



**Comprehensive
Annual Financial Report**

for the fiscal year ended
June 30, 2013

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**

**A COMPONENT UNIT OF
THE CITY OF SAN DIEGO**

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Ted A. LaSalvia
Controller

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1 INTRODUCTORY

Transmittal Letter



December 5, 2013

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, 2013 (FY 2013).

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

Effective July 20, 2012, the City's plan was closed for all new members except police officers as a result of the voter-approved Proposition B. SDCERS worked with its actuarial and investment consultants in FY 2013 to review system risk and to determine if any modifications to the risk profile of the portfolio were needed. It was determined that no significant changes were required at this time. SDCERS continues to receive contributions from over 7,000 active City members and will invest these funds for an estimated 30 years, over the life of members' careers and into their retirement. SDCERS will continue to monitor cash flow, investment risk and returns closely.

Investment Results. SDCERS' investment returns for FY 2013 were 13.6%, compared to 0.9% for FY 2012. As of June 30, 2013, SDCERS' annualized total investment return net of fees was 12.5% over the past three years and 5.5% over the past five years. Over the past 10 years, SDCERS' investment returns were 8.1%, *which is in the top 8% for public pension plans.*

SDCERS' investment philosophy and strategy remain focused on long-term results. We believe our long-standing, disciplined strategy of a well-balanced portfolio will continue to provide members with sustainable benefits for their retirement. SDCERS reviews portfolio risk and asset allocations to manage the fiscal health of the fund. In April 2013, SDCERS conducted an Asset/Liability Study that incorporated the closed portion of the defined benefit plan and determined that no significant changes to the investment policy and asset allocations were needed at this time.

Looking Ahead to New Accounting Standards. Next year, SDCERS will implement a new financial reporting standard, GASB Statement No. 67, as required by the Governmental Accounting Standards Board (GASB). SDCERS Plan Sponsors will implement GASB Statement No. 68 in FY 2015. These standards separate funding policy from financial reporting, and the technical changes to financial reporting are far reaching. In anticipation of these significant changes, SDCERS Board is currently reviewing and formalizing its actuarial funding policy to provide additional clarity to our members and plan sponsors as we work together to implement these changes over the next two years.

Funding Status. SDCERS engages an independent actuary to conduct annual actuarial valuations. The June 30, 2012 actuarial valuations, the most recent available, for our three Plan Sponsors are summarized in this CAFR, and show that the City's plan is 68.6% funded, the Unified Port District's plan is 72.7% funded and the Airport Authority's plan is 98.5% funded. The City and Port ratios are relatively stable from a year ago while the Airport ratio dropped from a surplus status. All three plan sponsors paid 100% of their Annual Required Contribution (ARC) in FY 2012 and FY 2013. Historical trend information regarding funded status is provided in the Financial and Actuarial Sections of this report.

FY 2012 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2012 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 Implementation. This fiscal year, SDCERS worked with our plan sponsors to fully implement two major pension reform initiatives: 1) Proposition B, approved by City of San Diego voters and which became effective July 20, 2012; and 2) California Public Employees' Pension Reform Act (PEPRA), passed by the California legislature and which became effective January 1, 2013. Proposition B closed the defined benefit retirement plan to City employees hired after the effective date, other than for sworn police officers. Proposition B is currently subject to ongoing litigation between the City and its labor unions before the California Public Employment Relations Board, and SDCERS will continue to monitor the outcome of the appeal. PEPRA applies to newly hired employees of the Port and Airport. Among other changes, PEPRA reduced defined benefit retirement formulas for new members who qualify under PEPRA. SDCERS' collaboration and cooperation with our plan sponsors resulted in a smooth implementation of these major reforms.

Improved Pension Administration System. SDCERS is in the design and testing phase for the implementation of its new pension administration system, the Integrated Retirement Information System (IRIS). Expected to go-live the second quarter of 2014, IRIS will enhance operating efficiencies and operational functionality at SDCERS, in turn improving services offered to members.

Independent Audit of Actuarial Valuations. SDCERS engaged an independent actuarial firm, EFI, to audit the June 30, 2011 plan sponsor actuarial valuations developed by the System's regular actuary, Cheiron. Completed in October 2012, the audit concluded that the actuarial liabilities and costs computed in the valuations as of June 30, 2011 are reasonably accurate and within generally accepted actuarial standards. In addition, the audit confirmed that the actuarial assumptions and methods used in the valuations were found to be reasonable and in accordance with generally accepted actuarial principles.

Member Communications. An exciting redesign project is underway that will expand SDCERS' website functionality, create a more user-friendly interface, and make the site more visually appealing. Projected to go live in fiscal 2015, the site will include state-of-the-art email notification functions, social media integration, video tutorials and calendar-synching capabilities. SDCERS held its sixth Annual Membership Meeting in October 2013 with active, deferred and retired members. Attendees received first-hand information about their retirement fund investments, the financial outlook and overall health of the System, impacts of new legislation on retiree benefits, as well as general announcements to assist members with planning for and enjoying retirement. A social media program was successfully implemented in FY 2013 to enhance member communication. The sites – Facebook, Twitter and LinkedIn – are supplementary tools to the System's traditional communications methods and provide valuable information regarding the retirement benefits offered by SDCERS. SDCERS' quarterly newsletter, The Scoop, is mailed to all members and made available online.

Investment Team Making Strategic Adjustments. In FY2013, SDCERS made strategic changes to investment allocations to position the portfolio to better achieve long term investment goals. After reviewing the April 2013 Asset/Liability Study that assessed risk and return, the SDCERS investment team recommended

Introductory Section

and the Board approved an increased allocation to private equity, from 5% to 10%. SDCERS' private equity program has generated strong results from the inception of the program in 2009 and we expect long-term results to add significant value to the portfolio. A second change focused on emerging markets, which present opportunities for attractive risk-adjusted returns and diversification of investments in the portfolio. The Board increased SDCERS allocation to emerging market debt from 3% to 5% and increased the weight to emerging market equities within the equity portfolio. These adjustments will be phased in over time as investments are identified and due diligence performed.

SDCERS Employee Recognized for Leadership Activities. Elaine Reagan was a finalist for the San Diego Business Journal 2013 General Counsel awards. In addition, SDCERS employees were panelists at conferences and networking functions this past year: Sandra Claussen, Liza Crisafi, Mary Lewis, Cynthia Queen, Elaine Reagan, Ted LaSalvia and Johnny Tran. We're proud of these employees for providing leadership and representing SDCERS mission at events across the country.

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. The basic financial statements are presented in accordance with GASB Statement No. 34, which requires management to 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 inherent limitations. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements. 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 appreciation to the Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made our recent achievements possible. Plan Sponsors, members and the citizens of our community have been well served by the stewardship of the Board's Trustees and Audit Committee members.

We would especially like to thank several Board members who completed their service this year: Board President Herb W. Morgan, Board Vice President Gregory J. Bych, Mark E. Oemcke, V. Wayne Kennedy, Patrick S. Lane, and Steven W. Meyer. We would also like to acknowledge and thank H. Michael Collins, independent member of the independent Audit Committee, for seven years of commitment and service.

SDCERS welcomes newly appointed members Jeannie L. Posner, Thanasi K. Prevolos, K. Denise Thompson

and Natasha Collura, and elected members James H. Steel and Jeffrey J. Wallace to the Board of Trustees. We also welcome James B. Smith III to the independent Audit Committee.

Finally, we would like to thank the SDCERS staff. Each one works very hard to support our mission. Their individual efforts, combined with those of a great group of professional advisors and investment managers, are essential to our ongoing success.

In your service,



Mark A. Hovey
Chief Executive Officer



Edward W. Kitrosser
President, SDCERS Board of Administration

**San Diego City Employees' Retirement System
GFOA Certificate of Excellence**



Government Finance Officers Association

**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, 2012

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO

**San Diego City Employees' Retirement System
Board of Administration**
As of June 30, 2013

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
Thanasi K. Prevolos MAYORAL APPOINTEE		Edward W. Kitrosser MAYORAL APPOINTEE	
	James H. Steel ELECTED GENERAL MEMBER		Jeffrey J. Wallace ELECTED GENERAL MEMBER
VACANT 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, 2013

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, 2013 were as follows:

Audit Committee

David W. Kramer (Chair)* H. Michael Collins* Edward W. Kitrosser Marilyn Creson Brown* 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.
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Business and Governance Committee

Edward W. Kitrosser (Chair) Herb W. Morgan Valentine S. Hoy Thomas A. Sullivan Richard E. Wilken	Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.
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Disability Committee

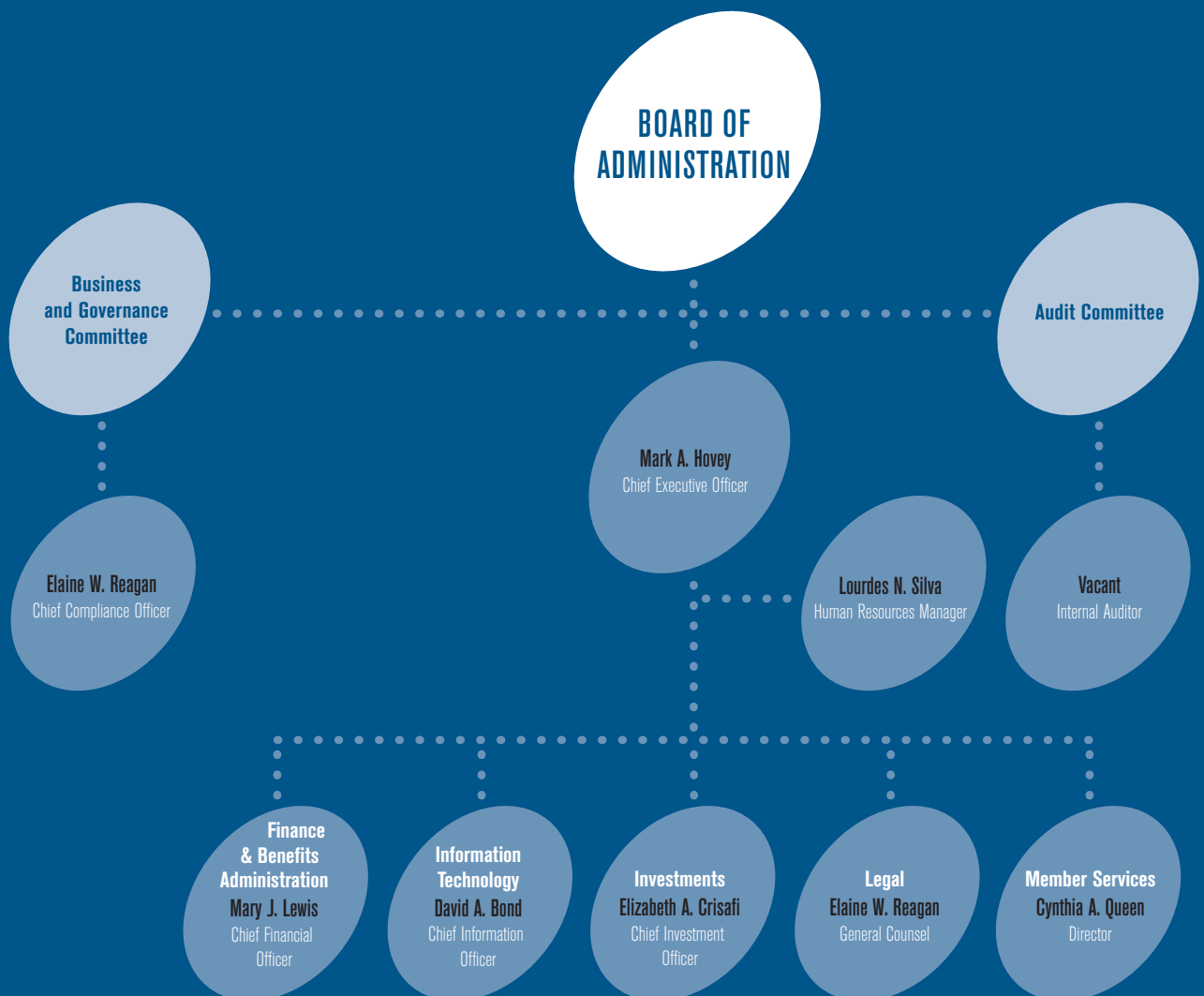
Alan J. Arrollado (Chair) Herb W. Morgan Edward W. Kitrosser Richard R. Tartre Richard E. Wilken James H. Steel	Responsible for reviewing staff recommendations on disability applications and making recommendations to the Board; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.
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Investment Committee

Richard R. Tartre (Chair) Gregory J. Bych William W. Haynor Herb W. Morgan Jeffrey J. Wallace	Responsible for monitoring investment performance; hiring and terminating investment managers and consultants; and recommending changes to the Investment Policy Statement.
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**San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2013**

SDCERS' MEMBERS, RETIREES AND BENEFICIARIES



San Diego City Employees' Retirement System
Professional Services
As of June 30, 2013

Actuary
Cheiron
McLean, VA

Consulting and Professional Services

San Diego Data Processing Corporation
San Diego, CA

Sagitec Solutions, LLC
Little Canada, MN

Barney & Barney, LLC
San Diego, CA

L.R. Wechsler, LTD
Fairfax, VA

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

Levi, Ray & Shoup
Springfield, IL

CGI Technologies,
Fairfax, VA

Atos IT Solutions,
Sugarland, TX

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.



2 FINANCIAL



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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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego City Employees' Retirement System (the System), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the San Diego City Employees' Retirement System, as of June 30, 2013, and the changes in plan net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, the San Diego Unified Port District, and the San Diego County Regional Airport Authority as of June 30, 2012, the System's third-party actuary determined that the actuarial liability exceeded the actuarial value of assets by \$2.3 billion, \$104.2 million, and \$1.4 million, respectively.

Other Matters***Prior-Year Comparative Information***

The financial statements include partial 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 financial statements for the fiscal year ended June 30, 2012, from which such partial information was derived.

We have previously audited the System's 2012 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated November 30, 2012. In our opinion, the partial comparative information presented herein as of and for the fiscal year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The other supplemental information, introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental 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. Such information has 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 information is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 on our consideration of the System's 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* in considering the System's internal control over financial reporting and compliance.

Macias Jini & O'Connell LLP

San Diego, California
December 4, 2013

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis provides an overview and analysis of the San Diego City Employees' Retirement System's (SDCERS) financial condition as of and for the fiscal year ended June 30, 2013, with results also compared to the fiscal year ended June 30, 2012 (FY 2012).

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 2013 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 2013 and FY 2012 for the total of all three plans.

Financial Highlights

As of June 30, 2013, the SDCERS Group Trust had \$5.322 billion in total net position restricted for the payment of pension benefits compared to total net position of \$4.711 billion at June 30, 2012. This represents an increase of \$611.9 million or 13.0% from FY 2012. The FY 2013 increase reflects plan sponsor and member contributions of \$321.5 million plus net investment gains of \$715.5 million, offset by benefit payments and administrative expenses of \$425.1 million.

For FY 2013, total contributions plus net investment gains resulted in total additions of \$1.037 billion to the Group Trust net position, an increase of \$691.2 million from FY 2012 total additions of \$345.8 million. An increase in net investment earnings of \$683.4 million was the main factor in the increase over the prior fiscal year.

For the fiscal year ended June 30, 2013, deductions from Group Trust net position for benefits and expenses totaled \$425.1 million, a \$20.0 million increase or 5.0% compared to FY 2012 deductions of \$405.1 million. An increase in the total number of retirees and Deferred Retirement Option Plan (DROP) participants in FY 2013 and annual cost of living increases contributed to the increased payments.

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 Liabilities (AL) 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 AL. Changes in funded status can be caused by increases or decreases in the AVA or AL, resulting in actuarial gains and losses.

Assumption changes from a Plan Experience Study for the period July 1, 2007 through June 30, 2010 conducted by the actuarial consultant and approved by the Board were implemented in the June 30, 2011 actuarial valuations for all three plan sponsors.

The June 30, 2011 actuarial valuation determined the annual required contribution amount for FY 2013. The revised assumptions also affected the computation of substantially equal contribution rates for City employees in FY 2013. Refer to *City of San Diego vs. San Diego City Employees' Retirement System* in Note 8. *Legal Action*. The Airport and the Port are not governed by substantially equal provisions in plan documents and their employee contribution rates did not change. The revised contribution rates for City employees were implemented on July 1, 2012.

Based on the most recent actuarial valuation as of June 30, 2012, the City's funded status, calculated pursuant to the Entry Age Normal (EAN) actuarial funding method, was 68.6%. This means that for every dollar of current and future benefits due, the City had approximately 68.6 cents in actuarial assets available for payment.

Based on the most recent actuarial valuation as of June 30, 2012, the Port's funded status under EAN was 72.7%. For every dollar of current and future benefits due, the Port had approximately 72.7 cents in actuarial assets available for payment.

Financial Highlights (continued)

Based on the most recent actuarial valuation as of June 30, 2012, the Airport's funded status under EAN was 98.5%. For every dollar of current and future benefits due, the Airport had approximately 98.5 cents in actuarial assets available for payment.

Six years of historical funding progress information for the City, Port and Airport are presented 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.

A San Diego voter-approved ballot initiative closed the current City defined benefit plan to non-Police Members hired on or after July 20, 2012. The partial plan closure has been implemented by SDCERS and the June 30, 2012 actuarial valuation began amortizing the unfunded portion of the UAL related to the closed portion of the plan over 15 years using level dollar amortization. Additionally, SDCERS has implemented the California Public Employees' Pension Reform Act of 2013 (PEPRA) affecting the Port District and Airport Authority retirement plans. PEPRA was effective January 1, 2013.

In November 2013, the SDCERS' Board voted to lower the wage inflation rate from 3.75% to 3.3% and the discount rate from 7.5% to 7.25%. The discount rate is the rate at which a pension system discounts future liabilities of member benefits to determine their actuarial present value.

The new pension system that is in development and testing, the Integrated Retirement Information System (IRIS), is expected to go-live in the second quarter of 2014.

Overview of Financial Statements

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

1. Statement of Plan Net Position;
2. Statement of Changes in Plan Net Position;
3. Statement of Fiduciary Net Position - Agency Funds;
4. Notes to the Basic Financial Statements;
5. Required Supplementary Information; and
6. Other Supplemental Information.

The **Statement of Plan Net Position** presents the major categories of assets and liabilities and their related values 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, 2013, with comparative totals as of June 30, 2012. 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 Position.

The **Statement of Changes in Plan Net Position** provides an income statement presentation of annual additions to and deductions from Group Trust plan position for FY 2013, with comparative totals for FY 2012. The FY 2013 Statement also presents separate reporting for the City, Port and Airport, consistent with the Statement of Plan Net Position.

The **Statement of Fiduciary Net Position - 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, 2013.

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 its 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 Section

Financial Analysis

Tables 1 and 2 summarize and compare SDCERS' plan net position and the changes in plan net position for the current and prior fiscal year for the Group Trust.

The Group Trust's total plan net position held in trust for the payment of defined benefit pension benefits as of June 30, 2013 totaled \$5.322 billion, an increase of \$611.9 million or 13.0% compared to net position of \$4.711 billion as of June 30, 2012. The total plan net position is available to meet SDCERS' ongoing retirement and disability payment obligations to retirees and beneficiaries. A comparative summary is presented in Table 1 below.

Table 1: Plan Net Position (Dollars in Thousands)

	2013	2012	Percentage Change
Cash and Cash Equivalents	\$237,090	\$166,455	42.4%
Receivables	214,194	171,954	24.6
Investments, at Fair Value	5,780,277	5,188,935	11.4
Securities Lending Collateral	190,851	265,439	-28.1
Capital Assets and Prepaid Expenses	5,030	3,720	35.2
Total Assets	\$6,427,442	\$5,796,503	10.9%
Current Liabilities	\$404,200	\$358,200	12.8%
Net Pension and Other Post Employment Obligations	2,104	2,141	-1.7
Supplemental Benefits Payable	16,462	5,459	201.6
DROP Liabilities	490,931	453,019	8.4
Securities Lending Obligations	191,363	267,176	-28.4
Total Liabilities	\$1,105,060	\$1,085,995	1.8%
Plan Net Position	\$ 5,322,382	\$ 4,710,508	13.0%

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 71.5% of plan net position (\$3.299 billion reserved out of \$4.613 billion in total reserves) as of June 30, 2013. A complete listing of SDCERS' reserves and corresponding balances for FY 2013 are presented in Note 5. *Reserve Balances*.

Current Year Results

Key elements of FY 2013 results and year-over-year comparisons are summarized below.

Additions to Plan Net Position, 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 2013, contributions and investment gains combined to provide total additions of \$1.037 billion, an increase of \$691.2 million over FY 2012 total additions of \$345.8 million.

Deductions from Plan Net Position 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 2013 were \$425.1 million, an increase of \$20.0 million from FY 2012 deductions of \$405.1 million.

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

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

	2013	2012	Percentage Change
Additions:			
Plan Sponsor Contributions	\$246,943	\$247,600	-0.3%
Member Contributions and Other Contributions	74,600	66,090	12.9
Net Investment Earnings	715,478	32,088	2129.7
Total Additions	\$1,037,021	\$345,778	199.9%
Deductions:			
Benefit Payments	\$382,060	\$361,018	5.8%
Refunds of Member Contributions	4,064	5,346	-24.0
Administrative Expenses	12,979	11,839	9.6
DROP Interest Expense	26,044	26,867	-3.1
Total Deductions	\$425,147	\$405,070	5.0%
Changes in Plan Net Position	611,874	(59,292)	1132.0
Beginning Plan Net Position	4,710,508	4,769,800	-1.2
Ending Plan Net Position	\$5,322,382	\$4,710,508	13.0%

FY 2013 plan sponsor contributions totaled \$246.9 million, a decrease of \$0.7 million or 0.3% compared to contributions of \$247.6 million in FY 2012. The total of the Annual Required Contribution (ARC) for all three plan sponsors in FY 2013 was slightly lower than the ARC in FY 2012. 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 2013 member contributions and member contributions paid by plan sponsors totaled \$74.6 million, an increase of \$8.5 million, or 12.9%, from FY 2012. The increase was largely driven by current year contributions of \$7.4 million associated with Purchase Service Credit (PSC) purchases.

Financial Section

In FY 2013, net investment earnings totaled \$715.5 million, an increase of \$683.4 million or 2129.7% due to the growth in investments of 13.6% compared to FY 2012. Appreciation in the fair value of equity holdings accounted for \$680.2 million of the increase, real estate holdings increased by \$27.0 million, while fixed income holdings decreased by \$49.8 million. Private equity improved by \$21.0 million, infrastructure by \$0.9 million and securities lending collateral by \$3.0 million. Dividend, interest and other income of \$93.4 million increased \$3.9 million from FY 2012.

A report on SDCERS' investment activity prepared by Hewitt EnnisKnupp, SDCERS' investment consultant, is included 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 2013 and long-term investment performance.

SDCERS' one-year investment return as of June 30, 2013 was 13.6%, net of investment management fees. According to the Hewitt EnnisKnupp database of public fund performance, SDCERS' investment performance was in the top quartile among a peer universe of public pension plans for the year ended June 30, 2013. SDCERS' annualized total investment return was 8.1% for the past ten years, which is the top 8% for public pension plans.

In FY 2013, member benefit payments totaled \$382.1 million, \$21.1 million or 5.8% more than FY 2012's payments of \$361.0 million. A 3.0% increase in the total number of retirees and Deferred Retirement Option Plan (DROP) participants in FY 2013 and annual cost of living increases contributed to the increased payments.

In FY 2013, refunds of member contributions totaled \$4.1 million, a decrease of \$1.2 million or 24.0% compared to FY 2012 refunds. The fluctuation was due to current year refunds of member contributions associated with active member turnover.

FY 2013 administrative expenses totaled \$13.0 million, an increase of \$1.2 million or 9.6% over FY 2012 expenses of \$11.8 million. Legal costs associated with litigation contributed to the higher level of expenses in the current year. See the Schedule of Payments to Consultants in the Other Supplemental Information of the Financial Section for more details.

FY 2013 DROP interest expenses totaled \$26.0 million, a decrease of \$0.8 million or 3.1% from FY 2012 expenses of \$26.8 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 Position by Sponsor (Dollars in Thousands)

	As of June 30, 2013			As of June 30, 2012		
	City	Port	Airport	City	Port	Airport
Cash & Cash Equivalents	\$212,474	\$15,489	\$9,127	\$154,753	\$8,730	\$2,972
Receivables	198,271	11,966	3,957	159,378	9,540	3,036
Investments, at Fair Value	5,374,028	303,577	102,672	4,824,321	272,228	92,386
Securities Lending Collateral	177,445	9,967	3,439	246,779	13,922	4,738
Capital Assets, Net plus Prepaid Expenses	4,660	274	96	3,459	195	66
Total Assets	\$5,966,878	\$341,273	\$119,291	\$5,388,690	\$304,615	\$103,198
Current Liabilities	\$375,495	\$21,341	\$7,364	\$333,019	\$18,786	\$6,395
Net Pension and Other Post Employment Obligations	2,104	-	-	1,991	113	37
Supplemental Benefits Payable	16,199	240	23	5,459	-	-
DROP Liabilities	477,478	11,436	2,017	440,467	10,838	1,714
Securities Lending Obligations	177,922	9,993	3,448	248,394	14,013	4,769
Total Liabilities	\$1,049,198	\$43,010	\$12,852	\$1,029,330	\$43,750	\$12,915
Plan Net Position	\$4,917,680	\$298,263	\$106,439	\$4,359,360	\$260,865	\$90,283

The City plan net position of \$4.918 billion at June 30, 2013 was up \$558.3 million or 12.8% from \$4.359 billion at June 30, 2012. The increase for FY2013 is primarily due to the growth in investments and both member and plan sponsor contribution revenue of \$296.6 million. The increase in net position was due to total additions of \$961.8 million exceeding payments to members and administrative costs of \$403.5 million.

The Port plan net position of \$298.3 million at June 30, 2013 was up \$37.4 million or 14.3% from \$260.9 million at June 30, 2012. Investment earnings plus contribution revenue of \$56.7 million were higher than payment to members and administrative costs of \$19.3 million.

The Airport plan net position of \$106.4 million at June 30, 2013 was up \$16.1 million or 17.9% from \$90.3 million at June 30, 2012. Investment earnings plus contribution revenue of \$18.6 million exceeded payments to members and administrative costs of \$2.4 million.

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

	For The Fiscal Year Ended June 30, 2013			For The Fiscal Year Ended June 30, 2012		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	\$231,143	\$13,200	\$2,600	\$231,200	\$12,600	\$3,800
Member Contributions and Other Contributions	65,492	5,548	3,560	58,948	5,035	2,107
Net Investment Earnings	665,171	37,922	12,385	29,665	1,747	676
Total Additions	\$961,806	\$56,670	\$18,545	\$319,813	\$19,382	\$6,583
Deductions:						
Benefit Payments	\$362,266	\$17,838	\$1,956	\$342,428	\$16,925	\$1,665
Refunds of Member Contributions	3,770	194	100	5,010	77	259
Administrative Expenses	12,003	698	278	11,139	517	183
DROP Interest Expense	25,447	542	55	26,267	548	52
Total Deductions	\$403,486	\$19,272	\$2,389	\$384,844	\$18,067	\$2,159
Changes in Plan Net Position	558,320	37,398	16,156	(65,031)	1,315	4,424
Beginning Plan Net Position	4,359,360	260,865	90,283	4,424,391	259,550	85,859
Ending Plan Net Position	\$4,917,680	\$298,263	\$106,439	\$4,359,360	\$260,865	\$90,283

The City plan net position increased \$558.3 million in FY 2013 compared to a decrease of \$65.0 million in FY 2012, as FY 2013 total additions increased \$642.0 million over FY 2012. Net investment earnings of \$665.2 million, reflecting a year-over-year increase of \$635.5 million, accounted for most of the increase. Plan sponsor contributions in FY 2013 were down \$0.1 million over FY 2012, and member contributions in FY 2013 were up \$6.5 million or 11.1% from FY 2012. The increase in member contributions is due to increased revenue related to PSC purchases in the current year. Benefit payments of \$362.3 million were up \$19.8 million or 5.8% in FY 2013, reflecting a combination of increased number of retirees, cost of living adjustments and higher average benefit payment amounts. Refunds of member contributions were down \$1.2 million, due to lower refunds requested in the current year. DROP interest expense of \$25.4 million was down \$0.8 million or 3.1% from FY 2012 as the result of a decrease in both the DROP annuity factor and DROP interest crediting rate.

The Port plan net position increased \$37.4 million in FY 2013, as total additions increased \$37.3 million over FY 2012. Net investment earnings were \$37.9 million, an increase of \$36.2 million in FY 2013 compared to net investment earnings of \$1.7 million in FY 2012. Plan Sponsor contributions increased 4.8% in FY 2013 compared to FY 2012 due to an increase in the Port's ARC, which was fully paid. Member contributions increased by 10.2% due to higher PSC revenue reported in the current year. Benefit payments were up \$0.9 million or 5.4% in FY 2013, reflecting an increased number of retirees and cost of living adjustments in FY 2013. Year-over-year changes in other deduction line items were not significant.

The Airport plan net position increased \$16.2 million in FY 2013, as total additions of \$18.6 million increased \$12.0 million or 181.7% over FY 2012. The increase in net position was primarily driven by net investment earnings of \$12.4 million and plan sponsor and member contributions of \$2.6 million and \$3.6 million, respectively, exceeding total deductions for the current year. Total deductions were \$2.4 million in FY 2013, up \$0.2 million from FY 2012 due mainly to the increase in benefit payments, offset by a reduction in member 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) became effective July 20, 2012. This law closed the current City defined benefit (DB) plan to non-Police Members initially hired on or after July 20, 2012, with a defined contribution (DC) plan replacing the DB plan for non-Police Members hired after that date. The City administers the DC plan through a third party. This law will affect future contribution rates of both the City as plan sponsor and City employees, and was incorporated into the actuarial consultant’s June 30, 2012 valuation that established contributions for FY 2014.

SDCERS’ investment and actuarial consultants have reviewed the investment and risk impacts of the partially closed plan and SDCERS’ actuary incorporated changes to the amortization of the non-police portion of the UAL into the June 30, 2012 actuarial valuation. SDCERS’ investment consultant completed an Asset/Liability Study (the Study) in April 2013 that assessed the long term implications of a partially closed plan, the plan assets and liabilities and investment risk. The Study determined that SDCERS continues to have a long-term investment horizon and no significant changes to the portfolio asset allocations were recommended to the Board. The amortization of the closed plan portion of the UAL was changed in the June 30, 2012 actuarial valuation to amortize level dollar amounts over 15 years with the effect of increasing the ARC payment in FY 2014 by \$27 million.

Proposition B directed the City to seek through labor negotiations to freeze the growth in employees’ pensionable compensation levels. The City and labor unions reached agreement in May 2013 on a five-year pensionable pay freeze. This freeze is in effect until June 30, 2018, although pensionable pay increases may be authorized with a 2/3 vote of the City Council. The pensionable pay freeze assumptions will be incorporated into the June 30, 2013 actuarial valuation.

Proposition B is the subject of ongoing litigation by the City and an appeal is pending before the California Public Employment Relations Board (PERB). The June 30, 2012 actuarial valuation assumes the validity of Proposition B and it has been fully implemented by SDCERS.

California Public Employees’ Pension Reform Act of 2013 (“PEPRA”)

The California Public Employees’ Pension Reform Act of 2013 (“PEPRA”) became effective January 1, 2013 for the Port District and Airport Authority employees subject to applicable PEPRA provisions. The City of San Diego (the City) is a charter City and exempt from PEPRA. Since SDCERS administers the retirement plan under the San Diego City Charter and Municipal Code for the City’s employees, PEPRA has no effect on the City’s plan or members. SDCERS implemented PEPRA provisions on January 1, 2013.

In December 2012, the SDCERS’ Board approved the SDCERS’ actuary’s certification that the Port’s Miscellaneous plan has a lower normal cost than PEPRA and therefore the PEPRA benefit formula and the cap on pensionable compensation do not apply to new non-safety Port employees hired on or after January 1, 2013. However, PEPRA applies to the Port’s safety members and the Airport members hired on or after January 1, 2013 who do not have prior service in a public retirement system, and for members with prior service who have had a break in service as defined by PEPRA of more than six months.

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.

Financial Section

San Diego City Employees' Retirement System

Statement of Plan Net Position

As of June 30, 2013 (with Comparative Totals as of June 30, 2012)

(Dollars in Thousands)

	2013				2012
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash on Deposit with Wells Fargo Bank	\$1,292	\$288	\$205	\$1,785	\$1,319
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	211,182	15,201	8,922	235,305	165,136
Total Cash and Cash Equivalents	212,474	15,489	9,127	237,090	166,455
Receivables					
Plan Sponsor and Member Contributions	3,539	179	116	3,834	3,976
Members - Purchased Service Contracts	3,405	924	111	4,440	6,659
Investment Income Receivable	7,746	433	148	8,327	11,797
Securities Sold	183,581	10,430	3,582	197,593	149,522
Total Receivables	198,271	11,966	3,957	214,194	171,954
Investments, at Fair Value					
Domestic Fixed Income Securities	1,443,021	81,419	27,765	1,552,205	1,573,318
International Fixed Income Securities	155,011	8,740	2,963	166,714	164,475
Domestic Equity Securities	1,710,200	96,655	32,706	1,839,561	1,534,892
International Equity Securities	978,782	55,249	18,686	1,052,717	941,597
Global Equity Securities	280,104	15,887	5,131	301,122	262,850
Real Estate	532,416	30,060	10,206	572,682	534,742
Private Equity	239,992	13,607	4,577	258,176	155,834
Infrastructure	34,502	1,960	638	37,100	21,227
Total Investments	5,374,028	303,577	102,672	5,780,277	5,188,935
Securities Lending Collateral	177,445	9,967	3,439	190,851	265,439
Total Investments Including Securities Lending Collateral	5,551,473	313,544	106,111	5,971,128	5,454,374
Prepaid Expenses	379	23	8	410	358
Capital Assets at Cost, Net of Accumulated Depreciation of \$1,553					
TOTAL ASSETS	\$5,966,878	\$341,273	\$119,291	\$6,427,442	\$5,796,503
LIABILITIES					
Accounts Payable	\$1,576	\$131	\$43	\$1,750	\$1,637
Accrued Investment Fees	3,236	182	61	3,479	3,570
Accrued Wages and Benefits	766	42	15	823	824
Member - Purchased Service Contracts Payable	-	-	-	-	544
Net Pension and Other Post Employment Obligations	2,104	-	-	2,104	2,141
Supplemental Benefits Payable	16,199	240	23	16,462	5,459
DROP Liability	477,478	11,436	2,017	490,931	453,019
Securities Purchased	369,917	20,986	7,245	398,148	351,625
Securities Lending Obligations for Cash Collateral	177,922	9,993	3,448	191,363	267,176
TOTAL LIABILITIES	\$1,049,198	\$43,010	\$12,852	\$1,105,060	\$1,085,995
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$4,917,680	\$298,263	\$106,439	\$5,322,382	\$4,710,508

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

San Diego City Employees' Retirement System

Statement of Changes in Plan Net Position

For the Fiscal Year Ended June 30, 2013 (with Comparative Totals for the Fiscal Year Ended June 30, 2012)

(Dollars in Thousands)

	2013				2012
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	\$231,143	\$13,200	\$2,600	\$246,943	\$247,600
Member Portion Paid by Plan Sponsor	755	2,707	1,902	5,364	5,444
Member	59,551	1,221	767	61,539	62,759
Member for Purchased Service	4,921	1,566	887	7,374	(2,428)
Earned Interest on Purchased Service Installment Contract	265	54	4	323	315
Total Contributions	296,635	18,748	6,160	321,543	313,690
Investment Earnings (Losses)					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity Securities	497,359	28,340	9,263	534,962	(145,271)
Fixed Income Securities	5,497	289	53	5,839	55,620
Real Estate	58,422	3,345	1,113	62,880	35,927
Private Equity	33,821	1,938	648	36,407	15,391
Infrastructure	6,225	358	122	6,705	5,836
Securities Lending Collateral	1,138	65	21	1,224	(1,737)
Total Net Appreciation (Depreciation) in Fair Value of Investments	602,462	34,335	11,220	648,017	(34,234)
Dividend Income	37,554	2,138	708	40,400	27,147
Interest Income	32,436	1,848	610	34,894	41,371
Real Estate Income	11,183	666	179	12,028	16,341
Private Equity Income	2,385	130	51	2,566	1,651
Infrastructure Income	1,231	67	26	1,324	667
Other Income	819	45	20	884	860
Securities Lending Income					
Gross Earnings	1,778	101	33	1,912	2,074
Less: Borrower Rebates & Bank Charges	(587)	(34)	(11)	(632)	(637)
Net Securities Lending Income	1,191	67	22	1,280	1,437
Total Investment Income	689,261	39,296	12,836	741,393	55,240
Investment Expenses	(24,090)	(1,374)	(451)	(25,915)	(23,152)
Net Investment Income	665,171	37,922	12,385	715,478	32,088
TOTAL ADDITIONS	\$961,806	\$56,670	\$18,545	\$1,037,021	\$345,778
DEDUCTIONS					
Benefit Payments					
Monthly Retirement and Disability Allowances	\$350,884	\$17,580	\$1,904	\$370,368	\$344,601
13th Check	5,542	240	23	5,805	4,750
Corbett Benefit	5,469	-	-	5,469	10,957
Death Benefit	371	18	29	418	710
Total Benefit Payments	362,266	17,838	1,956	382,060	361,018
Refunds of Member Contributions	3,770	194	100	4,064	5,346
Administrative Expenses	12,003	698	278	12,979	11,839
DROP Interest Expense	25,447	542	55	26,044	26,867
TOTAL DEDUCTIONS	\$403,486	\$19,272	\$2,389	\$425,147	\$405,070
INCREASE (DECREASE) IN NET POSITION	558,320	37,398	16,156	611,874	(59,292)
NET POSITION RESTRICTED FOR PENSION					
BENEFITS AT JULY 1	4,359,360	260,865	90,283	4,710,508	4,769,800
NET POSITION RESTRICTED FOR PENSION					
BENEFITS AT JUNE 30	\$4,917,680	\$298,263	\$106,439	\$5,322,382	\$4,710,508

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

Financial Section

**San Diego City Employees' Retirement System
Statement of Fiduciary Net Position - Agency Funds**

As of June 30, 2013

(Dollars in Thousands)

ASSETS	Total
Cash and Cash Equivalents	\$ 7
Accounts Receivable	<u>109</u>
TOTAL ASSETS	<u>\$ 116</u>
LIABILITIES	
Sundry Trust Liability	<u>116</u>
NET POSITION	<u>\$ -</u>

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, 2013

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* and GASB Statement No. 50 *Pension Disclosures*, established financial reporting standards for defined benefit pension plans.

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. Separate financial statements are presented for the retirement system and agency funds, which are excluded from the retirement system financial statements.

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 Agreement. 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.

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, for the Airport plan and trust in September 2010, and for the City and Port plans and trusts in August 2012. The financial statements for each plan are presented in separate columns in this CAFR, as required by GASB Statement No. 25 for retirement systems that administer more than one plan.

SDCERS acts as agent for the City, Airport and Port Preservation of Benefit (POB) Plans and for the City Post-Employment 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. During FY 2013 there were no Airport retirees who qualify for POB payments. The agency funds are custodial in nature and do not measure the results of operations. 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. The California Public Employees' Pension Reform Act of 2013 (PEPRA) permits public employers to provide replacement benefit plans to employees first hired under an existing plan prior to January 1, 2013.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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*.

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' investment managers manage all investments, which are held in SDCERS' name and stated at fair value in the accompanying Statement of Plan Net Position. SDCERS' custodial bank, State Street Bank and Trust Company (State Street), provides the fair 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 fair values of which are provided by the respective investment managers. 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, and are subject to annual third-party audits in accordance with generally accepted accounting principles.

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires SDCERS to identify and capitalize costs incurred for the development of internally generated software. According to GASB Statement No. 51, there are three stages in the development and installation of internally generated software: 1) Preliminary Project Stage, 2) Application and Development Stage, and 3) Post Implementation/Operation Stage. All outlays related to the Application and Development Stage must be capitalized.

SDCERS began implementing and developing a new Pension Administration System (IRIS) in 2010 and \$1.6 million in expenses related to IRIS were capitalized in the current fiscal year. Intangible assets are included as Capital Assets in the Statement of Plan Net Position. Accumulated depreciation/amortization and depreciation/amortization expense as of and for the year ended June 30, 2013 were \$1.6 million and \$0.4 million, respectively.

Liabilities

Liabilities reflect financial obligations of SDCERS as of June 30, including the repayment of securities lending cash collateral at a future date. 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

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Notes to the Basic Financial Statements (continued)

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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 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 Plan Net Position.

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 reflected in plan net position.

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 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 (IRS) issued a favorable determination letter for the Group Trust in September 2009, for the Airport plan and trust in September 2010, and for the City and Port plans and trusts in August 2012.

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 position restricted 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 position 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.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 62

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which do not conflict with or contradict other GASB pronouncements. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 63

Effective July 1, 2012, SDCERS implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position*. Certain defined transactions that do not qualify for treatment as either assets or liabilities are accounted for and reported as either deferred outflows of resources or deferred inflow of resources. These deferred inflows and outflows define a consumption and/or

San Diego City Employees' Retirement System
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acquisition of the net assets that is applicable to a future reporting period. With the provision of GASB No. 63, the Statement of Net Assets became the Statement of Net Plan Position. The new standard clarifies where these elements are to be reported in the Statement of Plan Net Position. GASB Statements No. 53 and No. 60 previously identified certain transactions requiring the use of deferred outflows and deferred inflows of resources. Based on review and analysis of GASB No. 53 and No. 60, the System does not have these types of transactions.

Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 67

GASB Statements No. 67, *Financial Reporting for Pension Plans* addresses reporting by pension plans that administer benefits for governments, and is effective for financial periods beginning after June 15, 2013. 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*.

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 may continue to be similar to the long term expected rate of return on plan assets. The discount rate for accounting purposes, however, may potentially include a portion based on tax exempt 20-year AA or higher rated general obligation municipal bond index 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.
- Ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes will be incorporated into projections of benefit payments, if a plan sponsor's past practice and future expectations of granting them indicate they are essentially automatic. The actuarial valuations for the City, Port and Airport assume an annual 2.0% cost of living increase, compounded annually.
- Requiring more extensive note disclosures and required supplementary information.

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.

GASB Statement No. 68

In June 2012, GASB issued Statement No.68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27*, which is intended to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expenses. Decision-usefulness and accountability will also be enhanced through new note disclosures and required supplementary information. This statement will become effective in fiscal year 2015. GASB Statement No. 68 will require that plan sponsors report in the statement of plan 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 trust assets restricted to pay future retirement benefits.

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

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as of and for the year ended June 30, 2012, 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.

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. Airport and Port Safety members who are participants under PEPPRA are subject to pensionable compensation caps. The Port's Miscellaneous plan members are not subject to the PEPPRA benefit formula and the cap on pensionable salary based on the SDCERS' actuary certifying that the Miscellaneous plan has a lower normal cost. All other PEPPRA provisions apply. SDCERS also coordinates the benefits for the City's postemployment 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.

Membership

Except as otherwise noted, 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. In June 2012, the San Diego electorate passed Proposition B which amended the City Charter to prohibit entrance to the SDCERS defined benefit plan for all employees, other than sworn police officers, who are initially hired on or after July 20, 2012. The employees initially hired on or after July 20, 2012, are placed in a defined contribution plan administered by the City through a third party. SDCERS does not administer the defined contribution plan.

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.

The Airport and the Port Safety members hired on or after January 1, 2013, and who are not otherwise excluded, are subject to PEPPRA. PEPPRA reduces the benefit formula, raises the retirement age, applies a three year final compensation period and imposes a cap on pensionable salary. PEPPRA prohibits retroactive benefit enhancements, excludes certain types of compensation from pensionable pay and requires that the member pay 50% of the normal

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cost. For all members employed by the Airport and Port, PEPRA eliminated the purchase of nonqualified service credit or "air time" after January 1, 2013.

On July 1, 2012, SDCERS implemented a revised purchase service calculator for the City members to incorporate the actuarial assumption changes from the 2011 Experience Study and to include the new City Safety plans implemented since 2010.

On May 17, 2013, the SDCERS Board voted to discontinue the purchase of additional service credit (permissive service), through post-tax payments and post-tax installment payment plans, (excluding purchases of grandfathered service credit made by grandfathered members.) A member who is not a grandfathered member may pay for purchases of service credit after this date by pre-tax funds only, such as: direct transfers from the City Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plans. Purchases of service credit still allowed under PEPRA for the Port and the Airport must be made with pre-tax funds. The length of the installment contracts that were established prior to this Board rule change varies, but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

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 171 in FY 2013. This was comprised of a net decrease of 93 Members and an increase of 264 Retirees and DROP participants.

As of June 30, 2013

	City General Members	City Safety Members	Port All Members	Airport All Members	Total Members
Active	5,337	2,228	416	346	8,327
Inactive	2,410	562	287	80	3,339
Retirees	4,571	2,899	456	41	7,967
DROP Participants	546	438	29	10	1,023
Totals	12,864	6,127	1,188	477	20,656

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.

The POB Plans are unfunded within the meaning of the federal tax laws, requiring the plan sponsor to fund the Plans

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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 POB Plan.

The City made monthly payments into the POB Plan in FY 2013 totaling \$1.6 million. A balance of \$5 thousand remained in the fund at June 30, 2013 and will be carried forward to pay the City's FY 2014 POB Plan expenses, currently estimated at \$1.7 million.

The Port made monthly payments into the POB Plan in FY 2013 totaling \$0.3 million. A balance of \$4 thousand remained in the fund at June 30, 2013 and will be carried forward to pay the Port's FY 2014 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, 2013, SDCERS' cash balance was \$1.8 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was \$235.3 million, which includes cash collateral for SDCERS' cash overlay program of \$37.0 million and residual cash held in each manager's portfolio of \$198.3 million, which is invested overnight by SDCERS' custodial bank. 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, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

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' realized gains totaled \$149.6 million for the year ended June 30, 2013. 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 emphasizes generating a rate of return above inflation and the preservation of capital. Investments are made only after the risk/reward trade-offs are evaluated.

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.

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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 2013, 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 any reported default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) are 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, 2013, securities on loan collateralized by cash had a fair value of \$186.9 million, and SDCERS received cash collateral of \$191.4 million, which was reported as securities lending obligations in the accompanying Statement of Plan Net Position in accordance with GASB Statement No. 28: *Accounting and Financial Reporting for Securities Lending Transactions*. 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, 2013, securities on loan collateralized by securities, irrevocable letters of credit or tri-party collateral had a fair value of \$128.1 million, and a collateral value of \$137.5 million, which was not reported as assets or liabilities in the accompanying Statement of Plan Net Position in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at June 30, 2013 for its securities lending activities was \$328.9 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, 2013, these collateral pools are not rated by the nationally-recognized statistical rating organizations (NRSROs).

As of June 30, 2013, SDCERS had \$176.1 million invested in the Quality D liquidity collateral pool, which had an average duration of 28.8 days and an average weighted final maturity of 85.0 days; SDCERS had \$14.8 million invested in the Quality D duration pool, which had an average duration of 43.9 days and an average weighted final maturity of 1,971.8 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.

Portfolio Risk

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on information derived from the Asset/Liability Study. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year. SDCERS' long term target allocation to fixed income strategies as of June 30, 2013 was 27%, 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 5% to emerging market debt, which is benchmarked 50% to JP Morgan Emerging Market Bond Index Global Diversified and 50% to JP Morgan Global Bond Index-Emerging Market Global Diversified. A 2% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch All Convertibles All Qualities Index, 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

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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. 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.

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The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2013.

Credit Quality of SDCERS' Fixed Income Strategies
(Domestic & International)
As of June 30, 2013
(Dollars in Thousands)

S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates ¹	Government & Agency Obligations ²	Short-Term/ Other
U.S. Treasuries	\$305,646	\$-	\$-	\$-	\$-	\$305,646	\$-
GNMA Securities	9,721	-	-	9,721	-	-	-
AAA	42,138	16,946	14,926	298	-	8,136	1,832
AA+	62,056	8,488	12	1,703	4,964	46,889	-
AA	9,507	-	3,414	76	4,073	1,944	-
AA-	19,887	5,244	1,682	221	4,132	8,608	-
A+	25,896	7,202	-	3,274	5,061	10,359	-
A	27,494	2,669	53	318	13,249	11,205	-
A-	53,311	22	306	253	48,642	4,088	-
BBB+	9,240	1,113	81	103	7,943	-	-
BBB+u ⁵	2,472	-	-	-	2,472	-	-
BBB	18,723	1,140	-	1,459	16,124	-	-
BBB-	28,741	-	4,977	-	23,764	-	-
BBB-/* ⁴	8,754	-	-	-	8,754	-	-
BB+	9,818	-	-	-	9,703	115	-
BB	9,957	-	-	227	9,730	-	-
BB-	13,135	-	104	-	12,775	256	-
B+/* ⁴	3,981	-	-	-	3,981	-	-
B+	13,238	-	76	910	12,252	-	-
B	7,653	-	314	445	6,894	-	-
B-	3,730	-	-	73	2,286	1,371	-
CCC+	4,168	-	-	-	4,168	-	-
NR	1,029,653	4,646	15,389	340,855 ⁶	79,158	26,093	563,512 ³
Totals	\$1,718,919	\$47,470	\$41,334	\$359,936	\$280,125	\$424,710	\$565,344

¹ Corporate Bonds include convertible bonds from SDCERS' convertible bond manager.

² Includes international and municipal holdings.

³ Includes fixed income mutual fund investments of \$535,242. These institutional quality fund investments are not directly rated by major credit rating agencies.

⁴ S&P has issued a CreditWatch for these securities meaning that they are reviewing the current rating. *+ indicates that a rating may be raised. *- indicates that a rating may be lowered.

⁵ Indicates that the rating for this security was unsolicited by the issuer.

⁶ Includes Federal Agency obligations of \$333,043.

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 other than U.S. Treasuries and GNMA Securities have been included in this credit risk disclosure as AA+. NR represents those securities that are not rated by one of the NRSROs.

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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, 2013, 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. Cash on deposit with SDCERS' custodial bank totaled \$21.0 million as of June 30, 2013. SDCERS does not have a specific policy relating to custodial credit risk. SDCERS' custodial 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 \$137.5 million as of June 30, 2013. 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 \$191.4 million as of June 30, 2013, 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, 2013, SDCERS had no single issuer that exceeded 5% of total investments as required to be disclosed by GASB No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3* or 5% of plan net position as required to be disclosed by GASB 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings:

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis
As of June 30, 2013
(Dollars in Thousands)

Type of Security	Effective Duration (in years)	Fair Value ¹
Asset-Backed Securities		
Asset-Backed Securities	1.17	\$47,470
Commercial Mortgage-Backed Securities		
Commercial Mortgage-Backed Securities	1.89	41,334
Collateralized Mortgage Obligations		
Collateralized Mortgage Obligations	3.99	359,936
Corporate Bonds²		
Corporate Bonds	2.77	135,670
Government & Agency Obligations		
Agency Securities	1.79	72,141
Municipal Securities	9.80	33,978
Foreign Securities	7.01	12,945
Treasury Securities	6.85	305,646
Short-Term/Other³		
Bank Loans	0.08	963
Cash Equivalents	0.38	25,261
Total	4.34	\$1,035,344

¹ Fair Value does not include convertible bonds, mutual funds and derivative instruments of \$683,575. The duration for these securities cannot be calculated.

² Corporate Bonds do not include convertible securities of \$144,455.

³ Short-Term/Other does not include derivative instruments, short term instruments and mutual funds of \$539,120. Although the duration was not available for these securities, the weighted average maturity was calculated for the mutual funds. The following table depicts the weighted average maturity for the mutual funds.

Name of Institutional Mutual Fund	Fair Value	Weighted Average Maturity (In Years)
BlackRock U.S. Debt NL Fund	\$284,053	6.89
MetWest High Yield Fund B	8,507	7.75
PIMCO PAPS Real Return Bond Fund	561	2.50
PIMCO PAPS International Portfolio	2,367	4.84
PIMCO PAPS Short-Term Floating NAV II Portfolio	77,653	0.24
Stone Harbor	77,423	8.76
Wellington Trust Company CIF II Opportunistic Emerging Markets Debt Portfolio	84,678	11.68
Total	\$535,242	

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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 discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total values of securities 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, 2013

(Dollars in Thousands)

Type of Security	Market Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	\$8,406	0.5%
Asset-Backed Securities	21,024	1.2
Floating Rate Notes	67,305	3.9
Range Notes	22,852	1.3
Total	\$119,587	7.0%

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, 2013

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, 2013:

Foreign Currency Risk¹
As of June 30, 2013
(Dollars in Thousands)

Local Currency Name	Cash	Equity	Fixed Income	Options	Real Estate	Total
Australian Dollar	\$27	\$5,837	\$-	\$-	\$5,174	\$11,038
Canadian Dollar	(85)	2,862	10,439	-	3,181	16,397
Danish Krone	-	2,879	-	-	-	2,879
Euro Currency	9,393	90,755	15,454	(20)	21,209	136,791
Hong Kong Dollar	3	10,576	-	-	5,970	16,549
Israeli Shekel	8	-	-	-	-	8
Japanese Yen	1,018	79,277	-	-	10,080	90,375
Norwegian Krone	1	-	-	-	324	325
Singapore Dollar	3	3,179	-	-	2,829	6,011
South Korean Won	25	1,042	-	-	-	1,067
Swedish Krona	32	6,620	-	-	669	7,321
Swiss Franc	80	20,512	-	-	502	21,094
Taiwan Dollar	28	-	-	-	-	28
United Kingdom Pound	495	60,768	1,209	-	3,874	66,346
Total	\$11,028	\$284,307	\$27,102	(\$20)	\$53,812	\$376,229

¹ This schedule does not include the foreign currency exposure to two international equity, one global equity, and two 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, 2013

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, 2013, 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 Position.

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, 2013:

Investment Derivative Disclosure (Dollars in Thousands)

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value	Classification	Fair Value at June 30, 2013		
	Amount		Amount	Notional (Dollars)	Notional (Shares)
Credit Default Swaps	\$2,043	Domestic Fixed Income	\$35	\$16,677	
Fixed Income Futures	(1,516)	Domestic Fixed Income	-	215,609	
Fixed Income Options	(421)	Domestic Fixed Income	(754)	(187,568)	
Foreign Currency Futures	(6)	Domestic Fixed Income	-	5,100	
Foreign Currency Options	10	Domestic Fixed Income	(1)	(1,500)	
Futures Options	53	Domestic Fixed Income	(136)	(96)	
Foreign Currency Forwards	(694)	Domestic Fixed Income	38	36,347	
Index Futures	28,652	Domestic Fixed Income	-	103	
Interest Rate Swaps	2,607	Domestic Fixed Income	2,874	93,600	
Rights	79	Domestic Equity	6		8
Total Derivative Instruments	\$30,807		\$2,062	\$178,272	8

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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.

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, 2013. 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, 2013.

Counterparty Credit Risk

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

Counterparty Credit Risk (Dollars in Thousands)
As of June 30, 2013

Counterparty Name	Fair Value	S&P Rating
Deutsche Bank CME	\$2,301	A+
Deutsche Bank AG London	393	A+
Barclays	251	A+
UBS CME	198	A
Citigroup Global Markets	176	A-
Barclays Bank PLC	103	A+
Citibank N.A.	32	A
BNP Paribas SA	30	A+
Goldman Sachs International	21	A-
Bank of America N.A.	7	A
Barclays Bank PLC Wholesale	7	A+
Morgan Stanley and Company, Inc.	2	A-
Total	\$3,521	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2013 was \$3.5 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, 2013, 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, 2013

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, 2013, 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, 2013, 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 Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Credit Default Swaps	\$35	\$-	\$35	\$-	\$-
Fixed Income Options	(754)	(1,345)	630	(39)	-
Interest Rate Swaps	2,874	-	150	-	2,724
Total	\$2,155	\$(1,345)	\$815	\$(39)	\$2,724

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, 2013
(Dollars in Thousands)

Investment Type	Fair Value	Notional
Credit Default Swaps	\$35	\$16,677
Fixed Income Futures	-	215,609
Fixed Income Options	(754)	(187,568)
Interest Rate Swaps	2,874	93,600
Total	\$2,155	\$138,318

Foreign Currency Risk

At June 30, 2013, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

Foreign Currency Risk
(Dollars in Thousands)

Currency Name	Options	Foreign Currency Forwards			Total
		Net Receivables	Net Payables	Swaps	
Canadian Dollar	\$-	\$-	\$393	\$-	\$393
Euro Currency	(14)	(55)	(305)	4	(370)
Pound Sterling	-	-	30	-	30
Japanese Yen	-	(27)	2	-	(25)
Subtotal	\$(14)	\$(82)	\$120	\$4	\$28
Investments Denominated in USD	(871)	-	-	2,905	2,034
Total	\$(885)	\$(82)	\$120	\$2,909	\$2,062

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of \$12.5 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, 2013.

Contingent Features

At June 30, 2013, 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.

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, 2013, real estate investments totaled \$572.7 million and unfunded capital commitments totaled \$143.2 million. SDCERS' share of outstanding debt in the real estate portfolio is \$127.4 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 3.11% to 6.04% and maturity dates that range from January 2014 through June 2020. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2013, SDCERS' real estate portfolio had leverage of 34%.

Private Equity

SDCERS' target allocation to private equity is 10%, with a portfolio composition focused on value and current income producing strategies. Unfunded capital commitments as of June 30, 2013 totaled \$362.2 million. As of June 30, 2013, private equity investments totaled \$258.2 million.

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, 2013 totaled \$169.3 million. As of June 30, 2013, infrastructure investments totaled \$37.1 million.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined amounts designed to accumulate sufficient assets to pay vested benefits to 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, 2012 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 2013 plan sponsors' contribution rates, as a percent of payroll, as calculated annually by SDCERS' actuary, Cheiron.

FY 2013 Contribution Rates

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2011, Actuarial Valuation)							Weighted Total
	General Old Plan	General 2009 Plan	Elected Officers	Police Old Plan	Police 2009 Plan	Fire	Lifeguard	
Normal Cost ¹	9.25%	8.06%	27.57%	13.90%	13.75%	13.82%	16.32%	10.96%
Amortization Payment ²	34.72	0.08	47.44	49.88	0.22	51.30	36.51	35.69
Total Contribution Rate	43.97	8.14	75.01	63.78	13.97	65.12	52.83	46.59

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego Unified Port District (June 30, 2011, Actuarial Valuation)			Weighted Total
	General	Executives	Police	
Normal Cost ¹	12.46%	12.33%	17.57%	14.07%
Amortization Payment ²	24.23	50.79	23.19	24.62
Total Contribution Rate	36.69	63.12	40.76	38.82

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2011, Actuarial Valuation)		
	General	Executives	Weighted Total
Normal Cost ¹	12.01%	15.96%	12.19%
Amortization Payment ²	-1.23	-2.53	-1.29
Total Contribution Rate	10.78	13.43	10.91

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

²In years where there is an unfunded actuarial liability (UAL), in order to avoid "negative amortization" the amortization payment can never be less than full interest on the UAL.

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).

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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 in FY 2013. Refer to *City of San Diego vs. San Diego City Employees' Retirement System* in Note 8. *Legal Action*. 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 on July 1, 2012.

Member average contribution rates for FY 2013 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	9.87%	10.17%	10.32%
Safety Members ²	15.45	13.22	n/a
All Members	12.07	11.18	10.34

¹General Members include Elected Officers and Executives.

²Safety 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 2013 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.

For FY 2013, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	6.00% to 7.00%
For Safety Members:	8.80%
For Management Members:	7.50% to 10.30%

For FY 2013, 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%

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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. As of January 1, 2013 PEPRA prohibited the purchase of additional service credit or "air time" for the Port and Airport members.

On May 17, 2013, the SDCERS Board discontinued the purchase of additional service credit (permissive service), through post tax payments and post-tax installment payment plans, (excluding grandfathered members making grandfathered purchases.) A member who is not a grandfathered member may pay for purchases of service credit after this date by pre-tax funds only, such as: direct transfers from the City's Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plan. Purchases of service credit still allowed under PEPRA for the Port and the Airport must be made with pre-tax funds. The length of the installment contracts that were established prior to this Board rule change varies, but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

On July 1, 2012, SDCERS implemented a revised purchase service calculator for the City members to incorporate the actuarial assumption changes from the 2011 Experience Study and to include the new City Safety plans implemented since 2010.

As of June 30, 2013, a total of 302 members were making payments on installment contracts. Service credit purchased under an installment contract is not an actuarial 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 \$4.4 million has been included in the accompanying Statement of Plan Net Position at June 30, 2013.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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, 2013 (Dollars in Thousands):

Reserve for Receivables	\$4,440
Reserve for Member Contributions	895,666
Reserve for Plan Sponsor Contributions	343,317
Reserve for Current Retired Members	3,299,313
Reserve for Supplemental COLA	871
Undistributed Earnings Reserve	69,430
Total Reserves¹	\$4,613,037

¹Total reserves differ from the net position restricted for benefit payments reported in the Statement of Plan Net Position because investments are reported at fair value in the financial statements. The total reserves in this table exclude the accumulated unrealized gains totaling \$709.3 million as of and for the year ended June 30, 2013.

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 the Supplemental COLA Benefit to retirees whose effective date of retirement was prior to June 30, 1982 for the rest of their lives or until this reserve is depleted, whichever comes first.

Undistributed Earnings Reserve. This represents the balance of earnings remaining after the annual distribution to the 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, 2013

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2012 is as follows (Dollars in Thousands):

	Actuarial Value of Assets (AVA) (a)	Actuarial Liability (AL) (b)	Unfunded AL (UAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b - a) / c)
City	\$4,982,442	\$7,261,731	\$2,279,289	68.6%	\$511,091	446.0%
Port	277,822	382,013	104,191	72.7	34,542	301.6
Airport	95,793	97,225	1,432	98.5	24,726	5.8

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 AL's for benefits.

With the following exceptions, the actuarial methods and assumptions for the 2011 valuation used to calculate the ARC are the same as in the 2012 valuation.

In the 2012 valuation the UAL attributable to the non-Police portion of the plan was amortized in level dollar amounts, due to the closure of the plan to new hires. The 2011 valuation amortized the entire UAL as a level percentage of pay. The 2012 valuation also used a slightly different methodology from 2011 to allocate total benefit liabilities between actuarial liabilities and future normal costs. This change in method did not impact the value of total benefit liabilities.

Additional information as of the latest actuarial valuation follows:

	City	Port	Airport
Valuation date	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Open plan (Police): Level percent; closed. Closed plan: Level dollar; closed	Level percent; closed	Level percent; closed
Equivalent single amortization period	15.112 years ¹	13.677 years ²	13.539 years ²
Asset valuation method ¹	Expected Value Method	Expected Value Method	Expected Value Method
Actuarial Assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Wage inflation ³	3.75%	3.75%	3.75%
Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	0.5% - 5.0%
Cost of living increase	2%	2%	2%

¹15 years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 5 years for benefit changes, and 15 years for the closed plan portion of the UAL as of June 30, 2012.

²9 years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

³Wage inflation assumed for City and Port following a wage freeze in FY 2013 and FY 2014. Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization of the City's, Port's, and Airport's UAL.

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, 2013

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, 2013:

Year Ending June 30 (Dollars in Thousands)

2014	\$1,031
2015	1,069
2016	1,107
2017	1,144
2018	1,185
2019	99
Total	\$5,635

Rent expense related to the operating lease was \$1.0 million for the year ended June 30, 2013.

8. Legal Action

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. On November 21, 2013, the San Diego City Council was presented with and approved a settlement agreement in City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court Case No. 37-2010-00091207-CU-WM-CTL. The proposed settlement agreement allows SDCERS to continue to allocate 100% of the investment gains and losses to the City. The SDCERS Board approved the settlement proposal at its special meeting on November 25, 2013. The settlement agreement has been executed by the City, SDCERS and all of the four Intervenor Unions - IAFF, Local 145, AFSCME Local 127, MEA and POA. The court must also approve the settlement as a good faith settlement. No date has yet been set for the good faith settlement motion.

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,

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

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. On October 28, 2013 the court denied the plaintiff's motion to certify this case as a class action. Discovery is ongoing with no trial date scheduled at this time. 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.)

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 above.)

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

Supplemental Cola Ordinance

On August 5, 2013 (effective September 4, 2013), the San Diego City Council modified the San Diego Municipal Code to consider annual funding of the Supplemental Cola Benefit for a closed group of retirees. The Supplemental Cola Benefit was established in 2000 to increase retirement benefits up to a determined amount according to a formula in the Municipal Code. Prior funding of the benefit was from a Supplemental Cola reserve that was depleted in November 2013. The Municipal Code amendment changes the funding for this benefit to an annual appropriation by the San Diego City Council. SDCERS received \$1.8 million from the City in August 2013 to fund the benefit for the remainder of FY 2014 for eligible City retirees or beneficiaries. The Port amended the plan document effective November 1, 2013 to allow for an annual contribution to fund the benefit for eligible Port retirees or beneficiaries

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2013

and funded the benefit for FY 2014. SDCERS maintains the Supplemental Cola funding in separate reserves and no other system assets, including the granting of annual interest, can be used to pay the Supplemental Cola Benefit once the original reserve amount is depleted.

Office Lease Renewal

In October 2013 SDCERS executed an amendment to its office lease to extend the term of the lease an additional five years beyond the original termination date to 2023. Terms included the reduction of 2,294 square feet and a discount on monthly fixed rent retroactive to August 1, 2013.

Board Decision to Lower the Discount and Wage Inflation Rates

On November 8, 2013, the SDCERS Board approved a change in the long-term discount rate and the wage inflation rate and voted to include in the City's 2013 actuarial valuation four years of a pensionable pay freeze for City employees that had been negotiated between the City and labor organizations effective July 1, 2013. The discount rate was lowered from 7.5% to 7.25% and the wage inflation rate was reduced from 3.75% to 3.3%. These changes will be included in the June 30, 2013 actuarial valuations for the City, Port and Airport.

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

City of San Diego

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll	UAL Ratio to Member Payroll
6/30/12	\$4,982,442	\$7,261,731	\$2,279,289	68.6%	\$511,091	446.0%
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

San Diego Unified Port District

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll	UAL Ratio to Member Payroll
6/30/12	\$277,822	\$382,013	\$104,191	72.7%	\$34,542	301.6%
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

San Diego County Regional Airport Authority

Valuation Date	AVA	Continuation Indicators				
		AL	UAL/ (Funding Excess)	Funded Ratio	Member Payroll	UAL Ratio to Member Payroll
6/30/12	\$95,793	\$97,225	\$1,432	98.5%	\$24,726	5.8%
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

¹Reflects revised actuarial assumptions

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

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, 2012.

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

1. Key Actuarial Assumptions

In the June 30, 2012 valuation, the normal cost and actuarial liability are determined using the Entry Age Normal (EAN) actuarial funding method. In the 2012 valuation there was a minor change in the methodology used to allocate total benefit liabilities between the actuarial (past service) liabilities and future normal costs (future service liabilities), with the present value of normal costs under the EAN funding method now calculated individually for each member instead of in aggregate.

The change in method did not impact the value of the total benefit liabilities. There have been no significant changes to the actuarial assumptions.

The June 30, 2012 valuation included a change to the amortization of the unfunded liability. As a result of Proposition B, effective July 20, 2012, SDCERS was closed to City employees initially hired after the effective date, except for the Police Plan which remains open. The non-police portion of the UAL layers were collapsed and amortized over 15 years with level dollar amounts. The Police portion of the UAL continues to be amortized with the existing amortization layers as a level percentage of pay.

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.*

2. Actuarial Terms Defined

Actuarial Value of 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 Liabilities (AL): 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 AL. 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 AL are greater than the Actuarial Value of Assets, the difference is termed Unfunded Actuarial Liability. When the Actuarial Value of Assets is greater than the AL the difference is termed Funding Excess.

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

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, 2012, the City had a funded status of 68.6%, 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, 2012 actuarial valuation, the City's UAL was \$2.3 billion, using the EAN funding method. As a result of Proposition B, effective July 20, 2012, SDCERS is closed to City employees initially hired after the effective date, except for the Police Plan which remains open. In the June 30, 2012 valuation, the non-police portion of the June 30, 2007 UAL was collapsed with other UAL layers and amortized over 15 years with level dollar amounts. The police portion of the June 30, 2007 UAL is amortized over a closed 20 year period as a level percentage of pay with 15 years remaining at June 30, 2012. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2012, 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, 2012, the Port had a funded status of 72.7%, 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, 2012 actuarial valuation, the Port had a UAL of \$104.2 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 9 years remaining at June 30, 2012. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2012, 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 County Regional Airport Authority

As of June 30, 2012, the Airport had a funded status of 98.5%, 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, 2012 actuarial valuation, the Airport had a UAL of \$1.4 million using the EAN funding method. The Airport's June 30, 2007 UAL is being amortized over a closed 14-year period, with 9 years remaining at June 30, 2012. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2012, 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

City of San Diego
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2013 - 2008)
(Dollars in Thousands)

SDCERS' actuary calculates annual employer contribution rates using the EAN actuarial funding methodology. The City's contributions made to SDCERS have equaled or exceeded the ARC since fiscal year 2006.

	2013	2012	2011	2010	2009	2008
Annual Required Contributions (ARC) ¹	\$231,100	\$231,200	\$229,100	\$154,200	\$161,700	\$137,700
Contributions Made to SDCERS ³	231,143	231,200	229,297	192,533	162,475	165,581 ²
Difference - Over Contributed	43	-	197	38,333	775	27,881
Percentage of ARC Contributed	100.0%	100.0%	100.0%	124.9%	100.5%	120.2%

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

² 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.

³ Contributions for 2009-2013 were made at a full actuarially-determined rate using the Entry Age Normal method. In 2010, the City made additional contributions above this amount associated with final settlement of certain resolved litigation.

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 (2013 - 2008)
(Dollars in Thousands)

	2013	2012	2011	2010	2009	2008
Annual Required Contributions (ARC) ¹	\$13,200	\$12,600	\$11,500	\$7,200	\$7,300	\$6,900
Contributions Made to SDCERS	13,200	12,600	11,501	7,201	7,340	6,900
Difference - Over/ (Under) Contributed	-	-	1	1	40	-
Percentage of ARC Contributed	100.0%	100.0%	100.0%	100.0%	100.5%	100.0%

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 (2013 - 2008)
(Dollars in Thousands)

	2013	2012	2011	2010	2009	2008
Annual Required Contributions (ARC) ¹	\$2,600	\$3,800	\$4,300	\$3,000	\$3,000	\$2,200
Contributions Made to SDCERS	2,600	3,800	4,300	7,600	3,035	2,520
Difference - Over/ (Under) Contributed	-	-	-	4,600 ²	35	320
Percentage of ARC Contributed	100.0%	100.0%	100.0%	253.3%	101.2%	114.5%

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 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 makes 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 employees of the City, Port and Airport. This information is presented in actuarial valuation reports in which the actuary recommends an employer contribution in dollars to each of the plan sponsors. The Annual Required Contributions, as depicted in the schedules of plan sponsor contributions on the preceding pages, are the calculated employer contributions designed to meet the objective of funding the promised benefits to SDCERS' members.

City of San Diego

The Schedule of Plan Sponsor Contributions (the Schedule) 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 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. In FY 2008 the City made full actuarial contributions based upon the terms of a legal settlement.

Contributions for FY 2009 through FY 2013 were made at a full actuarially-determined rate using the EAN method. In addition, in FY 2010 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 68.6%.

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 72.7%.

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 98.5%.

San Diego City Employees' Retirement System
Other Supplemental Information

Schedule of Administrative Expenses
For the Year Ended June 30, 2013

(Dollars in Thousands)

Salaries and Personnel ¹	\$6,022
Information and Technology Services	
Data Processing and Computer Services	1,045
Contracted Services	670
Total Data Processing	1,715
Legal/External	
Litigation/Fiduciary/Tax/General	2,000
Disability	45
Total Legal/External	2,045
General Operations	
Rent	998
Fiduciary Insurance	588
Actuary Services	577
Office Operations Expenses	373
Depreciation Expense	363
Disability Processing	117
Audit Services	114
Travel & Training	67
Total General Operations	3,197
GRAND TOTAL	\$12,979

¹ Personnel expense of \$1.0 million can be readily identified as investment related costs and are reported as investment expenses in the Statement of Changes in Plan Net Position.

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Schedule of Investment Expenses
For the Year Ended June 30, 2013
(Dollars in Thousands)

	Fair Value of Assets Under Management ¹	Total Fees Paid
Domestic Equity Managers	\$2,005,245	\$4,533
International Equity Managers	939,645	2,683
Global Equity Managers	305,568	1,748
Domestic Fixed Income Managers	1,477,765	2,006
Emerging Market Debt Strategies	162,101	980
Emerging Market Equity Strategies	124,205	1,101
Real Estate Managers	575,825	5,662
Private Equity Managers	258,176	2,728
Infrastructure Managers	37,100	1,332
Cash & Cash Overlay	129,952	192
Total	\$6,015,582	\$22,965
Other Investment Service Fees		
SDCERS Salaries and Personnel		984
Custodian Services		281
Investment Consultants		708
Investment Accounting Applications		36
Legal Services		70
General Operations		11
Taxes		649
Other		211
Total Other Investment Service Fees		\$2,950
Total Fees Paid to Investment Professionals		\$25,915

¹ Fair 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 (continued)

Schedule of Payments to Consultants
For the Year Ended June 30, 2013
(Dollars in Thousands)

<u>Individual or Firm</u>	<u>2013</u>	<u>Nature of Service</u>
Legal Firms & Professional Legal Services ¹	\$2,045	Legal, Arbitration, Mediation, Court Reporting
Sagitec Solutions, LLC	940	Pension Administration System Development
CGI Technologies	758	Computer/Applications Support
Barney & Barney, LLC	588	Fiduciary Insurance
Cheiron, Inc.	485	Actuary
L.R. Wechsler, LTD	441	Pension Administration System Development
San Diego Data Processing Corporation	352	Computer/Applications Support
Levi, Ray & Shoup	240	Member Benefit Systems Development
Macias Gini & O'Connell LLP	114	Audit
Xerox State & Local Solutions, Inc..	113	Network Services
Atos IT Solutions and Services, Inc..	105	Computer/Applications Support
Doctors & Disability Services ¹	96	Medical Consulting
EFI Actuaries	92	Actuary
Various Providers	24	Various Contractual Services
<u>Total Payments to Consultants and Professional Service Providers</u>	<u>\$6,393</u>	

¹See next page for full listing

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Schedule of Payments to Consultants (continued)
For the Year Ended June 30, 2013

SDCERS used the following Doctors' services:

California Orthopaedic Institute Medical Associates, Inc.

William S. Adsit, M.D.

Drew Peterson, M.D.

Dr. Wm Tontz, Jr.

Dr. Steven Tradonsky

Girard Orthopaedic Surgeons Medical Group

Michael Kimball, M.D.

Dr. Neil Tayyab

Dr. A. Lyle Rosenfield

Dr. Enass Rickards

Southwest & Associates

Dr. Robert S. Warren

Stephen Sigler, M.D.

Other Doctors

Dominick Addario, M.D.

John Bokosky, M.D.

Daniel J. Bressler, M.D.

William P. Curran, Jr., M.D.

Donald Green, D.P.M.

William Hughson, M.D.

L. Mercer McKinley, M.D.

Douglas Schuch, M.D.

Jerrold Sherman, M.D.

Thomas Terramani, M.D.

Dr. David G. Smith

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

Manatt, Phelps & Phillips, LLP

Nossaman LLP

Paul Hastings, Janofsky & Walker, LLP

Peterson & Associates

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Statement of Changes in Assets and Liabilities - Agency Funds
For the Year Ended June 30, 2013
(Dollars in Thousands)

	City of San Diego Preservation of Benefits Fund			
	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$4	\$1,635	\$1,634	\$5
Accounts Receivable	—	—	—	—
TOTAL ASSETS	\$4	\$1,635	\$1,634	\$5
LIABILITIES				
Accounts Payable	\$—	\$—	\$—	\$—
Sundry Trust Liability	4	1,635	1,634	5
TOTAL LIABILITIES	\$4	\$1,635	\$1,634	\$5

	San Diego Unified Port District Preservation of Benefits Fund			
	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$3	\$273	\$272	\$4
Accounts Receivable	—	107	—	107
TOTAL ASSETS	\$3	\$380	\$272	\$111
LIABILITIES				
Accounts Payable	\$—	\$—	\$—	\$—
Sundry Trust Liability	3	380	272	111
TOTAL LIABILITIES	\$3	\$380	\$272	\$111

	Preservation of Benefits Funds - Combined			
	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$7	\$1,908	\$1,906	\$9
Accounts Receivable	—	107	—	107
TOTAL ASSETS	\$7	\$2,015	\$1,906	\$116
LIABILITIES				
Accounts Payable	\$—	\$—	\$—	\$—
Sundry Trust Liability	7	2,015	1,906	116
TOTAL LIABILITIES	\$7	\$2,015	\$1,906	\$116

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Statement of Changes in Assets and Liabilities - Agency Funds (continued)
For the Year Ended June 30, 2013
(Dollars in Thousands)

	Post Employment Healthcare Benefit Plan Fund			
	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$10	\$42,650	\$42,662	\$(2)
Accounts Receivable	–	2	–	2
TOTAL ASSETS	\$10	\$42,652	\$42,662	\$–
LIABILITIES				
Sundry Trust Liability	\$10	\$42,652	\$42,662	–
TOTAL LIABILITIES	\$10	\$42,652	\$42,662	\$–

	Total Agency Funds			
	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$7	\$1,908	\$1,906	\$9
Cash on Deposit with Wells Fargo Bank	10	42,650	42,662	(2)
Accounts Receivable	–	109	–	109
TOTAL ASSETS	\$17	\$44,667	\$44,568	\$116
LIABILITIES				
Accounts Payable	\$–	\$–	\$–	\$–
Sundry Trust Liability	17	44,667	44,568	116
TOTAL LIABILITIES	\$17	\$44,667	\$44,568	\$116



3 INVESTMENT

Investment Consultant's Statement



An Aon Company

October 14, 2013

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 is intended to provide a brief overview of the capital markets and the performance of San Diego City Employees' Retirement System's (SDCERS) investments during the Fiscal Year ending June 30, 2013.

The 2013 Fiscal Year started off strong due in large part to the deployment of monetary support from central banks across the globe. On the heels of a volatile spring and a steady flow of negative economic news, central banks took action. Notably, the Federal Reserve launched the much anticipated third round of quantitative easing (QE3) and the European Central Bank (ECB) initiated the Outright Monetary Transactions (OMT) program. The monetary stimulus drove global equity markets higher as relief set in that central bank support was present. However, the rally in the U.S. soon stalled as the positive sentiment gave way to concerns surrounding the U.S. presidential election and looming fiscal cliff. Meanwhile, international markets continued to rally into the second half of the fiscal year, as economic conditions improved and ECB President, Mario Draghi, committed to do "whatever it takes" to keep the Euro in tact. In the U.S., as the political uncertainty passed, equity markets surged to new all time highs, even amongst increased taxes and threat of the sequester. Overseas, despite disappointing elections in Italy, the Cyprus bailout and a credit downgrade in the UK, markets continued their modest upward trend. The Bank of Japan launched its own unprecedented monetary and fiscal stimulus, providing another boost to investor confidence. The fiscal year ended with a spike in volatility due to comments from Ben Bernanke suggesting an easing of monetary support if economic conditions continued to improve. Global equities quickly retreated and bond yields spiked before investors were somewhat calmed after the Fed clarified that interest rates would remain low for the foreseeable future.

As noted above, significant attention was paid to the comments from Ben Bernanke and the Federal Open Markets Committee (FOMC) throughout the year. The fiscal year began with the announcement of QE3, which authorized the Fed to purchase agency mortgage backed securities at a pace of \$40 billion per month. Together with Operation Twist, the programs increased the Federal Reserve holdings of longer dated securities by approximately \$85 billion per month. Additionally, the FOMC maintained the Federal Funds Target Range at 0.00 - 0.25% throughout the year. However, in January, the Fed announced it would no longer provide calendar guidance on when they expect to raise rates. Instead, parameters

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October 14, 2013

consisting of unemployment below 6.5% or inflation reaching 2.5%, would initiate a rate hike. The fiscal year ended with reassurance that the Fed is committed to the economic recovery, but a broad understanding that tapering of the asset purchase program is on the horizon.

With support from the Fed and mostly positive economic news, domestic equity markets trended upwards for the majority of the fiscal year, returning 21.5%. Developed international markets posted an 18.6% return, modestly trailing the U.S. equity markets. Emerging markets were a notable underperformer, returning 2.9% as export demand weakened and concerns surrounding China surfaced. The broad U.S. fixed income market declined a modest 0.7% over the year, with most of the adverse returns coming in the final months. The yield on the 10-Year U.S. Treasury was mostly steady throughout the year, but spiked 85 basis points in the last two months due to fears of the Federal Reserve's tapering of the asset purchasing program.

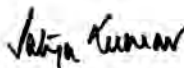
The SDCERS Trust Fund returned a net-of-fee 13.6% during the 2013 Fiscal Year, benefitting from the strong equity returns over the period. At year-end, the Trust grew to \$5.8 billion, reflecting an increase of approximately \$700 million, primarily due to investment gains over the year. On a relative basis, the Total Fund outperformed its Policy Benchmark by 1.1 percentage points and ranked in the top quartile among a peer universe comprised of public pension plan total fund returns. Over the year, each asset class, with the exception of Global Equity, added value to the Total Fund on both an absolute and relative basis. The U.S. Equity and U.S. Fixed Income asset classes provided the greatest value add, as the components outperformed their performance benchmarks by 1.1 and 1.2 percentage points, respectively.

The 2013 Fiscal Year was an active year for the SDCERS Plan. An Asset Liability Study was completed and confirmed that the current risk posture continues to be appropriate for SDCERS and its circumstances. Subsequently, an Asset Allocation Study was completed and resulted in the following Board approved refinements to the Fund's asset allocation: 1) shortening the duration of the fixed income asset class; 2) adding a dedicated emerging markets equity allocation; 3) increasing the emerging market debt allocation; and 4) increasing the private equity target. Additionally, SDCERS investment structure is constantly reviewed and over the year modest adjustments were made to the manager lineup that lowered costs and improved efficiencies related to active management and the use of SDCERS risk budget. Additionally, SDCERS Private Equity and Infrastructure allocations continued to grow towards their long term targets, ending the year at \$258.2 million, and \$37.1 million. Throughout the year, the investment structure of SDCERS Plan is continually monitored and evaluated to assure it is in line with SDCERS' long term goals.

Sincerely,



Steve Voss
Principal



Satya Kumar, CFA
Principal

San Diego City Employees' Retirement System

Asset Class Investment Returns^{1, 2, 3}

For the Periods Ended June 30, 2013

	Annualized Performance			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Domestic Equity Performance	22.8%	18.4%	7.7%	8.9%
Benchmark: Dow Jones U.S. Total Stock Market (100% weight)	21.5%	18.8%	8.1%	8.7%
International Equity Performance	15.1%	8.9%	-1.7%	8.3%
Benchmark: MSCI AC World Ex-US IMI Index (100% weight)	13.9%	8.4%	-0.4%	9.3%
Global Equity Performance	15.7%	N/A	N/A	N/A
Benchmark: MSCI AC World Index (100% weight)	16.6%	12.4%	2.3%	7.6%
Domestic Fixed Income Performance	0.5%	4.7%	6.5%	6.2%
Benchmark: Barclays Capital Aggregate Bond Index (100% weight)	-0.7%	3.5%	4.5%	4.3%
Emerging Market Debt Performance	1.7%	N/A	N/A	N/A
Benchmark: JPM EMBI Global Diversified (50% weight)	1.2%	6.8%	7.6%	9.5%
JPM GBI-EM Global Diversified (50% weight)				
Opportunity Fund Performance⁴	N/A	N/A	N/A	N/A
Benchmark: Barclays Capital Aggregate Bond Index (100% weight)	12.6%	10.6%	3.3%	7.2%
Real Estate Performance	12.8%	16.2%	1.7%	9.1%
Benchmark: NFI-ODCE + 50 basis points (90.0% weight)	11.9%	13.5%	4.5%	9.9%
FTSE EPRA/NAREIT Developed REIT Index (10.0% weight)				
Private Equity Performance	21.2%	N/A	N/A	N/A
Benchmark: S&P 500 + 3.0% (100% weight)	24.2%	22.0%	10.2%	10.5%
Infrastructure Performance⁵	N/A	N/A	N/A	N/A
Benchmark: 10-Year CPI + 3% (100% Weight)	4.8%	5.4%	4.3%	5.5%
Total Fund Performance⁶	13.6%	12.5%	5.5%	8.1%
Performance Benchmark, comprised of:	12.6%	11.9%	5.9%	7.8%
Dow Jones U.S. Total Stock Market Index (34.2%);				
MSCI AC World exUS IMI (20.3%);				
Barclays Capital Agg (24.0%);				
Custom Real Estate Benchmark (11.0%)				
MSCI AC World Index (5%); Emerging Market Debt Benchmark (3.0%);				
and Private Equity Benchmark (2.5%)				

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. In prior years, all returns are gross of fees.

⁴ As of June 30, 2013, there were no investments held in the the Opportunity Fund. In February 2013, the MetWest TALF investment (housed in the Opportunity Fund) made its final distribution which resulted in a 13.3% IRR during its life in the portfolio. As investments are added, the Opportunity Fund will be benchmarked to 78% MSCI All Country World Index IMI and 22% Barclays Capital Aggregate Bond Index.

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 13.9%.

San Diego City Employees' Retirement System
Investment Managers
 As of June 30, 2013

Domestic Equity Investment Managers

Allianz Global Investors Capital
San Diego, CA

Dodge & Cox
San Francisco, CA

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

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

CBRE Global Investors
Los Angeles, CA

Private Equity and Infrastructure Consultants

Credit Suisse Private Equity, Inc.
New York, NY

StepStone Group, LLC
San Diego, CA

Cash Overlay Investment Manager

The Clifton Group
Minneapolis, MN

**San Diego City Employees' Retirement System
Summary of Investment Goals and Philosophy
As of June 30, 2013**

Consistent with SDCERS' Mission Statement, the goal of SDCERS' investment program is to generate 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.

* * *

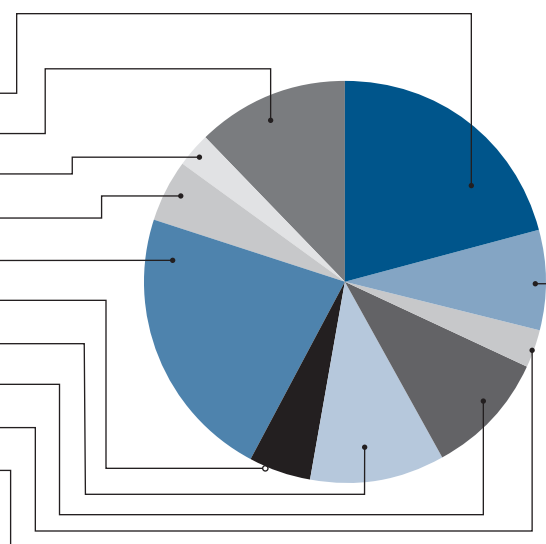
These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS'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

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

San Diego City Employees' Retirement System As of June 30, 2013

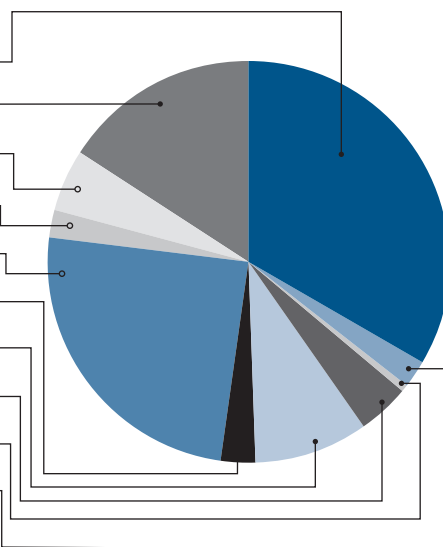
Long-Term Strategic Target Asset Allocation¹

Domestic Equity Strategies	21.0%
International Equity Strategies	12.0
Emerging Market Equity Strategies	3.0
Global Equity Strategies	5.0
Domestic Fixed Income Strategies	22.0
Emerging Market Debt Strategies	5.0
Real Estate Strategies	11.0
Private Equity Strategies	10.0
Infrastructure Strategies	3.0
Opportunistic Strategies	8.0
Total	100.0%



Actual Asset Allocation²

Domestic Equity	33.3%
International Equity	15.6
Global Equity	5.1
Emerging Market Equity	2.1
Domestic Fixed Income	24.5
Emerging Market Debt	2.7
Real Estate	9.6
Private Equity ³	4.3
Infrastructure ⁴	0.6
Cash ⁵	2.2
Total	100.0%



(Dollars in
Thousands)

Domestic Equity	\$2,005,245
International Equity	939,645
Global Equity	305,568
Emerging Market Equity	124,205
Domestic Fixed Income	1,477,765
Emerging Market Debt	162,101
Real Estate	575,825
Private Equity ³	258,176
Infrastructure ⁴	37,100
Cash ⁵	129,952
Total Investments, At Fair Value⁶	\$6,015,582
Less Pending Transactions	(200,555)
Total Net Investments⁷	\$5,815,027

¹The long-term strategic target asset allocation presented above is a long-term goal for the asset allocation. Due to the complexity of funding asset classes, SDCERS expects to move the portfolio to these asset classes and weights over time. To track the portfolio's progress, SDCERS uses the following interim asset allocation weights: Domestic Equity 33%; International Equity 20%; Global Equity 5%; Domestic Fixed Income 24%; Emerging Market Debt 3%; Real Estate 11%; Private Equity 4%; and Infrastructure 0%.

²Actual 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.

³In 2013, the target allocation for private equity was increased to 10%, which is expected to be funded over several years. This allocation will be funded from domestic equity.

⁴In 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.

⁵SDCERS does not have a target allocation to cash.

⁶Total 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.

⁷Investment balances are presented using the accrual basis of accounting.

San Diego City Employees' Retirement System

At June 30, 2013 (Dollars in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	256	Wells Fargo & Co.	949746101	\$10,549	0.2%
2	154	Capital One Financial Corp.	14040H105	9,673	0.2
3	388	Hewlett Packard Co.	428236103	9,610	0.2
4	222	Comcast Corp. Class A	20030N101	9,312	0.2
5	266	Microsoft Corp.	594918104	9,182	0.2
6	184	Merck & Co., Inc.	58933Y105	8,524	0.1
7	1,216	BP PLC	079805909	8,396	0.1
8	336	General Electric Co.	369604103	7,792	0.1
9	151	Sanofi ADR	80105N105	7,790	0.1
10	134	Time Warner Inc.	887317303	7,765	0.1
Total				\$88,593	1.5%

Schedule of Largest Fixed Income Holdings

Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	69,000	FNMA TBA Aug 30 Single Family 4% 01 Dec 2099	01F040685	\$71,730	1.3%
2	56,700	Interest Rate Swap - Rec USD Fixed 1.5% 18 Mar 2016	99S0C5JQ1	56,898	1.0
3	23,193	U.S. Treasury Inflation Protection Bond 2.375% 15 Jan 2025	912810FR4	27,628	0.5
4	20,050	FNMA TBA 3.5% 01 Aug 2099	01F032682	20,301	0.4
5	17,655	FNMA POOL AB2301 3.5% 01 Feb 2026	31416XRX0	18,403	0.3
6	18,500	U.S. Treasury Note 3.5% 01 Feb 2026	912828UN8	17,805	0.3
7	16,700	Interest Rate Swap - Rec USD 3 Month LIBOR 1% 19 Jun 2043	99S0EIVK0	16,700	0.3
8	13,000	FNMA TBA Aug 30 Single Family 5.5% 01 Dec 2099	01F052672	14,119	0.2
9	13,000	FNMA TBA Aug 30 Single Family 5.5% 01 Aug 2099	01F052680	14,111	0.2
10	12,475	U.S. Treasury Inflation Protection Bond 1.25% 15 Jul 2020	912828NM8	13,551	0.2
Total				\$271,246	4.7%

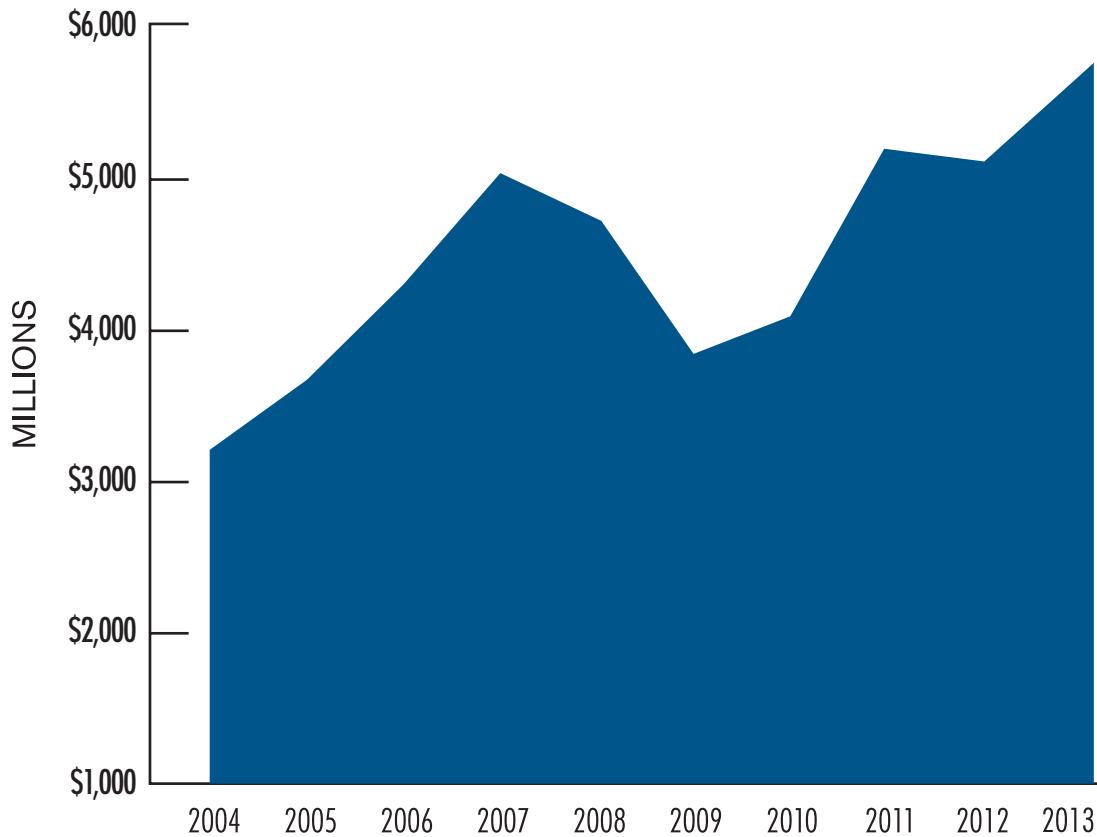
A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Commissions¹
Top 25 Brokerage Firms Used
For the Year Ended June 30, 2013 (Dollars in Thousands)

Rank	Broker Name	Shares	Base Commission	Commission Per Share
1	UBS AG	169,707	\$ 183	\$0.0011
2	GOLDMAN SACHS + CO	760,827	143	0.0002
3	BLACKROCK	12,644	77	0.0061
4	J P MORGAN SECURITIES INC	683,774	62	0.0001
5	CREDIT SUISSE INTERNATIONAL	1,528,492	56	0.0000
6	MERRILL LYNCH INTERNATIONAL	59,473	45	0.0008
7	CITIGROUPGLOBAL MARKETS INC	533,710	38	0.0001
8	MORGAN STANLEY AND CO. INTERNATIONAL	741,458	38	0.0001
9	DIRECT ACCESS PARTNERS, LLC	1,713	36	0.0210
10	DEUTSCHE BANK SECURITIES	1,785,677	35	0.0000
11	KNIGHT CLEARING SERVICES LLC	1,389	35	0.0252
12	JEFFERIES + COMPANY INC	21,155	31	0.0015
13	NOMURA INTERNATIONAL PLC	41,458	30	0.0007
14	BARCLAYS CAPITAL INC.	986,593	30	0.0000
15	INVESTMENT TECHNOLOGY GROUP INC.	3,110	28	0.0090
16	INSTINET LLC	2,376	27	0.0114
17	SANFORD C. BERNSTEIN AND CO., LLC	2,169	26	0.0120
18	LIQIDNETINC	830	24	0.0289
19	WILLIAM BLAIR & COMPANY L.L.C	1,384	23	0.0166
20	BNY CONVERGEX LJR	1,055	22	0.0209
21	COWEN AND COMPANY, LLC	576	20	0.0347
22	STEPHENS, INC.	557	20	0.0359
23	WEEDEN + CO.	1,020	19	0.0186
24	STIFEL NICOLAUS + CO INC	1,727	18	0.0104
25	RBC CAPITAL MARKETS	8,927	17	0.0019
All Other Brokers		1,329,685	286	0.0002
Total		8,681,486	\$1,369	\$0.0002

¹This 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 artificially low.

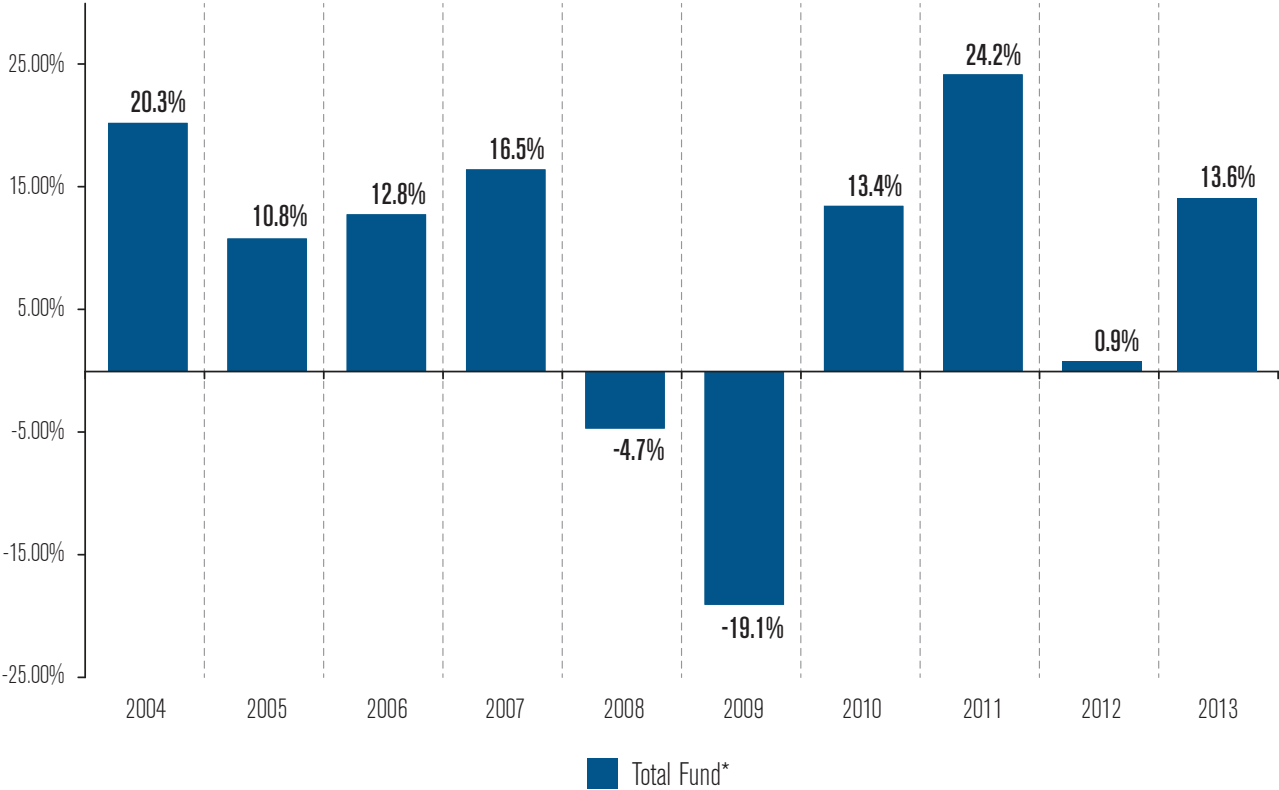
**San Diego City Employees' Retirement System
Growth of Investments, at Fair Value
For Ten Years Ended June 30**



Fiscal Year	Fair Value ¹ (Dollars in Thousands)
2013	\$5,815,027
2012	5,151,968
2011	5,182,482
2010	4,161,807
2009	3,697,249
2008	4,663,861
2007	4,922,362
2006	4,202,303
2005	3,636,722
2004	3,240,853

¹Fair 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 FY 2011. Returns prior to FY 2011 are gross of investment management fees.

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4 ACTUARIAL

Actuary's Certification Letter



Classic Values, Innovative Advice

October 23, 2013

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, 2012 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 for the Police portion of the plan and will remain as level dollar amounts for the non-Police portion of the plan. Under this approach the contribution rate is based on the normal cost rate and an amortization of any Unfunded Actuarial Liability.

Funding Method

The actuarial funding method used by SDCERS is the **Entry Age Normal (EAN)** 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 actuarial liability under the EAN method is equal to the present value of all future benefits to be paid to current and former members less the present value of future employer normal costs and member contributions on behalf of current members. Finally, 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, 2012 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 Unified Port District, 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 amortization period for plan amendments was set at 5 years for the City, and 20 years for the Unified Port District and the Airport Authority. With the closure of the non-Police portion of the City plan to new hires effective July 20, 2012, the existing UAL layers attributable to that portion of the plan have been collapsed into a single amount that will be amortized over 15 years. Finally, the Board also adopted an additional UAL cost component to ensure that there is no negative amortization of the UAL in any year.



Assumptions and Methods

For the June 30, 2012 valuation there was a minor change in the methodology used to allocate total benefit liabilities between the actuarial (i.e., past service) liabilities, and future normal costs (i.e. future service liabilities). The change in method did not impact the value of total benefit liabilities.

All other assumptions and methods remain the same as in the June 30, 2011 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 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

A new plan for Lifeguard Members of the City of San Diego was implemented effective July 1, 2011, and new plans for Police and Fire Members of the City of San Diego were implemented effective January 1, 2012.

As a result of Proposition B, effective July 20, 2012 new employees of the City of San Diego (other than Police) will not participate in SDCERS.

All other plan provisions remain the same as in the June 30, 2011 valuation.

Reliance on Others

In preparing our report, we relied on information (some oral and some written) supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

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

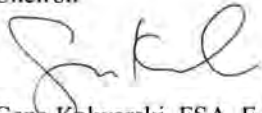
As we are not attorneys we cannot confirm with absolute certainty, but to the best of our knowledge we have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with 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

To the best of our knowledge, this report and its contents 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 credentialed actuaries, we 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. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron



Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary



David Holland, FSA, EA, MAAA
Associate Actuary

San Diego City Employees' Retirement System Summary of June 30, 2012 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, 2012 Valuation Results (continued)

1. General Comments

As a result of Proposition B, effective July 20, 2012, SDCERS is closed to new City employees, except for the Police plan, which will remain open. In compliance with current GASB standards, the non-Police portion of the UAL has been amortized with level dollar amounts rather than as a level percent of pay. For the non-Police portion, we have also collapsed the existing UAL layers into a single amount that will be amortized over 15 years. The portion of the UAL associated with the open Police plan will continue to be amortized with the existing layers as a level percentage of pay.

Effective January 1, 2013, new Unified Port District Safety employees and new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. There are less significant changes for current employees and retirees.

There are no New Members in the current valuation. However, in calculating the FY 2014 ARC, the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2013 and subsequent valuations, the actual cost implications will vary and further study may be required.

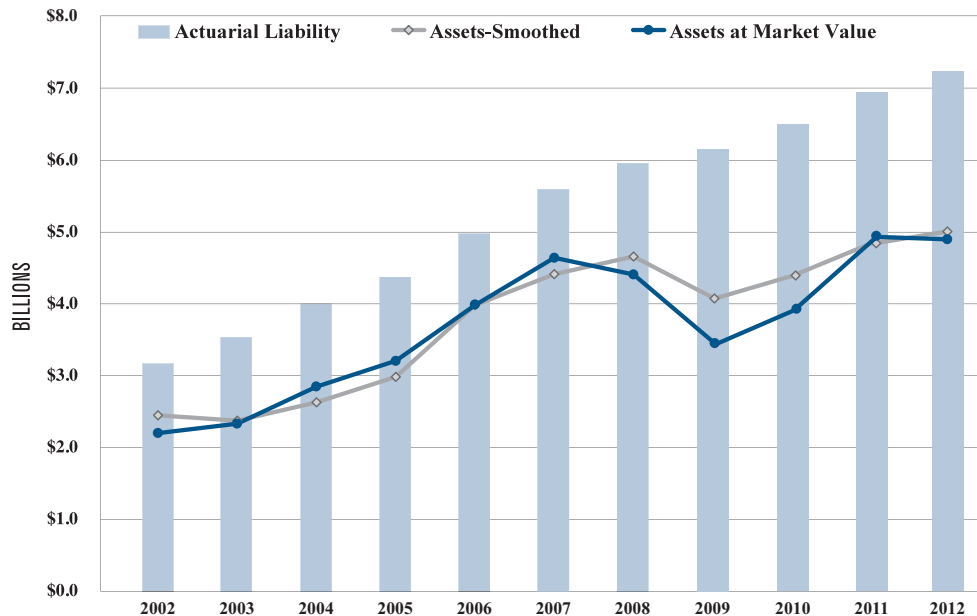
In FY 2014 GASB Statement No. 67, which applies to pension plans, will replace the current GASB Statement No. 25, and in FY 2015 GASB Statement No. 68, which applies to plan sponsors, will replace the current GASB Statement No. 27. GASB Statement No. 67 and GASB Statement No. 68 will require additional disclosures, which will be implemented in future valuations. Also, GASB Statement No. 67 and GASB Statement No. 68 do not include the concept of an ARC, which in recent years has been the basis for determining SDCERS' recommended plan sponsor contribution. In light of the new GASB statements to determine the basis for recommended contributions in FY 2015 and beyond, SDCERS' Board is reviewing funding policy and any changes which will be incorporated in the June 30, 2013 valuation.

Finally, in this year's valuation there was a change in the methodology used to allocate total benefit liabilities between the actuarial (i.e., past service) liabilities, and future normal costs (i.e. future service liabilities). The change in method did not impact the value of total benefit liabilities. There have been no significant changes to the actuarial assumptions.

San Diego City Employees' Retirement System
Summary of June 30, 2012 Valuation Results (continued)

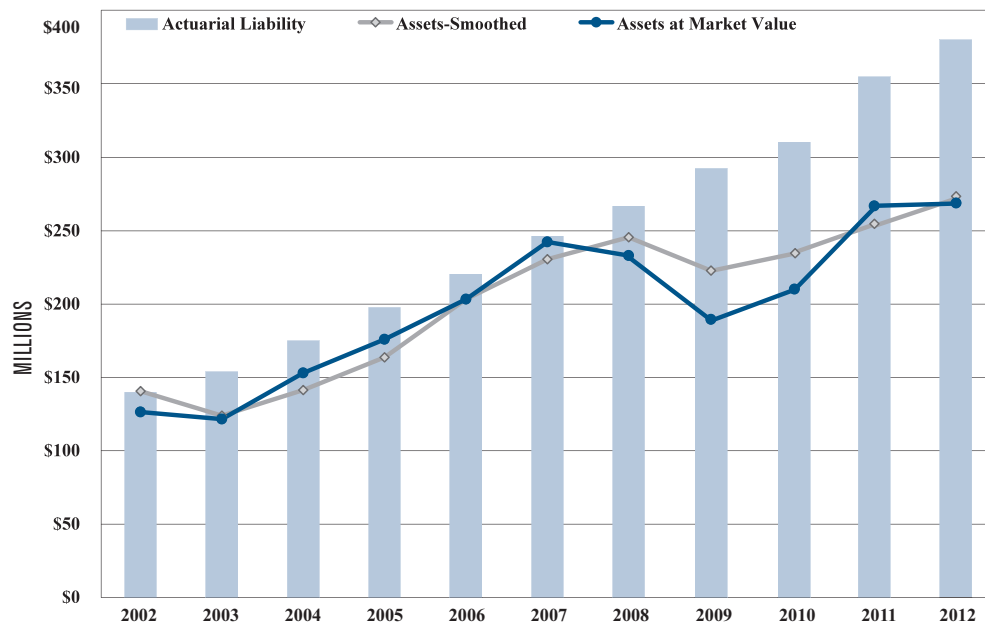
2. Historical Trends
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 2002 - 2012



Funding Ratio	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%	78.1%	66.5%	67.1%	68.5%	68.6%
UAL (billions)	\$ 0.72	\$ 1.16	\$ 1.37	\$ 1.39	\$ 1.00	\$ 1.18	\$ 1.30	\$ 2.11	\$ 2.15	\$ 2.18	\$ 2.28 *

SDCERS - Unified Port District Assets and Liabilities 2002 - 2012



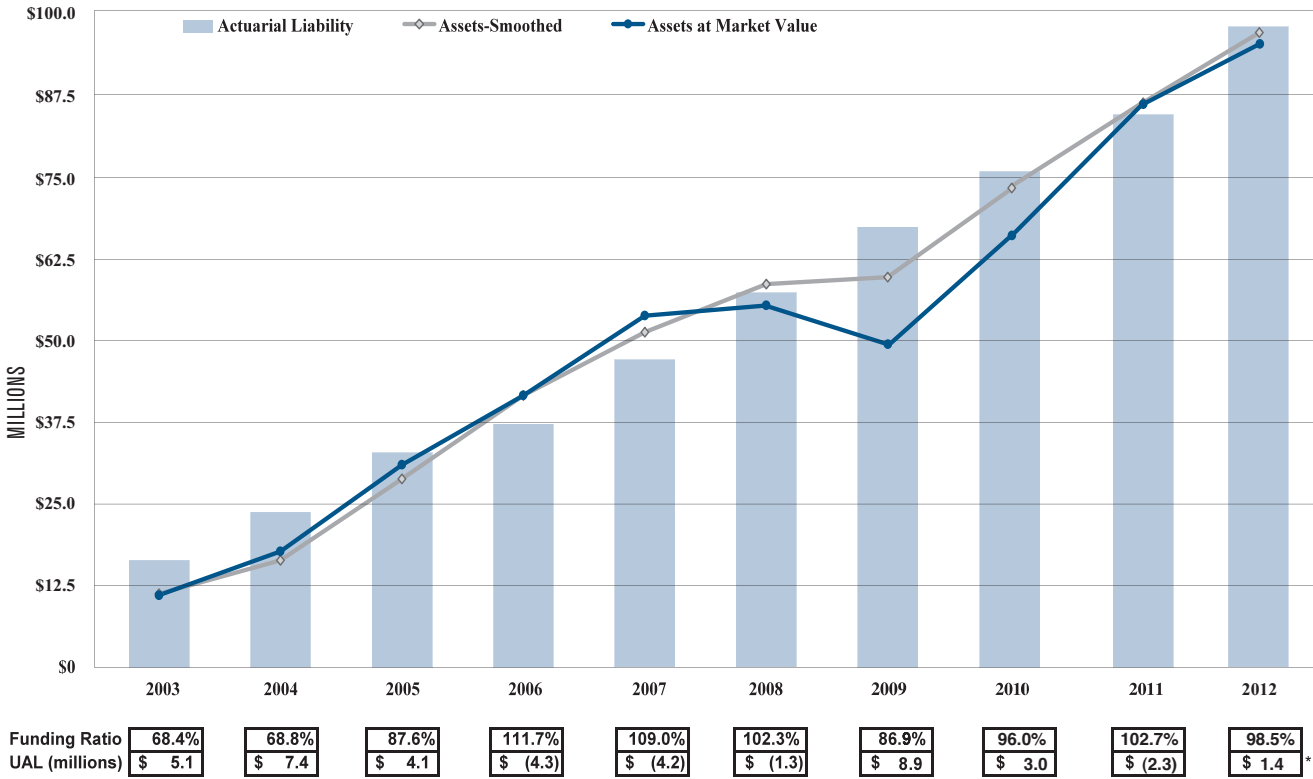
Funding Ratio	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%	92.0%	77.5%	75.3%	73.1%	72.7%
UAL (millions)	\$ (0.4)	\$ 30.4	\$ 34.0	\$ 34.4	\$ 17.4	\$ 16.0	\$ 21.5	\$ 64.8	\$ 76.7	\$ 95.5	\$ 104.2 *

* 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.

San Diego City Employees' Retirement System
Summary of June 30, 2012 Valuation Results (continued)

2. Historical Trends
Assets and Liabilities

SDCERS - Airport Authority Assets and Liabilities 2003 - 2012



* 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.

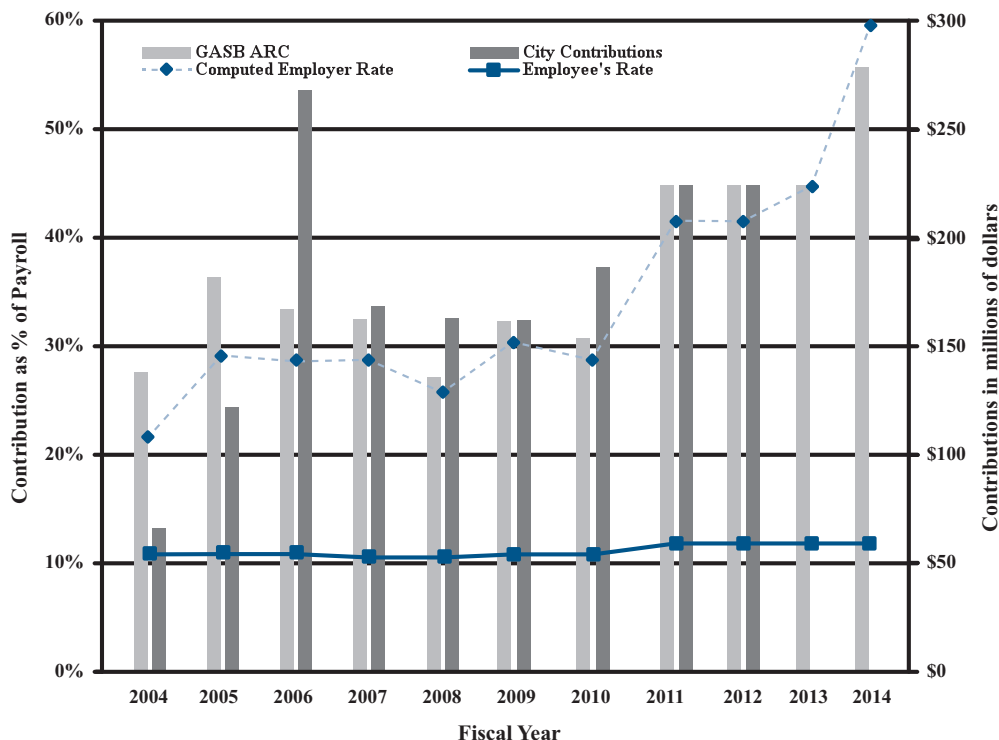
For funding purposes, the target amount is represented by the top of the bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

For the period shown, the funding ratios declined in 2003 and were generally increasing thereafter, until the significant market losses of 2008 and 2009. The City's funding ratio has increased since 2009, while the Port's has decreased. The Airport's funding ratio has decreased to 98.5% from a surplus in 2011.

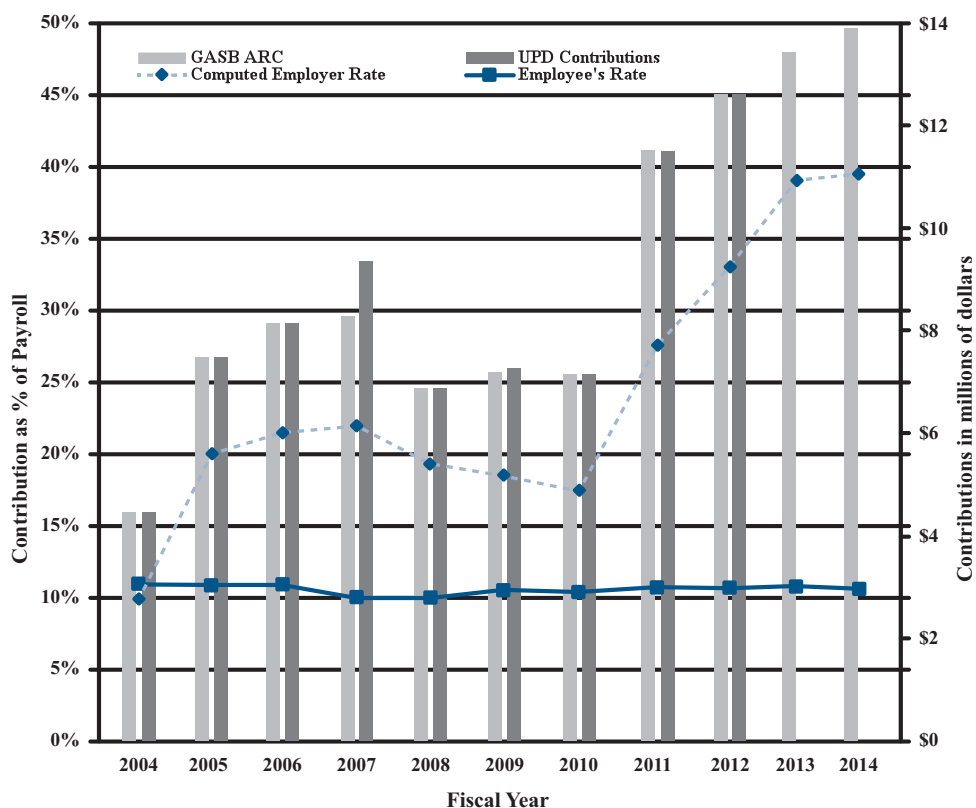
San Diego City Employees' Retirement System
 Summary of June 30, 2012 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates FY 2004 - 2014



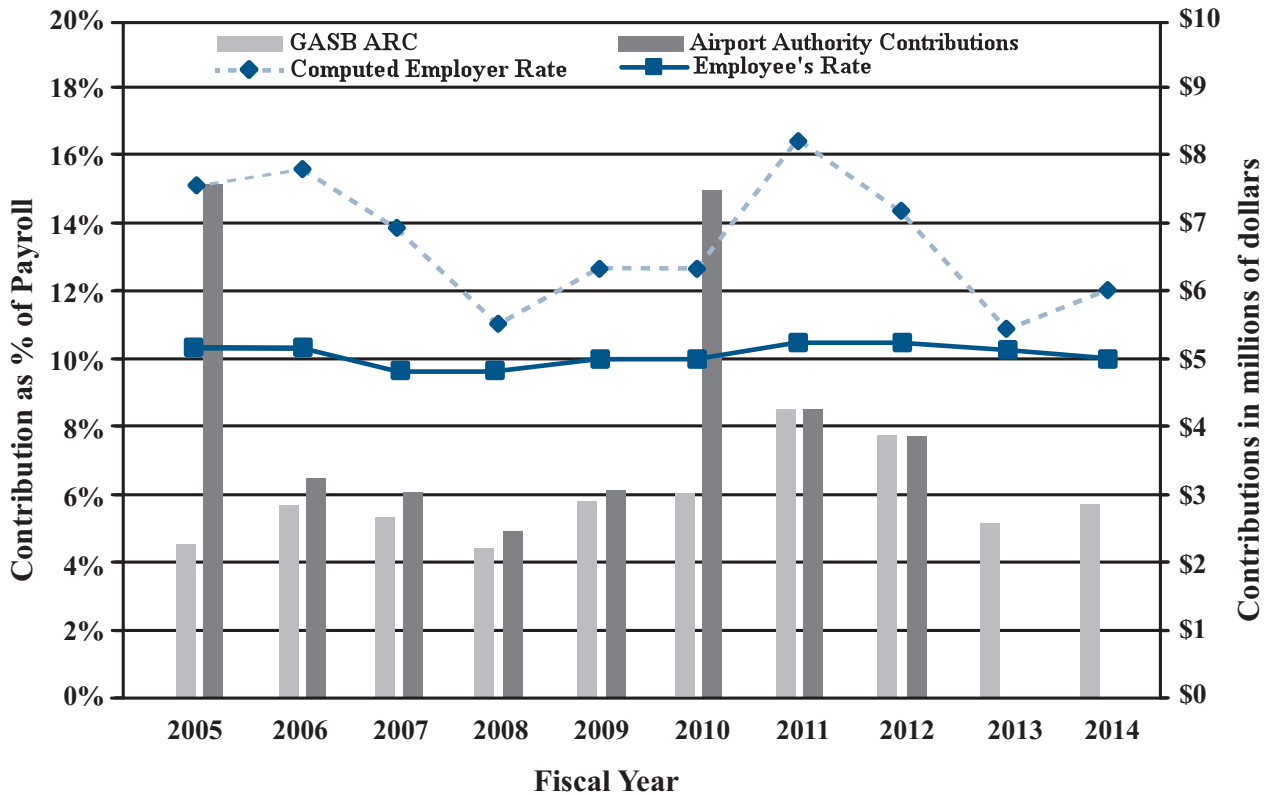
SDCERS - Unified Port District and Member Contribution Rates FY 2004 - 2014



San Diego City Employees' Retirement System
Summary of June 30, 2012 Valuation Results (continued)

3. Contribution Rates

SDCERS - Airport Authority and Member Contribution Rates 2005 - 2014



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).

Other than the City in FY 2004 and 2005, all three plan sponsors have consistently contributed at or above the ARC during the period shown. The charts also show the significant increase and volatility in the calculated employer contribution rates (except for the Airport), in contrast to the relative stability of the employee rates.

San Diego City Employees' Retirement System Summary of June 30, 2012 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

Valuation Date	June 30, 2012	June 30, 2011
Unfunded Actuarial Liability (millions)	\$2,279.3	\$2,177.8
Funding Ratio	68.6%	68.5%
City Contribution Rate	59.5%	46.6%

Fiscal Year	2014	2013
Annual Required Contribution (GASB):		
• if paid at the beginning of the year	\$275.4 million	\$231.1 million
• if paid throughout the year	\$285.5 million	\$239.6 million

SDCERS - City of San Diego - Membership Total

Item	June 30, 2012	June 30, 2011	% Change
Active Counts	7,724	7,792	-0.9%
Terminated Vested	2,892	2,894	-0.1
Disabled	1,221	1,236	-1.2
Retirees	5,796	5,480	5.8
Beneficiaries	1,188	1,186	0.2
Total City Members	18,821	18,588	1.3%
Active Member Payroll	\$511,090,601	\$514,264,750	-0.6%
Average Pay per Active Member	66,169	65,999	0.3

SDCERS - City of San Diego - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2012	June 30, 2011	% Change
Actives	\$2,352,526,805	\$2,290,825,686	2.7%
Terminated Vested	284,094,147	282,131,441	0.7
Disabled	445,229,719	444,219,844	0.2
Retirees	4,003,952,290	3,731,195,224	7.3
Beneficiaries	175,927,694	168,802,807	4.2
Total Actuarial (EAN) Liability	\$7,261,730,655	\$6,917,175,002	5.0%
Market Value Assets	\$4,799,827,000	\$4,848,054,164	-1.0%
Actuarial Value Assets	4,982,441,649	4,739,398,719	5.1
Unfunded Actuarial Liability	\$2,279,289,006	\$2,177,776,283	4.7%
Funding Ratio-Actuarial Value	68.6%	68.5%	0.1%

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

1. UAL at June 30, 2011	\$2,177.8
2. Expected change in UAL*	(46.6)
3. Investment experience less than projected	91.4
4. Liability experience loss	40.2
5. Liability loss due to method change	7.9
6. Employee contributions paid less than expected	8.4
7. Purchased service credits paid for during the year **	0.2
8. Total change in UAL: sum of 2 through 7	101.5
9. UAL at June 30, 2012: 1 + 8	\$2,279.3

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

1. ARC at June 30, 2011	\$231.1
2. Expected change in ARC*	5.1
3. Investment experience less than projected	8.3
4. Liability experience loss	4.7
5. Reduction due to method change	(0.3)
6. Employee contributions paid less than expected	0.8
7. Effect of Proposition B plan closure and level dollar amortization	27.0
8. Other misc changes	(1.3)
9. Total change in ARC: sum of 2 through 8	44.3
10. ARC at June 30, 2012: 1 + 9	\$275.4

* Includes projected phase-in of investment gains or losses

** Attributable to Members who have entered into a purchased service credit contract after June 30, 2011. Only Members hired before July 1, 2005 are still eligible to purchase additional "airtime" service credits.

* Includes projected phase-in of investment gains or losses

San Diego City Employees' Retirement System

Summary of June 30, 2012 Valuation Results (continued)

3. Contribution Rates

SDCERS - Unified Port District

Valuation Date	June 30, 2012	June 30, 2011
Unfunded Actuarial Liability (millions)	\$104.2	\$95.5
Funding Ratio	72.7%	73.1%
City Contribution Rate	39.3%	38.8%

Fiscal Year	2014	2013
Annual Required Contribution (GASB):		
• if paid at the beginning of the year	\$13.9 million	\$13.2 million
• if paid throughout the year	\$14.4 million	\$13.7 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2012	June 30, 2011	% Change
Active Counts	435	464	-6.3%
Terminated Vested	290	287	1.0
Disabled	64	63	1.6
Retirees	342	336	1.8
Beneficiaries	69	65	6.2
Total UPD Members	1,200	1,215	-1.2%
Active Member Payroll	\$34,541,640	\$34,632,573	-0.3%
Average Pay per Active Member	79,406	74,639	6.4

SDCERS - Unified Port District - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2012	June 30, 2011	% Change
Actives	\$148,611,793	\$132,056,364	12.5%
Terminated Vested	14,447,739	14,926,798	-3.2
Disabled	18,907,495	16,220,505	16.6
Retirees	190,322,590	182,237,852	4.4
Beneficiaries	9,723,543	9,395,650	3.5
Total Actuarial Liability	\$382,013,160	\$354,837,169	7.7%
Market Value Assets	\$271,703,000	\$269,380,373	0.9%
Actuarial Value Assets	277,821,539	259,315,200	7.1
Unfunded Actuarial Liability	\$104,191,621	\$95,521,969	9.1%
Funding Ratio-Actuarial Value	72.7%	73.1%	-0.4%

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

1. UAL at June 30, 2011	\$95.5
2. Expected change in UAL*	(3.0)
3. Investment experience less than projected	4.8
4. Liability experience loss	5.3
5. Liability loss due to method change	2.4
6. Employee contributions paid in excess of expected	(0.6)
7. Purchased service credits paid for during the year **	(0.2)
8. Total change in UAL: sum of 2 through 7	8.7
9. UAL at June 30, 2012: 1 + 8	\$104.2

*Includes projected phase-in of investment gains or losses

**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, 2011	\$13.2
2. Expected change in ARC*	0.1
3. Investment experience less than projected	0.4
4. Liability experience loss	0.2
5. Reduction due to method change	(0.2)
6. Employee contributions paid in excess of expected	(0.1)
7. Other misc changes	0.2
8. Total change in ARC: sum of 2 through 7	0.7
9. ARC at June 30, 2012: 1 + 8	\$13.9

*Includes projected phase-in of investment gains or losses

San Diego City Employees' Retirement System Summary of June 30, 2012 Valuation Results (continued)

3. Contribution Rates

SDCERS - Airport Authority

	Valuation Date	June 30, 2012	June 30, 2011
Unfunded Actuarial Liability (millions)		\$1.4	\$(2.3)
Funding Ratio		98.5%	102.7%
City Contribution Rate		11.9%	10.9%
	Fiscal Year	2014	2013
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year		\$2.9 million	\$2.6 million
• if paid throughout the year		\$3.0 million	\$2.7 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2012	June 30, 2011	% Change
Active Counts	341	344	-0.9%
Terminated Vested	76	75	1.3
Disabled	1	1	0.0
Retirees	41	33	24.2
Beneficiaries	4	4	0.0
Total Airport Authority Members	463	457	1.3%
Active Member Payroll	\$24,726,028	\$25,148,489	-1.7%
Average Pay per Active Member	72,510	73,106	-0.8

SDCERS - Airport Authority - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2012	June 30, 2011	% Change
Actives	\$70,540,876	\$63,899,462	10.4%
Terminated Vested	4,246,096	4,010,179	5.9
Disabled	228,252	226,161	0.9
Retirees	21,356,642	15,054,748	41.9
Beneficiaries	852,988	851,875	0.1
Total Actuarial (EAN) Liability	\$97,224,854	\$84,042,425	15.7%
Market Value Assets	\$91,997,000	\$86,911,148	5.9%
Actuarial Value Assets	95,792,613	86,309,270	11.0
Unfunded Actuarial Liability	\$1,432,241	\$(2,266,845)	-163.2%
Funding Ratio-Actuarial Value	98.5%	102.7%	-4.2%

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

1. UAL at June 30, 2011	(\$2.3)
2. Expected change in UAL*	(0.4)
3. Investment experience less than projected	1.4
4. Liability experience loss	0.5
5. Liability loss due to method change	1.4
6. Employee contributions paid less than expected	0.7
7. Total change in UAL: sum of 2 through 6	3.7
8. UAL at June 30, 2012: 1 + 7	\$1.4

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

1. ARC at June 30, 2011	\$2.6
2. Expected change in ARC*	0.1
3. Investment experience less than projected	0.1
4. Reduction due to method change	(0.1)
5. Employee contributions paid less than expected	0.1
6. Increase in negative amortization cost component	0.1
7. Other misc changes	-
8. Total change in ARC: sum of 2 through 7	0.3
9. ARC at June 30, 2012: 1 + 8	\$2.9

* Includes projected phase-in of investment gains or losses

* Includes projected phase-in of investment gains or losses

San Diego City Employees' Retirement System
Summary of June 30, 2012 Valuation Results (continued)

4. Summary of Assumptions and Methods

A. Funding Method

The Entry Age Normal funding method was used for active employees, whereby the normal cost rate is computed as the average level annual percent of pay required to fund the retirement benefits for all Members between their dates of hire and assumed dates of retirement. The EAN actuarial liability is the difference between the plan's total present value of future benefits and the present value of future normal costs, calculated for each sub-group (e.g., General). The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets, and is allocated to each sub-group based on its liability.

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, for the Police portion of the City plan, the Unified Port District, and the Airport Authority. The payments for the non-Police portion of the City plan are determined as level dollar amounts. The UAL for FY 2014 is amortized over several different periods, which as of June 30, 2012, are as follows:

City of San Diego

- 2012 Non-Police UAL – 15 years (level dollar payments)
- 2012 Method Change – 30 years
- 2012 Experience Loss – 15 years
- 2011 Assumption Change – 29 years
- 2011 Experience Gain – 14 years
- 2010 Experience Gain (PSC) – 12 years
- 2010 Experience Loss – 13 years
- 2009 Experience Loss – 12 years
- 2008 Experience Loss – 11 years
- 2008 Assumption Change – 26 years
- 2007 Original UAL – 15 years

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

<u>Unified Port District</u>	<u>Airport Authority</u>
2012 Method Change – 30 years	2012 Method Change – 30 years
2012 Experience Loss – 15 years	2012 Experience Loss – 15 years
2011 Assumption Change – 29 years	2011 Assumption Change – 29 years
2011 ERIP – 19 years	2011 Experience Gain – 14 years
2011 Experience Gain – 14 years	2010 Experience Gain (PSC) - 13 years
2010 Experience Loss – 13 years	2010 Experience Gain – 13 years
2009 Experience Loss – 12 years	2009 Experience Loss – 12 years
2008 Experience Loss – 11 years	2008 Experience Gain – 11 years
2008 Assumption Change – 26 years	2008 Assumption Change – 26 years
2007 Original UAL – 9 years	2007 Original UAL – 9 years

For all three plan sponsors, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

B. Actuarial Value of Assets

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

San Diego City Employees' Retirement System Summary of June 30, 2012 Valuation Results (continued)

The actuarial value of assets each year is equal to 100% of the expected actuarial value of assets¹ 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

The present value of future normal costs under the Entry Age Normal funding method is now calculated individually for each member, instead of in aggregate for all members. This method change does not impact the value of total benefit liabilities.

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, 2012 Valuation Results (continued)

4. Summary of Assumptions and Methods

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

Age	General and Safety	
	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

Age	General		Safety	
	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, 2012 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

Age	General		Safety	
	Male	Female	Male	Female
40	1.45%	0.07%	0.19%	0.20%
45	1.65	0.11	0.25	0.26
50	1.63	0.17	0.44	0.36
55	1.86	0.27	0.56	0.55
60	2.19	0.51	0.78	0.80
65	2.99	0.97	1.39	1.18
70	3.76	1.67	2.24	1.72
75	5.42	2.81	3.59	2.67
80	7.90	4.59	6.93	4.53
85	12.48	7.74	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 3.75% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2012 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 3.75% 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, 2012 Valuation Results (continued)

Retirement

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

Service	General		Safety	
	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, 2012 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, 2012 Valuation Results (continued)

SDCERS - Unified Port District
Rates of Retirement by Service Years

Service	General		Safety	
	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, 2012 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 (following an assumed freeze in FY 2014 for City and Airport Authority. A freeze had also been assumed for FY 2013 for City and Airport Authority).

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.

F. Assumption Changes Since Last Valuation

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, 2012 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

SDCERS - City of San Diego

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2012	7,724	\$511,090,601	\$66,169	0.26%
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

SDCERS - Unified Port District

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2012	435	\$34,541,640	\$79,406	6.39%
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

SDCERS - Airport Authority

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2012	341	\$24,726,028	\$72,510	-0.81%
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

San Diego City Employees' Retirement System
Summary of June 30, 2012 Valuation Results (continued)

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

SDCERS – City of San Diego

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/2012	493	\$22,347,927	57.6	190	\$4,458,749	79.7	8,205	\$350,163,968	66.5	7.17%	\$42,677
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

SDCERS – Unified Port District

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/2012	27	\$980,818	64.3	16	\$271,767	74.7	475	\$17,847,929	67.6	6.09%	\$37,575
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

SDCERS – Airport Authority

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/2012	8	\$448,928	61.0	-	-	N/A	46	\$1,716,384	64.5	36.26%	\$37,313
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

San Diego City Employees' Retirement System Summary of June 30, 2012 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands) ¹				Portion of Accrued Liabilities Covered by Reported Assets		
	(A) Active Member Contributions	(B) Retirees And Beneficiaries	(C) Remaining Active Members' Liabilities	Reported Assets ²	(A)	(B)	(C)
6/30/2012	\$662,488	\$4,625,110	\$1,974,133	\$4,982,442	100.00%	93.40%	0.00%
6/30/2011 ³	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 ³	522,966	3,286,668	2,153,916	4,660,346	100.00	100.00	39.50
6/30/2007	482,526	3,101,594	2,013,532	4,413,411	100.00	100.00	41.19

SDCERS - Unified Port District

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands) ¹				Portion of Accrued Liabilities Covered by Reported Assets		
	(A) Active Member Contributions	(B) Retirees And Beneficiaries	(C) Remaining Active Members' Liabilities	Reported Assets ²	(A)	(B)	(C)
6/30/2012	\$21,236	\$218,954	\$141,824	\$277,822	100.00%	100.00%	26.53%
6/30/2011 ³	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 ³	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

SDCERS - Airport Authority

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands) ¹				Portion of Accrued Liabilities Covered by Reported Assets		
	(A) Active Member Contributions	(B) Retirees And Beneficiaries	(C) Remaining Active Members' Liabilities	Reported Assets ²	(A)	(B)	(C)
6/30/2012	\$11,371	\$22,438	\$63,416	\$95,793	100.00%	100.00%	97.74%
6/30/2011 ³	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 ³	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

¹ Reflects contingent liabilities, Corbett pre-July 1, 2000 (City only) and 13th check (all plans), DROP reserves, Supplemental COLA reserves (City only) and IRC section 415 limits.

² Actuarial Value of Assets

³ Reflects revised actuarial and economic assumptions

San Diego City Employees' Retirement System
Summary of June 30, 2012 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
6/30/2012	\$(62,151,335)	\$(40,430,537)	\$(102,581,872)	\$(16,289,062)	\$(118,870,935)
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)

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
6/30/2012	\$(2,056,053)	\$(5,096,839)	\$(7,152,892)	\$(1,768,281)	\$(8,921,173)
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)

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
6/30/2012	\$(1,291,682)	\$(510,059)	\$(1,801,741)	\$(2,175,243)	\$(3,976,984)
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)

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San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2012

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.

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 and for any unclassified employees initially hired before July 20, 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)

Membership is permissive for Elected Officers who initially assume office prior to July 20, 2012. (§24.1702, City Charter §140)

2. Monthly Base Salary for Benefits

Highest one year period for General Members hired before July 1, 2009, Police Safety Members on active City payroll before January 1, 2012; Lifeguard Safety Members on active City payroll before July 1, 2011; and Fire Safety Members on active payroll before January 1, 2012. (§24.0103)

The average of the three highest years at any time during membership for General Members hired on or after July 1, 2009, Police Safety Members hired on or after January 1, 2012, Lifeguard Safety Members hired after June 30, 2011 and Fire Safety Members hired on or after January 1, 2012. (§24.0103)

Final monthly compensation for Elected Officers. (§24.1706)

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)

Unified Port of San Diego

**San Diego County
Regional Airport Authority**

Membership is mandatory upon first day of employment for all full-time UPD employees. (§0103)

Classic Participant means any Member who is not a PEPRA Participant.

PEPRA Participant means any Member hired on or after January 1, 2013 who has never been a member of a public retirement system or who had a break in service of more than six months before their UPD hire date. (§0102)

General Member means any Member hired before January 1, 2009, who is not a Safety Member or a Miscellaneous Member. (§0102)

Executive Member means a Classic Participant General Member who holds an Executive Member position. (§0300)

Miscellaneous Member means a full-time UPD employee hired after December 31, 2008, who is not a Safety Member. A Miscellaneous Member does not begin earning service credit until the 1st day of their 6th year of employment. (§0102)

Safety Member means any Member who is a full-time Harbor Police Officer or a Harbor Police Officer Trainee.

Membership is mandatory upon first day of employment for all full-time Airport employees. (§0103)

Classic Participant means any Member who is not a PEPRA Participant. (§0102)

PEPRA Participant means any Member hired on or after January 1, 2013 who has never been a member of a public retirement system or who had a break in service of more than six months before their Airport hire date. (§0102)

Executive Member means a Classic Participant General Member who holds an Executive Member position. (§0300)

Andrecht-Covered Member means a Member who was both (i) a UPD employee on December 31, 2002 and became an Airport Authority employee on or after January 1, 2003 and (ii) was employed by the UPD and contributing to SDCERS on January 1, 2002. (§0102)

Classic Participants: Highest one-year period divided by 12 for General Members hired before October 1, 2006, and Safety Members hired before January 1, 2010. (§0102)

Highest three-year period divided by 36 for General Members hired on or after October 1, 2006 and Miscellaneous Members. (§0102)

Final three year-period divided by 36 for Safety Members hired on or after January 1, 2010. (§0102)

PEPRA Participants: For all Members, highest average three consecutive years during service divided by 36. Base Salary cannot exceed 100% of the contribution and benefit base specified in 42 USC §430(b). (§0300)

Classic Participants: Highest contiguous 26 bi-weekly pay periods divided by 12. (§0102)

PEPRA Participants: Highest 36 consecutive months divided by 36. (§0102) Base Salary cannot exceed 100% of the contribution and benefit base specified in 42 USC §430(b). (§0300)

Classic Participants:

General Members - Age 62 with 5 years of earned service, or age 55 with 20 years of service. (§0300)

Miscellaneous Members – Age 62 with 5 years of service, or age 55 with 20 years of service. (§0301)

Safety Members hired before January 1, 2010 - Age 55 with 5 years of earned service, or age 50 with 20 years of service. (§0302)

Safety Members hired on or after January 1, 2010- Age 55 with 5 years of service, or any age with 30 years of service. (§0302)

PEPRA Participants:

Miscellaneous Members: Age 62 with 5 years of service or age 55 with 20 years of service. (§0301)

Safety Members: Age 50 with 5 or more years of earned service. (§0302)

Classic Participants:

General Members - Age 62 with 5 years of earned service or age 55 with 20 years of service. (§0300)

PEPRA Participants:

General Members – Age 52 with 5 years of earned service. (§0300)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
 As of June 30, 2012

City of San Diego

<p>Benefit Formula Per Year of Service General Members</p>	<p>General Members who joined the System before July 1, 2002 - 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, increasing to 2.55% at age 65; or, (3) 2.5% per year of service at age 55, increasing to 2.8% at age 65, not to exceed 90% of Final Compensation. (§24.0402)</p> <p>General Members who joined the System on or after July 1, 2002 and prior to July 1, 2009 - 2.5% per year of service at age 55, increasing to 2.8% per year of service at age 65, not to exceed 90% of Final Compensation. (§24.0402)</p> <p>For General Members hired on or after July 1, 2009 through July 19, 2012, 1.0% per year of service at age 55, increasing to 2.6% at age 65, not to exceed 80% of Final Compensation. (§24.0402.0001)</p>
<p>Miscellaneous Members (Port only)</p>	<p>N/A</p>
<p>Executive General Members Port & Airport only (where not specifically identified, treated as part of General Members)</p>	<p>N/A</p>
<p>Safety Members (City - Fire & Police, Port - Harbor Police)</p>	<p>Police Safety Members hired before July 1, 2009 - 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 Average Compensation; or, (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0403)</p> <p>Fire Safety Members hired before January 1, 2012 - 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 Average Compensation or (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0403)</p> <p>Police Safety Members hired on or after July 1, 2009 and Fire Safety Members hired on or after January 1, 2012 through July 19, 2012 - 2.5% at age 50, increasing to 3.0% at age 55, not to exceed 90% of Final Compensation. (§24.0405.0002 and 24.0405.0003)</p> <p>Police Safety Members hired on or after July 1, 2013 - 2.5% at age 50, increasing to 3.0% at age 55, not to exceed 80% of Final Compensation when retiring at age 55. A 3% annual reduction factor applies to benefits when retiring prior to age 55. (§24.0405.0002 and City Charter §141.1)</p>
<p>Safety Members (City - Lifeguard)</p>	<p>Lifeguard Safety Members hired before July 1, 2011 - Choice of: (1) 2.2% per year of service 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% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0403)</p> <p>Lifeguard Safety Members hired on or after July 1, 2011 through July 19, 2012 - 2.5% at age 50 increasing to 3% at age 55, not to exceed 90% of Final Compensation. (§24.0405.0004)</p>
<p>Elected Officers</p>	<p>3.5% per year of service. (§24.1706) A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55. (§24.1705)</p>

Unified Port of San Diego

**San Diego County
Regional Airport Authority**

<p>Classic Participants: 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))</p> <p>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)).</p>	<p>Classic Participants:</p> <p>Andrecht-Covered Members (§0102) - 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, increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, increasing to 3.0% at age 65, not to exceed 90% of Final Compensation. (§0300)</p> <p>Non- Andrecht-Covered Members (§0102) - 2.5% per year of service at age 55, increasing to 3.0% at age 65, not to exceed 90% of Final Average Compensation. (§0300)</p> <p>PEPRA Participants: 1% per year of service at age 52, increasing to 2.5% at age 67, not to exceed 90% of Final Compensation. (§0300)</p>
<p>Classic and PEPRA Participants: (1) 0.75% per year of service for the first through fifth years of service; (2) 1% per year of service for the sixth through tenth years of service; (3) 1.25% per year of service for the eleventh through fifteenth years of service; and (4) 1.5% per year for each additional year of service beginning with the member's sixteenth year of service. (§0301)</p>	<p>N/A</p>
<p>Executive Members who take office before January 1, 2013 - 3% per year of service at age 55. (§0300)</p> <p>Executive Members who take office on or after January 1, 2103 - a blended benefit based on their two categories of service. (§0300)</p>	<p>Executive Members who take office before January 1, 2013 - 3% per year of service at age 55. (§0300)</p> <p>Executive Members who take office on or after January 1, 2103 - a blended benefit based on their two categories of service. (§0300)</p>
<p>Classic Participants:</p> <p>Safety Members hired before January 1, 2010 - Choice of (1) 2.5% per year of service at age 50, increasing to 2.7% at age 55, with 10% increase in Final Compensation or (2) 3.0% per year of service at age 50 not to exceed 90% of Final Compensation. (§0302)</p> <p>Safety Members hired on or after January 1, 2010 - 3% per year of service at age 50, not to exceed 90% of Final Compensation. (§0300)</p> <p>PEPRA Participants:</p> <p>2.0% per year of service at age 50, increasing to 2.7% at age 57, not to exceed 90% of Final Compensation.</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2012

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 surviving spouse or registered domestic partner, who has been designated as a beneficiary, 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 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

Choice of:

Maximum Benefit - Provides the highest possible monthly allowance to the member for their lifetime and guarantees their eligible surviving spouse or registered domestic partner, who is designated as a beneficiary, 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 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 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 - N/A

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 surviving spouse or registered domestic partner, who is designated as a beneficiary, 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 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 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 - The member may select this option in addition to one of the other five payment choices only if the member 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. (§0607)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2012

City of San Diego

<p>4. Non-Industrial Disability Eligibility All Members</p>	<p>Ten years of service credit. (City Charter §141)</p>
<p>Benefit Formula Per Year of Service General Members</p> <p>Miscellaneous Members (Port only)</p> <p>Safety Members</p> <p>Elected Officers</p>	<p>Greater 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)</p> <p>N/A</p> <p>Greater 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)</p> <p>Earned service retirement benefit. (§24.1707)</p>
<p>5. Industrial Disability Eligibility All Members</p>	<p>No age or service requirement. (§24.0501)</p>
<p>Benefit Formula Per Year of Service General Members</p> <p>Miscellaneous Members (Port only)</p> <p>Safety Members</p> <p>Elected Officers</p>	<p>Greater of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0505)</p> <p>N/A</p> <p>Greater of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0503)</p> <p>Earned service retirement benefit. (§24.1707)</p>
<p>6. Non-Industrial Death Before Eligible to Retire</p>	<p>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)</p>
<p>7. Non-Industrial Death After Eligible to Retire for Service All Members</p>	<p>50% of earned benefit payable to eligible surviving spouse or domestic partner designated as a beneficiary, or dependent child(ren) under 18 years of age. (§24.0704)</p>

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 plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions, the greater of 1.5% per year of service, one-third of final compensation plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions, or the earned service retirement benefit, if eligible. (§0506)	Choice of: (1) 1.5% per year of service multiplied by final compensation plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions; (2) one-third of final compensation; plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions 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 plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions or earned service retirement benefit. (§0507)	N/A
Greater of 1.8% per year of service plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions, one-third of final compensation plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions, 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 plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions, or the earned service retirement benefit, if eligible. (§0502)	Choice of: (1) one-third of final compensation plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions 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 plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions or earned service retirement benefit, if eligible. (§0503)	N/A
Greater of one-half of final compensation plus an Annuity based on the Member's COL Annuity and Surviving Spouse contributions, 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 or registered domestic partner designated as a beneficiary, or dependent child(ren) 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 or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. (§0703)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2012

City of San Diego

8. Industrial Death	50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or child(ren) under 18 years of age. (§24.0705)
General Members	
Safety Members	50% of the final average compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or child(ren) under 18 years of age. (§24.0705)
9. Death After Retirement	Continuance to surviving beneficiary depending on benefit selection made at retirement. (See Retirement Payment Options section) \$2,000 payable in lump sum to the beneficiary or, if no beneficiary or the designated beneficiary is the Member's estate and the estate will not be probated, to the next of kin of the retiree. If none of the above, SDCERS can pay towards funeral expenses. (§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 any time after eligible to retire. (§24.0206, 24.0306)
11. Post-Retirement Cost-of-Living Adjustment	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505) Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)
General Members	
Safety Members	
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**

<p>50% of the final average compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) 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)</p>	<p>50% of the final average compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. (§0704)</p>
<p>50% of the final average compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. (§0704)</p>	<p>N/A</p>
<p>Continuance to surviving beneficiary depending on benefit selection made at retirement. (See Retirement Payment Options section) \$2,000 payable in lump sum to the beneficiary; if no beneficiary or the designated beneficiary is the Member's estate and the estate will not be probated, to the next of kin of the retiree. If none of the above, SDCERS can pay towards funeral expenses. (§0708)</p>	<p>Continuance to surviving beneficiary depending on benefit selection made at retirement. (See Retirement Payment Options section) \$2,000 payable in lump sum to the beneficiary; if no beneficiary or the designated beneficiary is the Member's estate and the estate will not be probated, to the next of kin of the retiree. If none of the above, SDCERS can pay towards funeral expenses. (§0708)</p>
<p>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)</p> <p>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 any time after eligible to retire. (§0205)</p>	<p>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)</p> <p>2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing any time after eligible to retire. (§0205)</p>
<p>Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)</p>	<p>Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)</p>
<p>Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)</p>	<p>N/A</p>
<p>Actuarial equivalent of accumulated contributions in cost-of-living annuity account at time of retirement. (§0300)</p>	<p>Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)</p>
<p>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.</p>	<p>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.</p>
<p>Benefits provided by the 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))</p>	<p>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))</p>
<p>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)</p>	<p>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)</p>

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2012

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 an 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 for eligible members. 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 (employee) cease making normal cost 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 DROP 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 DROP 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 occurs 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 can be 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

Statistical Section

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 position, 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 Position

For the Years Ended June 30

10-Year Review (Dollars in Thousands)

Fiscal Year	Additions	Deductions	Net Change	Net Position	
				Beginning of Year	End of Year
2013	\$1,037,021	\$425,147	\$611,874	\$4,710,508	\$5,322,382
2012	345,778	405,070	(59,292)	4,769,800	4,710,508
2011	1,395,848	412,008	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

San Diego City Employees' Retirement System Changes in Plan Net Position by Plan Sponsor¹

For the Years Ended June 30 (Dollars in Thousands)

	Fiscal Year	Additions	Deductions	Net Change	Net Position	
					Beginning of Year	End of Year
City of San Diego	2013	\$961,806	\$403,486	\$558,320	\$4,359,360	\$4,917,680
	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	2013	\$56,670	\$19,272	\$37,398	\$260,865	\$298,263
	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	2013	\$18,545	\$2,389	\$16,156	\$90,283	\$106,439
	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

¹In 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 Position 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	2013	\$246,943	\$5,364	\$61,539	\$7,374	\$923	\$714,594	\$884	\$1,037,021
% of Total		23.9%	0.5%	5.9%	0.7%	0.0%	68.9%	0.1%	100.0%
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	1,039,545	306	1,395,848
% 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

¹Earned Interest on PSC Installment Contracts was presented separately in the Statement of Changes in Plan Net Position 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 Position.

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.

Statistical Section

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

(Dollars in Thousands)

	Fiscal Year	Retirement, Death and Disability Benefits	Health Insurance Payments ³	Administrative Expenses	DROP Program Interest Expense	Allowance for Uncollectable Purchased Service Payments ¹	Litigation Settlement Expense ²	Refunds of Member Contributions	Total Deductions
Dollars	2013	\$382,060	\$ -	\$12,979	\$26,044	\$ -	\$ -	\$4,064	\$425,147
% of Total		89.9%	-	3.0%	6.1%	-	-	1.0%	100.0%
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	-	19,103	20,263	-	-	3,394	278,023
% of Total		84.6	-	6.9	7.3	-	-	1.2	100.0
Dollars	2006	214,705	-	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	7,910	11,961	16,520	12	-	2,803	240,213
% of Total		83.7	3.3	5.0	6.9	-	-	1.1	100.0
Dollars	2004	161,659	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

¹ Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Position 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 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 ¹	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2013	6,042	1,212	25	1,175	8,454
Annual Allowances		\$312,484,356	\$39,605,126	\$711,764	\$18,765,527	\$371,566,773
No. of Allowances	2012	5,796	1,221	25	1,163	8,205
Annual Allowances		293,127,220	38,696,914	702,400	17,637,434	350,163,968
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
Annual 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
Annual 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

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

	As of Fiscal Year ¹	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2013	346	64	-	75	485
Annual Allowances		\$15,717,792	\$1,592,871	-	\$1,360,274	\$18,670,937
No. of Allowances	2012	342	64	-	69	475
Annual Allowances		15,235,817	1,561,905	-	1,050,207	17,847,929
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
Annual Allowances		8,693,247	1,184,093	11,177	689,165	10,577,683
No. of Allowances	2007	233	61	1	54	349
Annual Allowances		7,910,275	1,175,107	10,970	689,993	9,786,345
No. of Allowances	2006	211	62	1	51	325
Annual Allowances		6,949,595	1,175,661	10,106	595,775	8,731,137
No. of Allowances	2005	192	60	1	53	306
Annual Allowances		6,003,128	1,081,191	9,908	558,626	7,652,853
No. of Allowances	2004	180	59	1	50	290
Annual Allowances		5,220,222	1,054,400	9,714	496,204	6,780,540

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

	As of Fiscal Year ¹	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2013	45	2	-	4	51
Annual Allowances		\$1,909,883	\$34,380	-	\$69,636	\$2,013,899
No. of Allowances	2012	41	1	-	4	46
Annual Allowances		1,633,186	14,916	-	68,282	1,716,384
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
Annual Allowances		220,945	-	-	-	220,945
No. of Allowances	2004	3	-	-	-	3
Annual Allowances		71,779	-	-	-	71,779

¹FY 2013 data is preliminary as the June 30, 2013 valuation has not been completed by SDCERS' actuary. Data for all other years is final data from the respective June 30 valuations.

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

San Diego City Employees' Retirement System
Retired Members by Type of Benefit¹
For the Year Ended June 30, 2012²

City of San Diego

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	1,035	311	112	612
\$1,001 - \$2,000	1,587	755	467	365
\$2,001 - \$3,000	1,421	1,051	246	124
\$3,001 - \$4,000	1,136	895	192	49
\$4,001 - \$5,000	831	743	62	26
\$5,001 - \$6,000	803	746	52	5
\$6,001 - \$7,000	615	559	52	4
\$7,001 - \$8,000	384	358	25	1
\$8,001 - \$9,000	196	186	8	2
\$9,001 - \$10,000	89	86	3	0
Over \$10,000	108	106	2	0
	8,205	5,796	1,221	1,188

San Diego Unified Port District

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	73	31	6	36
\$1,001 - \$2,000	113	59	34	20
\$2,001 - \$3,000	91	66	16	9
\$3,001 - \$4,000	69	64	3	2
\$4,001 - \$5,000	43	40	3	0
\$5,001 - \$6,000	29	27	1	1
\$6,001 - \$7,000	23	23	0	0
\$7,001 - \$8,000	12	11	0	1
\$8,001 - \$9,000	6	5	1	0
\$9,001 - \$10,000	3	3	0	0
Over \$10,000	13	13	0	0
	475	342	64	69

San Diego County Regional Airport Authority

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	3	3	0	0
\$1,001 - \$2,000	14	10	1	3
\$2,001 - \$3,000	15	14	0	1
\$3,001 - \$4,000	4	4	0	0
\$4,001 - \$5,000	0	0	0	0
\$5,001 - \$6,000	4	4	0	0
\$6,001 - \$7,000	2	2	0	0
\$7,001 - \$8,000	1	1	0	0
\$8,001 - \$9,000	1	1	0	0
\$9,001 - \$10,000	1	1	0	0
Over \$10,000	1	1	0	0
	46	41	1	4

¹Data above reflects the number of retirement allowances paid. Death beneficiaries include QDROs, and do not include lump sum payments to beneficiaries for members who died before or after retirement.

² Data for FY 2012 is the most recent available from SDCERS' actuary.

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

Fiscal Year ¹	Number of Allowances	Annual Allowances Paid	Averages				
			Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
City of San Diego							
2013	8,454	\$371,566,773	\$43,952	2.99%	66.7	55.4	23.8
2012	8,205	350,163,968	42,677	3.21	66.5	55.4	23.7
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
San Diego Unified Port District							
2013	485	\$18,670,937	\$38,497	2.45%	68.1	57.6	18.4
2012	475	17,847,929	37,575	3.63	67.6	57.7	18.5
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
San Diego County Regional Airport Authority							
2013	51	\$2,013,899	\$39,488	5.83%	64.8	61.8	15.7
2012	46	1,716,384	37,313	12.56	64.5	62.0	15.7
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	65.1	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

¹FY 2013 data is preliminary as the June 30, 2013 valuation has not been completed by SDCERS' actuary. Data for all other years is final data from the respective June 30 valuations.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement¹
As of Fiscal Years Ended June 30²

			Years Of Creditable Service						
			0-5	6-10	11-15	16-20	21-25	26-30	31+
City of San Diego	2012	Average Monthly Benefit	\$1,101	\$-	\$1,641	\$3,165	\$3,693	\$5,524	\$5,306
		Average Final Monthly Salary	13,908	-	4,898	6,349	5,942	6,853	6,166
		Number of New Retirees	2	-	38	24	127	118	59
	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	2012	Average Monthly Benefit	\$654	\$1,661	\$1,288	\$-	\$5,070	\$7,453	\$7,023
		Average Final Monthly Salary	8,371	8,930	4,905	-	8,510	9,275	8,706
		Number of New Retirees	1	4	3	-	4	1	2
	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	

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

² Data for FY 2012 is the most recent available from SDCERS' actuary.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement¹ (continued)
 As of Fiscal Years Ended June 30²

			Years Of Creditable Service						
			0-5	6-10	11-15	16-20	21-25	26-30	31+
San Diego County Regional Airport Authority	2012	Average Monthly Benefit	\$882	\$1,349	\$7,679	\$-	\$4,057	\$10,070	\$-
		Average Final Monthly Salary	14,912	6,234	16,867	-	6,444	11,001	-
		Number of New Retirees	1	2	2	-	2	-	-
	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.

² Data for FY 2012 is the most recent available from SDCERS' actuary.

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

Averages

Fiscal Year ¹	Number of Members	Salaries	Annual Salary	Percentage Increase Over Prior Year	Current Age	Years of Service Credit
City of San Diego						
2013	7,565	\$500,063,180	\$66,102	-0.10%	44.5	13.3
2012	7,724	511,090,601	66,169	0.26	44.3	13.2
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	536,591,287	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
San Diego Unified Port District						
2013	416	\$34,509,569	\$82,956	4.47%	45.9	12.5
2012	435	34,541,640	79,406	6.39	45.1	11.5
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
San Diego County Regional Airport Authority						
2013	346	\$25,666,328	\$74,180	2.30%	48.1	9.9
2012	341	24,726,028	72,510	-0.81	47.7	9.3
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

¹FY 2013 data is preliminary as the June 30, 2013 valuation has not been completed by SDCERS' actuary. Data for all other years is final data from the respective June 30 valuations.

San Diego City Employees' Retirement System Inactive Members¹ As of Years Ended June 30

Fiscal Year ²	Number of Inactive Members	Total Contribution Balances	Averages		
			Current Age	Years of Service Credit	Contribution Balance
City of San Diego					
2013	2,972	\$134,163,585	46.2	6.6	\$45,143
2012	2,892	123,281,448	45.8	6.7	42,628
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
San Diego Unified Port District					
2013	287	\$5,204,204	49.2	4.4	\$18,133
2012	290	5,094,210	49.0	4.4	17,566
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
San Diego County Regional Airport Authority					
2013	80	\$1,435,787	46.7	4.1	\$17,947
2012	76	1,316,550	46.7	3.7	17,323
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

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 FY 2013 data is preliminary as the June 30, 2013 valuation has not been completed by SDCERS' actuary. Data for all other years is final data from the respective June 30 valuations.

**San Diego City Employees' Retirement System
Participating Plan Sponsors**



City of San Diego

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San Diego Unified Port District

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San Diego County Regional Airport Authority

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SDCERS

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This Comprehensive Annual Financial Report
is available on SDCERS' web site, www.sdcers.org
in the Adobe Portable Document Format (PDF file).

