars in Millions)

1. ARC at June 30, 2010	$231.2
2. Expected change in ARC	9.2
3. Investment experience gain	(8.1)
4. Liability experience gain	(8.1)
5. Liability loss due to change in assumptions	3.4
6. Decrease in ARC due to updated PSC correction estimate	(1.0)
7. Contributions paid in excess of expected	(0.0)
8. Revised substantially equal contribution rates	(0.2)
9. Other misc changes*	4.6
10. Total change in ARC: sum of 2 through 9	(0.1)
11. ARC at June 30, 2011: 1 + 10	$231.1

*A double amortization payment credit for the anticipated impact of the purchased service correction was made for the June 30, 2010 valuation (FY 2012 ARC) only.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

SDCERS - Unified Port District

Valuation Date	June 30, 2011	June 30, 2010
Unfunded Actuarial Liability (millions)	$95.5	$76.7
Funding Ratio	73.1%	75.3%
UPD Contribution Rate	38.82%	33.16%

Fiscal Year	2013	2012
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	$13.2 million	$12.6 million
• if paid throughout the year	$13.7 million	$13.1 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2011	June 30, 2010	% Change
Active Counts	464	532	-12.8%
Terminated Vested	287	289	-0.7
Disabled	63	62	1.6
Retirees	336	282	19.1
Beneficiaries	65	58	12.1
Total UPD Members	1,215	1,223	-0.7%
Active Member Payroll	$34,632,574	$39,164,664	-11.6%
Average Pay per Active Member	74,639	73,618	1.4

SDCERS - Unified Port District - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2011	June 30, 2010	% Change
Actives	$132,056,364	$145,577,561	-9.3%
Terminated Vested	14,926,798	14,701,905	1.5
Disabled	16,220,505	14,613,575	11.0
Retirees	182,237,852	127,751,767	42.6
Beneficiaries	9,395,650	7,822,489	20.1
Total Actuarial Liability	$354,837,169	$310,467,297	14.3%
Market Value Assets	$269,380,373	$211,908,439	27.1%
Actuarial Value Assets	259,315,200	233,788,278	10.9
Unfunded Actuarial Liability	$95,521,969	$76,679,019	24.6%
Funding Ratio-Actuarial Value	73.1%	75.3%	-2.2%

SDCERS - Unified Port District-Change in UAL
(Dollars in Millions)

1. UAL at June 30, 2010	$76.7
2. Expected change in UAL	(0.4)
3. Investment experience gain	(3.4)
4. Liability experience loss	3.6
5. Liability loss due to change in assumptions	10.2
6. Increase in UAL due to plan change (ERIP)	9.5
7. Contributions paid in excess of expected	(0.9)
8. Purchased service credits paid for during the year *	0.1
9. Total change in UAL: sum of 2 through 8	18.8
10. UAL at June 30, 2011: 1 + 9	$95.5

*Attributable to Members who have entered into a purchased service credit contract after June 30, 2010. Only Members hired before October 1, 2005 are still eligible to purchase additional "airtime" service credits.

SDCERS - Unified Port District-Change in ARC
(Dollars in Millions)

1. ARC at June 30, 2010	$12.6
2. Expected change in ARC	0.5
3. Investment experience gain	(0.3)
4. Liability experience gain	(0.4)
5. Liability loss due to change in assumptions	0.3
6. Liability loss due to plan change (ERIP)	0.7
7. Contributions paid in excess of expected	(0.1)
8. Other misc changes	0.0
9. Total change in ARC: sum of 2 through 8	0.6
10. ARC at June 30, 2011: 1 + 9	$13.2

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

SDCERS - Airport Authority

Valuation Date	June 30, 2011	June 30, 2010
Unfunded Actuarial Liability (millions)	$(2.3)	$3.0
Funding Ratio	102.7%	96.0%
Airport Contribution Rate	10.91%	14.54%

Fiscal Year	2013	2012
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	$2.6 million	$3.8 million
• if paid throughout the year	$2.7 million	$3.9 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2011	June 30, 2010	% Change
Active Counts	344	347	-0.9%
Terminated Vested	75	72	4.2
Disabled	1	1	0.0
Retirees	33	23	43.5
Beneficiaries	4	2	100.0
Total Airport Authority Members	457	445	2.7%
Active Member Payroll	$25,148,490	$25,595,623	-1.7%
Average Pay per Active Member	73,106	73,763	-0.9

SDCERS - Airport Authority - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2011	June 30, 2010	% Change
Actives	$63,899,462	$61,081,174	4.6%
Terminated Vested	4,010,179	3,534,206	13.5
Disabled	226,161	215,217	5.1
Retirees	15,054,748	11,093,491	35.7
Beneficiaries	851,875	523,385	62.8
Total Actuarial Liability	$84,042,425	$76,447,473	9.9%
Market Value Assets	$86,911,148	$64,795,807	34.1%
Actuarial Value Assets	86,309,270	73,400,892	17.6
Unfunded Actuarial Liability	$(2,266,845)	$3,046,581	-174.4%
Funding Ratio-Actuarial Value	102.7%	96.0%	6.7%

SDCERS - Airport Authority-Change in UAL
(Dollars in Millions)

1. UAL at June 30, 2010	$ 3.0
2. Expected change in UAL	(0.5)
3. Investment experience gain	(2.1)
4. Liability experience gain	(2.7)
5. Liability gain due to change in assumptions	(0.6)
6. Increase in UAL due to updated PSC correction estimate	0.6
7. Contributions paid less than expected	0.0
8. Purchased service credits paid for during the year *	-
9. Total change in UAL: sum of 2 through 8	(5.3)
10. UAL at June 30, 2011: 1 + 9	$(2.3)

*Attributable to Members who have entered into a purchased service credit contract after June 30, 2010.
Only Members hired before October 3, 2006 are still eligible to purchase additional "airtime" service credits.

SDCERS - Airport Authority-Change in ARC
(Dollars in Millions)

1. ARC at June 30, 2010	$ 3.8
2. Expected change in ARC	0.2
3. Investment experience gain	(0.2)
4. Liability experience gain	(0.5)
5. Liability gain due to change in assumptions	(0.6)
6. Increase in ARC due to updated PSC correction estimate	0.1
7. Contributions paid in excess of expected	-
8. Other misc changes	(0.1)
9. Total change in ARC: sum of 2 through 8	(1.2)
10. ARC at June 30, 2011: 1 + 9	$ 2.6

San Diego City Employees' Retirement System
Summary of June 30, 2011 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 3.75% per year. The UAL for FY 2013 is to be amortized over several different periods, and is as follows:

City of San Diego

The June 30, 2011 experience gain is amortized over 15 years, the June 30, 2011 assumption change is amortized over 30 years, the outstanding balance of the June 30, 2010 experience loss is amortized over 14 years, the outstanding balance of the June 30, 2010 UAL reduction from the anticipated impact of the PSC correction is amortized over 13 years, the outstanding balance of the June 30, 2009 UAL experience loss is amortized over 13 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 27 years, the outstanding balance of the June 30, 2008 experience loss is amortized over 12 years, and the outstanding balance of the June 30, 2007 UAL is amortized over 16 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

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

The June 30, 2011 experience gain is amortized over 15 years, the June 30, 2011 assumption change is amortized over 30 years, the June 30, 2011 ERIP plan change (UPD only) is amortized over 20 years, the outstanding balance of the June 30, 2010 experience loss (experience gain for Airport Authority) is amortized over 14 years, the outstanding balance of the June 30, 2010 UAL reduction from the anticipated impact of the PSC correction (APA only) is amortized over 14 years, the outstanding balance of the June 30, 2009 UAL experience loss is amortized over 13 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 27 years, the outstanding balance of the June 30, 2008 experience loss is amortized over 12 years, and the outstanding balance of the June 30, 2007 UAL is amortized over 10 years. Finally, if necessary, 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 Plan Sponsor's contributions 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

None.

[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, 2011 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010 and include a projection to 2013.

All active members follow the RP2000 Combined Healthy table (male and female) projected to 2013.

Rates of Mortality for Active Lives at Selected Ages

	General and Safety	
Age	Male	Female
20	0.03%	0.02%
25	0.03	0.02
30	0.04	0.02
35	0.07	0.04
40	0.10	0.06
45	0.13	0.09
50	0.17	0.13
55	0.28	0.25
60	0.55	0.47
65	1.06	0.91
70	1.83	1.57

50% of active member deaths are assumed to be industrial deaths for Safety members and all active member deaths are assumed to be non-industrial deaths for other members.

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements.

All retired healthy members use the RP2000 Combined Healthy table (male and female). Safety female members use the RP2000 Combined Healthy female table, set forward one year.

Rates of Mortality for Retired Healthy Lives at Selected Ages

	General		Safety	
Age	Male	Female	Male	Female
40	0.11%	0.07%	0.11%	0.08%
45	0.15	0.11	0.15	0.12
50	0.21	0.17	0.21	0.19
55	0.36	0.27	0.36	0.31
60	0.67	0.51	0.67	0.58
65	1.27	0.97	1.27	1.10
70	2.22	1.67	2.22	1.86
75	3.78	2.81	3.78	3.10
80	6.44	4.59	6.44	5.08
85	11.08	7.74	11.08	8.64
90	18.34	13.17	18.34	14.46

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements.

The mortality tables used for disabled retirees are variations of the CALPERS Disability Tables (male and female).

Rates of Mortality for Disabled Lives at Selected Ages

	General		Safety	
Age	Male	Female	Male	Female
40	1.45%	0.67%	0.19%	0.20%
45	1.65	0.99	0.25	0.26
50	1.63	1.25	0.44	0.36
55	1.86	1.58	0.56	0.55
60	2.19	1.63	0.78	0.80
65	2.99	1.97	1.39	1.18
70	3.76	3.02	2.24	1.72
75	5.42	3.92	3.59	2.67
80	7.90	5.56	6.93	4.53
85	12.48	9.58	11.80	8.02

Termination of Employment (Prior to Normal Retirement Eligibility)

Rates of termination vary by Plan sponsor

SDCERS - City of San Diego
Rates of Termination

Service	General	Safety
0	11.00%	8.80%
1	10.00	7.72
2	9.00	6.62
3	8.00	5.53
4	7.00	4.41
5	6.00	3.31
6	5.00	3.16
7	5.00	3.09
8	4.00	3.01
9	3.50	2.94
10	3.50	2.89
11	3.50	2.77
12	3.25	2.70
13	3.25	2.63
14	3.25	2.58
15	3.25	2.52
16	3.25	2.46
17	3.25	2.41
18	3.25	2.38
19	3.25	2.37
20	3.25	2.35
21	3.25	2.34
22+	3.25	2.33

For the City of San Diego, 20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.25% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

SDCERS - Unified Port District Rates of Termination

Service	General	Safety
0	11.00%	8.80%
1	10.00	7.72
2	9.00	6.62
3	8.00	5.53
4	7.00	4.41
5	5.50	3.31
6	4.50	3.16
7	4.50	3.09
8	4.25	3.01
9	4.25	2.94
10	4.00	2.89
11	4.00	2.77
12	4.00	2.70
13	4.00	2.63
14	4.00	2.58
15	4.00	2.52
16	4.00	2.46
17	4.00	2.41
18	4.00	2.38
19	4.00	2.37
20	4.00	2.35
21	4.00	2.34
22+	4.00	2.33

SDCERS - Airport Authority Rates of Termination

Service	General
0	11.00%
1	10.00
2	9.00
3	8.00
4	7.00
5	5.50
6	4.50
7	4.50
8	4.00
9	4.00
10	3.00
11	3.00
12	3.00
13	3.00
14	3.00
15	3.00
16	3.00
17	3.00
18	3.00
19	3.00
20	3.00
21	3.00
22+	3.00

For the Port and Airport, 10% of terminating employees, with 5+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.25% pay increases per year.

Disability

Rates of Disability at Selected Ages

Age	General	Safety
20	0.02%	0.25%
25	0.03	0.25
30	0.04	0.25
35	0.06	0.35
40	0.08	0.45
45	0.12	0.55
50	0.20	0.65
55	0.35	0.75
60	0.45	–

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 55% of women were assumed married at retirement. A female spouse is assumed to be three years younger than her male spouse.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

Retirement

SDCERS - City of San Diego
Rates of Retirement by Age and Service

	General		Safety	
Service	Prior to age 62	Age 62 or greater	Prior to age 55	Age 55 or greater
10	–%	60.0%	–%	40.0%
11	–	45.0	–	40.0
12	–	45.0	–	40.0
13	–	45.0	–	40.0
14	–	45.0	–	40.0
15	–	40.0	–	31.5
16	–	40.0	–	31.5
17	–	40.0	–	31.5
18	–	40.0	–	31.5
19	–	40.0	–	31.5
20	50.0	55.0	35.0	50.0
21	35.0	35.0	20.0	25.0
22	37.5	35.0	25.0	30.0
23	40.0	35.0	30.0	35.0
24	42.5	35.0	35.0	40.0
25	45.0	45.0	40.0	45.0
26	47.5	45.0	45.0	50.0
27	50.0	45.0	50.0	55.0
28	52.5	45.0	55.0	60.0
29	55.0	45.0	60.0	65.0
30	57.5	50.0	100.0	100.0
31	60.0	50.0	100.0	100.0
32	60.0	55.0	100.0	100.0
33	60.0	55.0	100.0	100.0
34	60.0	55.0	100.0	100.0
35+	100.0	100.0	100.0	100.0

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

SDCERS - City of San Diego
Rates of Retirement by Age

Age	General 2009	Safety 2009
50	–%	10%
51	–	10
52	–	10
53	–	10
54	–	20
55	3	40
56	3	40
57	3	40
58	5	50
59	5	80
60	10	85
61	15	90
62	20	100
63	30	100
64	40	100
65	50	100
66	50	100
67	50	100
68	50	100
69	50	100
70	100	100

SDCERS - City of San Diego
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

In addition, if a Police-2009 Plan 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 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

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

If the inactive participant is not vested, the liability is the participant's contribution with interest.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

SDCERS - Unified Port District Rates of Retirement by Service Years

	General		Safety	
Service	Prior to age 62	Age 62 or greater	Prior to age 55	Age 55 or greater
5-9	–%	30.0%	–%	9.0%
10	–	40.0	–	40.0
11	–	35.0	–	40.0
12	–	35.0	–	40.0
13	–	35.0	–	40.0
14	–	35.0	–	40.0
15	–	32.5	–	31.5
16	–	32.5	–	31.5
17	–	32.5	–	31.5
18	–	32.5	–	31.5
19	–	32.5	–	31.5
20	40.5	40.0	35.0	50.0
21	33.3	25.0	20.0	25.0
22	35.1	25.0	25.0	30.0
23	36.9	25.0	30.0	35.0
24	38.7	25.0	35.0	40.0
25	40.5	37.5	40.0	45.0
26	42.3	37.5	45.0	50.0
27	44.1	37.5	50.0	55.0
28	45.9	37.5	55.0	60.0
29	47.7	37.5	60.0	65.0
30	49.5	42.5	100.0	100.0
31	51.3	42.5	100.0	100.0
32	53.1	47.5	100.0	100.0
33	54.9	47.5	100.0	100.0
34	56.7	47.5	100.0	100.0
35+	100.0	100.0	100.0	100.0

SDCERS - Airport Authority Rates of Retirement by Service Years

Service	Prior to age 62	Age 62 or greater
5–9	–%	9.0%
10	–	33.3
11	–	33.3
12	–	33.3
13	–	33.3
14	–	33.3
15	–	33.3
16	–	33.3
17	–	33.3
18	–	33.3
19	–	33.3
20	30.0	40.5
21	15.0	33.3
22	17.5	35.1
23	20.0	36.9
24	22.5	38.7
25	25.0	40.5
26	27.5	42.3
27	30.0	44.1
28	32.5	45.9
29	35.0	47.7
30	37.5	49.5
31	40.0	51.3
32	40.0	53.1
33	40.0	54.9
34	40.0	56.7
35+	100.0	100.0

For vested deferred participants, we assume that retirement will occur provided they have at least 5 years of service (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

If the inactive participant is not vested, the liability is the contributions with interest.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

E. Economic Assumptions

Investment Return: SDCERS' assets are assumed to earn 7.50% net of both administrative and investment expenses.

Interest Credited to Member Contributions: 7.50%, compounded annually.

Rate of Wage Increase: 3.75% compounded annually (for the July 1, 2011 "across the board" payroll increases, actual reported payroll increases were used). For the City and Airport Authority, a two-year (FY 13 and 14) freeze in inflationary increases was assumed.

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, compounded annually.
3.75% assumed annual adjustment for the closed group of Special Safety officers.

Total Payroll Increase (For amortization): 3.75% compounded per annum.

COL Annuity Benefit: For active members, the COL annuity benefit is valued by adding to the liabilities one-sixth of accumulated member contribution accounts and using load factors for future member contributions. The load is 2.5% for the Unified Port District and 2.0% for the Airport Authority, and varies by membership for the City as follows:

General	Elected	Police	Fire	Lifeguard
2.19%	2.5%	3.51%	3.69%	3.58%

For terminated vested participants, one-sixth of the accumulated member contribution accounts are recognized as a liability for the COL annuity.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

F. Assumption Changes Since Last Valuation

The June 30, 2011 valuation results reflect a number of assumption changes that were approved by the SDCERS Board based on an experience study completed by Cheiron in September 2011. These changes include:

- The investment return assumption was lowered from 7.75% to 7.50%;
- The wage inflation assumption was lowered from 4.00% to 3.75% (following a two-year freeze for the City and Airport Authority);
- Rates of termination were increased for General Members and changed to be based on service as opposed to the age and service of a member;
- Disability rates were decreased;
- The mortality rates for active lives for General and Safety Members were decreased;
- The mortality rates for retired healthy lives for Safety Members were decreased;
- The mortality rates for retired disabled lives for General and Safety Members were increased;
- Rates of retirement were increased for the City and Port and decreased for the Airport Authority. All Plan sponsor rates of retirement were changed to be based on age and service as opposed to just the service of a member;
- For the Port and Airport Authority, the reciprocity assumption was reduced from 20% to 10%;
- The percent married assumption was increased to 55% for females, and the assumed age difference between husbands and wives was reduced to three years; and
- For the Cost-of-Living (COL) Annuity, the valuation method was changed from load factors to a direct valuation of existing member accounts and load factors only for prospective contributions.

For the June 30, 2010 valuation of the City of San Diego $50 million ($1.75 million for the Airport Authority) was added to the actuarial value of assets to reflect the anticipated impact of the PSC correction on the unfunded actuarial liability. For the June 30, 2011 valuation, this was replaced by updated estimates of the impact on both the assets and liabilities.

The DROP interest crediting and annuity rates used to value the liability for account balances were reduced from 2.3% to 1.9% and from 4.8% to 4.4%, respectively, to reflect the Board's adoption of these rates at its December 2011 meeting.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

SDCERS - City of San Diego

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increase In Average Annual Pay
6/30/2011	7,792	$514,264,750	$65,999	1.07%
6/30/2010	8,120	530,238,356	65,300	0.68
6/30/2009	8,273	536,591,287	64,861	2.74
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	534,102,800	60,099	1.70

SDCERS - Unified Port District

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increase In Average Annual Pay
6/30/2011	464	$34,632,573	$74,639	1.39%
6/30/2010	532	39,164,664	73,618	2.85
6/30/2009	564	40,370,258	71,578	4.68
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

SDCERS - Airport Authority

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2011	344	$25,148,489	$73,106	-0.89%
6/30/2010	347	25,595,623	73,763	0.97
6/30/2009	338	24,693,427	73,057	6.06
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

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

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

SDCERS — City of San Diego

	Added			Removed			Total				
Year Ended	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/2011	515	$22,410,486	57.2	194	$4,665,675	78.3	7,902	$326,748,899	66.4	7.68%	$41,350
6/30/2010	439	19,192,613	58.0	227	4,443,897	79.6	7,581	303,457,617	66.4	7.01	40,029
6/30/2009	629	28,495,488	57.7	200	3,531,559	80.9	7,369	283,586,563	66.3	11.69	38,484
6/30/2008	446	19,239,330	58.2	185	3,487,942	79.8	6,940	253,894,388	66.6	8.43	36,584
6/30/2007	486	19,465,413	59.2	208	3,634,273	81.8	6,679	234,162,141	66.5	9.55	35,059
6/30/2006[1]	619	24,676,720	56.6	213	3,150,596	80.7	6,401	213,747,320	66.6	18.62	33,393

SDCERS — Unified Port District

	Added			Removed			Total				
Year Ended	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/2011	78	$4,003,858	58.7	16	$319,641	80.7	464	$16,823,951	67.1	30.32%	$36,259
6/30/2010	20	931,654	58.3	9	123,377	79.7	402	12,910,178	68.3	8.78	32,115
6/30/2009	38	1,315,959	60.4	8	189,559	77.8	391	11,867,970	68.1	12.20	30,353
6/30/2008	24	825,588	61.6	12	207,767	74.8	361	10,577,683	68.2	8.09	29,301
6/30/2007	38	1,147,197	62.5	14	276,143	80.1	349	9,786,345	67.9	12.09	28,041
6/30/2006[1]	29	1,131,237	57.4	10	335,265	80.2	325	8,731,137	68.2	14.09	26,865

SDCERS — Airport Authority

	Added			Removed			Total				
Year Ended	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/2011	12	$326,099	63.2	–	$–	N/A	38	$1,259,628	64.3	35.54%	$33,148
6/30/2010	4	130,624	60.9	–	–	N/A	26	929,350	63.8	18.84	35,744
6/30/2009	5	286,756	57.2	–	–	N/A	22	782,035	63.3	62.84	35,547
6/30/2008	5	148,248	59.3	–	–	N/A	17	480,239	64.1	46.61	28,249
6/30/2007	5	115,187	65.0	–	–	N/A	12	327,559	65.1	57.72	27,297
6/30/2006[1]	1	21,612	53.5	1	39,833	65.5	7	207,688	64.1	–6.00	29,670

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

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

	Aggregate Accrued Liabilities for (Dollars in Thousands)[3]				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]			
6/30/2011[2]	$627,447	$4,344,218	$1,945,510	$4,739,399	100.00%	94.65%	0.00%
6/30/2010	584,296	3,912,113	2,030,816	4,382,047	100.00	97.08	0.00
6/30/2009	535,797	3,673,185	2,072,655	4,175,229	100.00	99.08	0.00
6/30/2008	522,966	3,286,668	2,153,916	4,662,346	100.00	100.00	39.50
6/30/2007	482,526	3,101,594	2,013,532	4,413,311	100.00	100.00	41.19
6/30/2006[4]	456,562	2,822,203	1,703,935	3,981,932	100.00	100.00	41.27
6/30/2005	457,550	2,183,263	1,736,279	2,983,080	100.00	100.00	19.71

SDCERS - Unified Port District

	Aggregate Accrued Liabilities for (Dollars in Thousands)[3]				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]			
6/30/2011[2]	$19,138	$207,854	$127,845	$259,315	100.00%	100.00%	25.28%
6/30/2010	21,999	150,188	138,280	233,788	100.00	100.00	44.55
6/30/2009	20,784	137,803	130,112	223,879	100.00	100.00	50.18
6/30/2008	19,397	123,029	124,611	245,580	100.00	100.00	82.78
6/30/2007	18,374	115,021	113,143	230,585	100.00	100.00	85.90
6/30/2006[4]	16,140	101,542	102,955	203,286	100.00	100.00	83.15
6/30/2005	15,122	86,242	96,708	163,691	100.00	100.00	64.45

SDCERS - Airport Authority

	Aggregate Accrued Liabilities for (Dollars in Thousands)[3]				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]			
6/30/2011[2]	$11,132	$16,133	$56,778	$86,309	100.00%	100.00%	103.99%
6/30/2010	10,611	11,832	54,004	73,401	100.00	100.00	94.36
6/30/2009	9,120	9,924	48,827	58,981	100.00	100.00	81.79
6/30/2008	7,335	6,341	43,131	58,096	100.00	100.00	102.99
6/30/2007	6,681	4,288	35,668	50,812	100.00	100.00	111.71
6/30/2006[4]	5,402	2,783	28,720	41,222	100.00	100.00	115.03
6/30/2005	4,255	2,713	25,635	28,551	100.00	100.00	84.19

[1] Actuarial Value of Assets
[2] Reflects revised actuarial and economic assumptions.
[3] The June 30, 2007 through 2011 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method.
[4] Reflects contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

San Diego City Employees' Retirement System
Summary of June 30, 2011 Valuation Results (continued)

8. Analysis of Financial Experience

Gain and Loss in Accrued Liability
Resulting from Differences Between Assumed Experience and Actual Experience

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

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2011	$89,255,659	$40,764,366	$130,020,025	$(177,193,785)	$(47,173,759)
6/30/2010	(141,536,346)	70,506,309	(71,030,037)	90,933,819	19,903,782
6/30/2009	(811,380,431)	(7,525,648)	(818,906,079)	8,244,901	(810,661,178)
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

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
6/30/2011	$3,393,967	$(3,782,326)	$(388,359)	$(18,830,773)	$(19,219,132)
6/30/2010	(7,317,424)	(1,513,654)	(8,831,078)	62,510	(8,768,568)
6/30/2009	(42,227,122)	(2,379,929)	(44,607,050)	843,209	(43,763,842)
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

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
6/30/2011	$2,117,232	$2,691,583	$4,808,814	$(18,725)	$4,790,090
6/30/2010	(1,903,032)	1,930,821	27,790	6,826,579	6,854,369
6/30/2009	(9,584,108)	(1,391,991)	(10,976,099)	1,083,115	(9,892,984)
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

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 see Member Publications on the SDCERS website at www.sdcers.org.

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2011

	City of San Diego
1. Membership Requirements	Membership is mandatory from the first day of employment with the City, for all full, three-quarter, and half-time classified employees hired between July 1, 1991 and July 19, 2012 and for any unclassified employees hired between August 11, 1993 and July 19, 2012. (§24.0104) Membership is mandatory from the first day of employment for Police Recruits hired between July 1, 1991 and June 30, 2013 and for all sworn police officers hired on or after July 1, 1991. (City Charter §140)
2. Monthly Base Salary for Benefits	Highest consecutive 12 month average (§24.0103) subject to a 10% increase for those who joined the system before July 1, 2002, if the General or Safety Member elects such an increase in lieu of an increased benefit formula. (§§24.0402 and 24.0403) For General Members hired on or after July 1, 2009, the average of highest three years. (§24.0103) For Police Safety Members hired on or after January 1, 2012, Lifeguard Safety Members hired on or after July 1, 2011 and Fire Safety Members hired on or after January 1, 2012, the average highest three years.
3. Service Retirement Eligibility	General Members - Age 62 with 10 years of service credit, or age 55 with 20 years of service credit. (City Charter §141) Safety Members (includes Fire, Lifeguard & Police) - Age 55 with 10 years of service credit, or age 50 with 20 years of service credit. (City Charter §141) 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 hired between July 1, 2002 and June 30, 2009 - 2.5% per year of service at age 55, increasing to 2.8% per year of service at age 65. (§24.0402) For General Members hired on or after July 1, 2009, 1.0% per year of service at age 55, increasing to 2.6% at age 65. (§24.0402.1)
Miscellaneous Members (Port 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 2.99% 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) For Police Members hired on or after July 1, 2009, and Fire Members hired on or after January 1, 2012, 2.5% at age 50, increasing to 3.0% at age 55. (§24.0403)
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 first day of employment for all Safety Members and for General Members hired before January 1, 2009. (§0103) For Miscellaneous Members hired on or after January 1, 2009, the Member is a participant for purposes of establishing reciprocity, but does not begin earning service credit until the 1st day of their 6th year of employment. (§0102)	Membership is mandatory upon first day of employment for all full-time Airport employees. (§0103)
Highest one-year average for General Members hired before October 1, 2006, and Safety Members hired before January 1, 2010. For General Members hired on or after October 1, 2006, and all Miscellaneous Members highest 3-year average. (§0102) For Safety Members hired on or after January 1, 2010, the highest three-year average during his or her final three year period while contributing to the plan. (§0102 and Amendment 1) Subject to a 10% increase for General Members who joined the SDCERS plan before November 9, 2001 and were contributing to the Plan on January 1, 2002 and all Safety Members, if the Member elects such increase in lieu of an increased benefit formula.	Highest contiguous 26 bi-weekly pay periods (§0102), subject to a 10% increase for employees who were both a UPD employee on December 31, 2002 and became an Airport employee on or after January 1, 2003 and were employed by the UPD and contributing to SDCERS on January 1, 2002, if the Member elects such increase in lieu of an increased benefit formula.
General Members - Age 62 with 5 years of service, or age 55 with 20 years of service (Excludes 5 year permissible purchased service) (§0300) Safety Members - Age 55 with 5 years of service, or age 50 with 20 years of service (Excludes 5 year permissible purchased service) (§0301)	General Members - Age 62 with 5 years of service, or age 55 with 20 years of service. (Excludes 5 year permissible purchased service). (§0300)
For General Members hired before November 10, 2001 - Choice of (1) formula in place on December 31, 2001 with 10% increase in Final Average Compensation, (2) "Andrecht" formula effective as of January 1, 2002, or (3) "2.5% at 55" multiplier with a benefit cap of 90% of Final Average Compensation (§ 0300(g)) For General Members hired on or after November 10, 2001 and before January 1, 2009 , "2.5% at 55" multiplier with a benefit cap of 90% of Final Average Compensation (§ 0300(h)).	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.
For Miscellaneous Members hired on or after January 1, 2009, the formula is: (1) for years 1-5 of service credit, 0.75% of Final Compensation per year; (2) for years 6-10 of service credit, 1% of Final Compensation per year; (3) for years 11-15 of service credit, 1.25% of Final Compensation per year; and (4) beginning with service credit year 15, 1.5% of Final Compensation per year. (§0301(g)).	N/A
Executive General Members receive "3% at 55" multiplier without an increase in Final Average Compensation.	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, 2011

Retirement Payment Options	City of San Diego
	Choice of: **Maximum Benefit** - Provides the highest possible monthly allowance to the member for their lifetime and guarantees their eligible spouse or domestic partner 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. (§24.0402, 24.0403)
	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. (§24.0603)
	Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their 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. (§24.0605)
	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. (§24.0606)
	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. (§24.0607)
	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 is 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. (§24.0608)

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 eligible spouse or domestic partner 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. (§0600)	Choice of: **Maximum Benefit** - Provides the highest possible monthly allowance to the member for their lifetime and guarantees their eligible spouse or domestic partner 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. (§0600)
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. (§0602)	**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. (§0602)
Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their 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. (§0604)	**Option 2** - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their 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. (§0604)
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. (§0605)	**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. (§0605)
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. (§0606)	**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. (§0606)
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, 2011

	City of San Diego
4. Non-Industrial Disability Eligibility All Members	Ten years of service credit. (City 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, 24.0506)
Miscellaneous Members (Port only)	N/A
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)
Miscellaneous Members (Port only)	N/A
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 one month's salary for each completed year of service, to a maximum of six months salary. (§24.0702)
7. Non-Industrial Death After Eligible to Retire for Service All Members	50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 18 years of age. (§24.0704)
8. Industrial Death General Members	50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible spouse, domestic partner, or child under 18 years of age. (§24.0705)
Safety Members	50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible spouse, domestic partner, or child under 18 years of age. (§24.0705)

Unified Port of San Diego	San Diego County Regional Airport Authority
Ten years of service credit. Miscellaneous Members hired on or after January 1, 2009, who do not begin to accrue service credit until their sixth year of employment, must have 10 years of service credit, which means 15 years of Port employment. (§0504)	Ten years of service credit. (§0502)
For General Members hired before January 1, 2009, the greater of 1.5% per year of service, one-third of final compensation, or the earned service retirement benefit, if eligible. (§0506)	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)
For Miscellaneous Members hired on or after January 1, 2009, the greater of 11% of Final Compensation or earned service retirement benefit. (§0507)	N/A
Greater of 1.8% per year of service, one-third of final compensation, or the earned service retirement benefit. (§0505)	N/A
N/A	N/A
No age or service requirement for Members hired before January 1, 2009. Miscellaneous Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for an industrial disability benefit. (§0500)	No age or service requirement. (§0500)
For General Members hired before January 1, 2009, greater of one-third of final compensation, or the earned service retirement benefit, if eligible. (§0502)	Choice of: (1) one-third of final compensation or (2) the earned service retirement benefit, if eligible. (§0501)
For Miscellaneous Members hired on or after January 1, 2009, the greater of 11% of Final Compensation or earned service retirement benefit, if eligible. (§0503)	N/A
Greater of one-half of final compensation, or 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. Miscellaneous Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for a non-industrial death benefit. (§701, 0701)	Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six months salary. (§0701)
50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for a non-industrial death benefit. (§701, 0703)	50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. (§0703)
50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for an industrial death benefit. (§0704)	50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. (§0704)
50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. (§0704)	N/A

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2011

	City of San Diego
9. Death After Retirement	Continuance to surviving beneficiary depending on benefit selection made at retirement. (See page 102) $2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§24.0710)
10. Withdrawal Provisions	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 Adjustment	
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. COL 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). (Port and Airport Plans @ §0400)

Unified Port of San Diego	San Diego County Regional Airport Authority
Continuance to surviving beneficiary depending on benefit selection made at retirement. (See page 103)	Continuance to surviving beneficiary depending on benefit selection made at retirement. (See page 103)
$2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§0708)	$2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§0708)
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. (§0205, 0401)	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. (§0205, 0401)
2. Five or more years of service credit (ten or more years of service if employee terminated before December 31, 2002) - If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire. (§0205)	2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire. (§0205)
Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)
Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)	N/A
Actuarial equivalent of accumulated contributions in cost-of-living annuity account at time of retirement. (§0300)	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)
Vary by age at time of entrance into SDCERS (§0200). While a significant portion of these contributions may be "offset," such offsets are not directly reflected in either the employee 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 (employer) are not directly reflected in either the member (employee) contributions or related refund calculations.
Benefits provided by the SDCERS' Trust Fund 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. (§1000(h))	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. (§1000(h))
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). (Port and Airport Plans @ §0400)	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). (Port and Airport Plans @ §0400)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2011

Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is a voluntary program created by SDCERS' plan sponsors (employers) to provide SDCERS' members (employees) with an alternative method to accrue benefits in SDCERS.

The DROP benefit was eliminated and is no longer available for City employees hired on or after July 1, 2005, for Port employees hired on or after October 1, 2005 and Airport employees hired on or after October 3, 2006.

For actuarial valuation purposes, SDCERS' members entering DROP are considered "retired" the date they enter DROP. An SDCERS' member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, they will have access to a lump sum benefit in addition to their normal monthly retirement allowance when they retire. 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 his/her respective employer (plan sponsor) and receives a regular paycheck. Both the plan sponsor (employer) 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.

An 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 their employer (plan sponsor) on or before the end of the selected DROP participation period.

When an 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 employer 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, they begin receiving their monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when they leave employment and begin 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.

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 trends 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 Plan 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
2012	$345,778	$405,070	$(59,292)	$4,769,800	$4,710,508
2011	1,394,897	411,057	983,840	3,785,960	4,769,800
2010	772,019	340,375	431,644	3,354,316	3,785,960
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

San Diego City Employees' Retirement System
Changes in Plan Net Assets by Plan Sponsor[1]
For the Years Ended June 30 (Dollars in Thousands)

					Net Assets	
	Fiscal Year	Additions	Deductions	Net Change	Beginning of Year	End of Year
City of San Diego	2012	$319,813	$384,844	$(65,031)	$4,424,391	$4,359,360
	2011	1,300,294	394,441	905,853	3,518,538	4,424,391
	2010	718,158	325,750	392,408	3,126,130	3,518,538
	2009	(667,706)	309,584	(977,290)	4,103,420	3,126,130
	2008	(1,560)	284,166	(285,726)	4,389,146	4,103,420
San Diego Unified Port District	2012	$19,382	$18,067	$1,315	$259,550	$260,865
	2011	71,709	15,650	56,059	203,491	259,550
	2010	37,282	13,355	23,927	179,564	203,491
	2009	(35,155)	12,419	(47,574)	227,138	179,564
	2008	(772)	11,558	(12,330)	239,468	227,138
San Diego County Regional Airport Authority	2012	$6,583	$2,159	$4,424	$85,859	$90,283
	2011	23,845	1,917	21,928	63,931	85,859
	2010	16,579	1,270	15,309	48,622	63,931
	2009	(4,646)	1,021	(5,667)	54,289	48,622
	2008	2,166	983	1,183	53,106	54,289

[1]In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port and Airport plans are legally treated as separate plans. Prior to July 1, 2007, the SDCERS plan was a multiple-employer plan and changes in net assets were not captured for each individual plan sponsor.

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

	Fiscal Year	Plan Sponsor Contributions	Member Contributions Paid By Plan Sponsors	Member Contributions	Member Contributions for Service Purchased	Earned Interest on PSC Installment Contracts[1]	Net Investment Income[2]	Other Income	Total Additions
Dollars	2012	$247,600	$5,444	$62,759	$(2,428)	$315	$31,228	$860	$345,778
% of Total		71.6%	1.6%	18.2%	–0.7%	0.1%	9.0%	0.2%	100.0%
Dollars	2011	245,098	11,247	58,094	40,935	623	1,038,594	306	1,394,897
% of Total		17.6	0.8	4.2	2.9	0.0	74.5	0.0	100.0
Dollars	2010	207,334	12,313	56,340	3,936	758	491,045	293	772,019
% of Total		26.9	1.6	7.3	0.5	0.1	63.6	0.0	100.0
Dollars	2009	172,850	25,284	45,362	4,167	927	(956,422)	325	(707,507)
% of Total		24.4	3.6	6.4	0.6	0.1	-135.1	0.0	100.0
Dollars	2008	175,001	20,217	47,287	7,262	1,022	(251,290)	335	(166)
% of Total		105,422.3	12,178.9	28,486.1	4,374.7	615.7	–151,379.5	201.8	100.0
Dollars	2007	181,388	22,729	43,928	6,043	1,352	689,860	619	945,919
% of Total		19.2	2.4	4.6	0.7	0.1	72.9	0.1	100.0
Dollars	2006	282,770	23,632	32,960	9,646	1,826	455,726	15,500	822,060
% of Total		34.4	2.9	4.0	1.2	0.2	55.4	1.9	100.0
Dollars	2005	145,238	33,989	18,860	49,339	1,583	350,209	–	599,218
% of Total		24.2	5.7	3.1	8.2	0.3	58.5	–	100.0
Dollars	2004	87,862	33,951	16,300	75,420	908	537,196	–	751,637
% of Total		11.7	4.5	2.2	10.0	0.1	71.5	–	100.0
Dollars	2003	72,559[3]	31,606	20,918	40,017	478	122,729	–	288,307
% of Total		25.1	11.0	7.2	13.9	0.2	42.6	–	100.0

[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 Member (Employee) Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.

[2]For years prior to 2006, 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.

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

(Dollars in Thousands)

	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 Member Contributions	Total Deductions
Dollars	2012	$361,018	$ –	$11,839	$26,867	$ –	$ –	$5,346	$405,070
% of Total		89.1%	–	2.9%	6.7%	–	–	1.3%	100.0%
Dollars	2011	336,460	–	14,600	24,878	–	–	35,119	411,057
% of Total		81.8	–	3.6	6.1	–	–	8.5	100.0
Dollars	2010	296,554	–	14,968	25,375	–	–	3,478	340,375
% of Total		87.1	–	4.4	7.5	–	–	1.0	100.0
Dollars	2009	277,131	–	14,726	27,098	–	–	4,069	323,024
% of Total		85.8	–	4.5	8.4	–	–	1.3	100.0
Dollars	2008	254,014	–	15,776	23,050	–	–	3,867	296,707
% of Total		85.6	–	5.3	7.8	–	–	1.3	100.0
Dollars	2007	235,263[3]	–	19,103	20,263	–	–	3,394	278,023
% of Total		84.6	–	6.9	7.3	–	–	1.2	100.0
Dollars	2006	214,705[3]	–	18,438	17,748	–	4,536	4,560	259,987
% of Total		82.6	–	7.1	6.8	–	1.7	1.8	100.0
Dollars	2005	201,007[3]	7,910[4]	11,961	16,520	12	–	2,803	240,213
% of Total		83.7	3.3	5.0	6.9	0.0	–	1.1	100.0
Dollars	2004	161,659[3]	12,830	10,163	12,735	245	1,249	2,109	200,990
% of Total		80.5	6.4	5.1	6.3	0.1	0.6	1.0	100.0
Dollars	2003	145,396[3]	11,450	8,155	9,218	69	–	1,379	175,667
% of Total		82.8	6.5	4.6	5.3	0.0	–	0.8	100.0

[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 in FY 2005 and prior.

[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.

[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[3]	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement[2]	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2011	5,480	1,236	26	1,160	7,902
Annual Allowances		$271,206,018	$38,033,989	$715,740	$16,793,152	$326,748,899
No. of Allowances	2010	5,189	1,241	27	1,124	7,581
Annual Allowances		249,905,055	37,142,983	702,943	15,706,635	303,457,617
No. of Allowances	2009	4,975	1,257	27	1,110	7,369
Annual Allowances		231,698,837	36,337,577	688,948	14,861,201	283,586,563
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
Annuals Allowances		187,827,705	33,422,130	605,485	12,306,821	234,162,141
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

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

San Diego Unified Port District[1]

	As of Fiscal Year[3]	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement[2]	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2011	336	63	-	65	464
Annual Allowances		$14,482,254	$1,362,780	$-	$978,917	$16,823,951
No. of Allowances	2010	282	62	1	57	402
Annual Allowances		10,778,285	1,276,645	11,601	843,646	12,910,178
No. of Allowances	2009	268	63	1	59	391
Annual Allowances		9,744,449	1,279,376	11,387	832,758	11,867,970
No. of Allowances	2008	246	60	1	54	361
Annuals 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		7,910,275	1,175,107	10,970	689,993	9,786,345
No. of Allowances	2006	211	62	1	51	325
Annuals Allowances		6,949,595	1,175,661	10,106	595,775	8,731,137
No. of Allowances	2005	192	60	1	53	306
Annual Allowances		6,003,128	1,081,191	9,908	558,626	7,652,853
No. of Allowances	2004	180	59	1	50	290
Annuals Allowances		5,220,222	1,054,400	9,714	496,204	6,780,540
No. of Allowances	2003	162	60	1	51	274
Annual 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
Annuals Allowances		4,242,311	1,021,125	9,337	439,769	5,712,542
No. of Allowances	2002	158	60	2	43	263
Annual Allowances		3,892,412	988,565	19,653	359,284	5,259,914

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[3]	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2011	33	1	–	4	38
Annual Allowances		$1,178,216	$14,630	$–	$66,783	$1,259,628
No. of Allowances	2010	23	1	–	2	26
Annual Allowances		875,275	14,349	–	39,726	929,350
No. of Allowances	2009	20	1	–	1	22
Annual Allowances		745,037	14,074	–	22,924	782,035
No. of Allowances	2008	16	–	–	1	17
Annual Allowances		457,761	–	–	22,478	480,239
No. of Allowances	2007	11	–	–	1	12
Annual Allowances		305,519	–	–	22,040	327,559
No. of Allowances	2006	6	–	–	1	7
Annual Allowances		186,076	–	–	21,612	207,688
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 San Diego Unified Port District (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.

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

[3]Data for FY 2011 is the most recent available from SDCERS' actuary.

San Diego City Employees' Retirement System
Retired Members by Type of Benefit[1]
For the Year Ended June 30, 2011[2]

City of San Diego

		Type of Retirement		
Amount of Monthly Benefit	Total Allowances Paid	Service Retirements	Disability Retirements	Death Beneficiaries
$0 - $1,000	1,086	313	127	646
$1,001 - $2,000	1,595	768	481	346
$2,001 - $3,000	1,382	1,005	262	115
$3,001 - $4,000	1,041	827	170	44
$4,001 - $5,000	789	709	57	23
$5,001 - $6,000	761	700	56	5
$6,001 - $7,000	576	522	50	4
$7,001 - $8,000	337	313	23	1
$8,001 - $9,000	164	156	6	2
$9,001 - $10,000	79	77	2	-
Over $10,000	92	90	2	-
	7,902	5,480	1,236	1,186

San Diego Unified Port District

		Type of Retirement		
Amount of Monthly Benefit	Total Allowances Paid	Service Retirements	Disability Retirements	Death Beneficiaries
$0 - $1,000	73	32	7	34
$1,001 - $2,000	114	61	35	18
$2,001 - $3,000	96	70	17	9
$3,001 - $4,000	64	59	3	2
$4,001 - $5,000	43	41	1	1
$5,001 - $6,000	24	24	-	-
$6,001 - $7,000	22	22	-	-
$7,001 - $8,000	8	7	-	1
$8,001 - $9,000	5	5	-	-
$9,001 - $10,000	3	3	-	-
Over $10,000	12	12	-	-
	464	336	63	65

San Diego County Regional 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	14	9	1	4
$2,001 - $3,000	13	13	-	-
$3,001 - $4,000	3	3	-	-
$4,001 - $5,000	-	-	-	-
$5,001 - $6,000	3	3	-	-
$6,001 - $7,000	1	1	-	-
$7,001 - $8,000	-	-	-	-
$8,001 - $9,000	2	2	-	-
$9,001 - $10,000	-	-	-	-
Over $10,000	-	-	-	-
	38	33	1	4

[1]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.

[2]Data for FY 2011 is the most recent available from SDCERS' actuary.

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

			Averages				
Fiscal Year	Number of Allowances	Annual Allowances Paid	Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
City of San Diego							
2011	7,902	$326,748,899	$41,350	3.30%	66.4	55.3	23.8
2010	7,581	303,457,617	40,029	4.01	66.4	55.3	23.7
2009	7,369	283,586,563	38,484	5.19	66.3	55.3	23.6
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
San Diego Unified Port District[1]							
2011	464	$16,823,951	$36,259	12.90%	67.1	57.6	18.6
2010	402	12,910,178	32,115	5.81	68.3	57.8	17.6
2009	391	11,867,970	30,353	3.59	68.1	57.9	17.6
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
San Diego County Regional Airport Authority[1]							
2011	38	$1,259,628	$33,148	-7.26%	64.3	62.0	15.5
2010	26	929,350	35,744	0.55	63.8	61.4	16.9
2009	22	782,035	35,547	25.83	63.3	61.3	16.6
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 San Diego Unified Port District (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]Data for FY 2011 is the most recent available from SDCERS' actuary.

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	6-10	11-15	16-20	21-25	26-30	31+
City of San Diego	2011	Average Monthly Benefit	$916	$1,966	$1,834	$3,219	$3,831	$5,621	$5,367
		Average Final Monthly Salary	7,559	9,458	5,298	6,531	6,105	7,042	5,870
		Number of New Retirees	4	1	25	31	139	90	66
	2010	Average Monthly Benefit	525	1,304	1,840	2,502	3,786	5,480	5,425
		Average Final Monthly Salary	5,050	6,757	5,142	5,127	5,975	6,783	5,927
		Number of New Retirees	2	6	29	19	119	90	58
	2009	Average Monthly Benefit	1,132	1,312	1,794	2,996	3,816	5,651	5,580
		Average Final Monthly Salary	11,391	6,365	5,120	6,072	6,077	7,169	6,152
		Number of New Retirees	3	5	46	32	165	152	82
	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
San Diego Unified Port District	2011	Average Monthly Benefit	$–	$2,756	$2,300	$2,824	$5,028	$6,285	$5,246
		Average Final Monthly Salary	–	13,653	6,664	5,567	7,543	7,922	5,833
		Number of New Retirees	–	1	6	7	22	22	6
	2010	Average Monthly Benefit	104	2,570	2,566	3,775	4,193	7,125	7,642
		Average Final Monthly Salary	4,126	8,805	6,953	7,523	6,929	8,058	8,648
		Number of New Retirees	1	2	3	2	3	2	3
	2009	Average Monthly Benefit	76	1,073	2,916	2,695	4,727	4,523	2,684
		Average Final Monthly Salary	5,629	4,790	8,284	5,326	7,274	10,093	5,553
		Number of New Retirees	1	4	6	4	8	3	2
	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	2011	Average Monthly Benefit	$–	$1,804	$2,788	$2,839	$–	$–	$–
		Average Final Monthly Salary	–	8,273	9,021	5,051	–	–	–
		Number of New Retirees	–	2	5	1	–	–	–
	2010	Average Monthly Benefit	–	1,926	–	–	802	-	7,986
		Average Final Monthly Salary	–	8,496	–	–	4,117	-	9,289
		Number of New Retirees	–	1	–	–	1	-	1
	2009	Average Monthly Benefit	–	877	–	8,125	-	-	5,409
		Average Final Monthly Salary	–	5,996	–	15,016	-	-	7,338
		Number of New Retirees	–	1	–	2	-	-	1
	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

Fiscal Year	Number of Members	Salaries	Averages: Annual Salary	Averages: Percentage Increase Over Prior Year	Averages: Current Age	Averages: Years of Service Credit
City of San Diego						
2011	7,792	$514,264,750	$65,999	1.07%	44.1	13.5
2010	8,120	530,238,356	65,300	0.68	43.7	13.1
2009	8,273	536,591,286	64,861	2.74	43.4	13.0
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
San Diego Unified Port District[1]						
2011	464	$34,632,573	$74,639	1.39%	44.5	10.6
2010	532	39,164,664	73,618	2.85	45.0	10.8
2009	564	40,370,258	71,578	4.68	44.3	9.9
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
San Diego County Regional Airport Authority[1]						
2011	344	$25,148,489	$73,106	-0.89%	47.1	9.0
2010	347	25,595,623	73,763	0.97	46.8	8.5
2009	338	24,693,427	73,057	6.06	46.4	8.0
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 San Diego Unified Port District (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies.

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

Fiscal Year	Number of Inactive Members	Total Contribution Balances	Averages: Current Age	Averages: Years of Service Credit	Averages: Contribution Balance
City of San Diego					
2011	2,894	$120,243,558	45.4	7.1	$41,549
2010	2,874	112,729,129	44.9	7.2	39,224
2009	2,827	106,837,122	44.4	7.4	37,792
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
San Diego Unified Port District[2]					
2011	287	$4,770,466	48.4	4.5	$16,622
2010	289	4,619,732	47.8	4.4	15,985
2009	281	4,043,994	47.1	4.3	14,391
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
San Diego County Regional Airport Authority[2]					
2011	75	$1,250,452	45.9	3.8	$16,673
2010	72	1,104,304	46.7	3.7	15,338
2009	68	921,442	46.9	3.5	13,551
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 San Diego Unified Port District (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.

San Diego City Employees' Retirement System Participating Plan Sponsors

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San Diego, CA 92101-3860
(619) 236-5555
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San Diego Unified Port District
3165 Pacific Highway
San Diego, CA 92101-1128
(619) 686-6200
www.portofsandiego.org

San Diego County Regional Airport Authority
3225 North Harbor Drive
San Diego, CA 92101-1022
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www.san.org

SDCERS
San Diego City Employees' Retirement System

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