



SDCERS

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

A COMPONENT UNIT OF THE CITY OF SAN DIEGO

A DEFINED BENEFIT PENSION PLAN TRUST 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

A Defined Benefit Pension Plan Trust 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, 2014

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

Ted A. LaSalvia
Controller

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December 4, 2014

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, 2014 (FY 2014).

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.

In 2012, the City's plan was closed for all new members except sworn police officers as a result of the voter-approved Proposition B. SDCERS worked with its actuarial and investment consultants 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 return net of fees for FY 2014 was 16.8%, outperforming the portfolio's benchmark of 16.5%. As of June 30, 2014, SDCERS' annualized total investment return was 10.2% over the past three years and 13.5% over the past five years. Over the past 10 years, SDCERS' investment returns were 7.8%, which is in the top 10% for public pension plans. Even better, SDCERS' private equity portfolio received national recognition when it was named the best in the country by Reuters PE Hub in a survey released in July 2014. The online publication's results follow a survey of more than 160 public pension funds nationwide.

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. Each year, SDCERS reviews portfolio risk and asset allocations to manage the fiscal health of the fund; the most recent reviews indicated no significant changes to the investment policy and asset allocations were needed at present.

New Accounting Standards. This CAFR incorporates a new financial reporting standard, GASB Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*, as required by the Governmental Accounting Standards Board (GASB). SDCERS Plan Sponsors will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: an Amendment of GASB Statement No. 27*, in FY 2015. These standards separate funding policy from financial reporting, and the technical changes to financial reporting are far reaching. The Financial section note disclosures have accordingly been significantly expanded. While not required by GASB Statement No. 67, SDCERS none-the-less adopted a formalized actuarial funding policy at its November 2013 meeting. The funding policy adopted reflects a continuation of the actuarially sound funding practices followed by SDCERS over the past several years.

Funding Status. SDCERS engages an independent actuary to conduct annual actuarial valuations. The June 30, 2013 actuarial valuations, the most recent available, for our three Plan Sponsors are summarized in this CAFR, and show that the City's plan is 70.4% funded, the Unified Port District's plan is 73.7% funded, and the Airport Authority's plan is 93.4% funded. The City and Port ratios improved slightly from a year ago while the Airport ratio decreased slightly due to a liability experience loss. All three plan sponsors paid 100% of their Actuarially Determined Contribution (ADC) in FY 2013 and FY 2014. Historical trend information regarding funded status is provided in the Actuarial Section of this report.

FY 2013 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2013 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. Proposition B, approved by the City of San Diego voters in 2012, 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.

On September 12, 2012, California Governor Jerry Brown signed the Public Employees' Pension Reform Act of 2013 (PEPRA) into law. As of January 1, 2013, the Unified Port District and Airport Authority Plans are governed by the provisions of their plan documents and PEPRA, which is contained in the California Government Code.

New Pension Administration System. SDCERS' new pension operating system was launched in Fiscal Year 2014. The Integrated Retirement Information System, commonly called IRIS, is bringing SDCERS' systems current with the latest technology to track, record and process employee contributions and retiree payments. The system brings online features, tools, and information about individual retirement benefits directly to members through the use of the Member Portal. SDCERS staff also has more information at their fingertips; and by automating several internal processes, they're in a better position to serve members.

Introductory Section

Member Communications. SDCERS redefined online retirement management this year through the launch of its newly renovated website and Member Portal last summer. Both tools incorporate responsive designs, improved navigation, and interactive tools to help members plan for retirement. These new resources offer speed and consistent functionality to ensure members have a positive and productive online experience. The streamlined navigation makes content easy to find and the responsive design adapts to any type of mobile device. The Member Portal allows members to calculate accurate benefit estimates, submit forms, and make account changes electronically – in real time, at the highest level of security.

Investment Team Makes Ongoing Improvements. During the fiscal year, SDCERS implemented a series of changes to the asset allocation that the SDCERS Board approved during the previous year, the most notable of which were increased allocations to Emerging Market Debt and Emerging Market Equity, and an increased target allocation to Private Equity from five to ten percent of the portfolio. Staff and custodial bank State Street also implemented a new cash management module that streamlines SDCERS' wiring process and makes it more secure. Finally, SDCERS also implemented a new compliance monitoring system that provides greater transparency into investment manager activities and an additional layer of scrutiny on SDCERS' investment management firms. All of the investment management firm's approved guidelines are entered into the system and a monthly analysis is generated to assess whether they are in compliance with those guidelines.

SDCERS Employees Recognized for Leadership Activities. Elaine Reagan was a finalist for a second year in a row for the San Diego Business Journal 2014 General Counsel awards. In addition, SDCERS employees were panelists or chairpersons at conferences and networking functions this past year: Liza Crisafi, Christina Di Leva, Mary Lewis, Elaine Reagan, Marcelle Rossman, 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, which 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

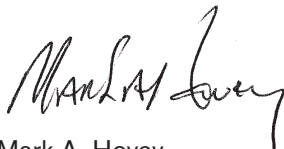
SDCERS' assets. Our Internal Auditor reviews our internal controls and operations, and reports regularly to the Board's Audit Committee, which reviews the audit findings and recommendations for improvement in internal controls and the actions of management to implement these recommendations, if any.

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 Marilyn Creson Brown, independent member of the independent Audit Committee, for eight years of commitment and service. Succeeding Ms. Brown is Greg Kowieski and we welcome him to the Committee. Thanks also go out to Board member Jeannie L. Posner, who served a partial-term in FY 2014.

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 Achievement**



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, 2013

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

Executive Director/CEO

**San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2014**

BOARD OF ADMINISTRATION



Edward W. Kitrosser, President
MAYORAL APPOINTEE

Alan J. Arrollado, Vice President
ELECTED SAFETY (FIRE) MEMBER



Natasha L. Collura
EX-OFFICIO, MAYORAL DESIGNEE



William W. Haynor
MAYORAL APPOINTEE



Valentine S. Hoy
MAYORAL APPOINTEE

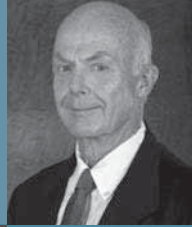
Thanasi K. Prevolos
MAYORAL APPOINTEE



James H. Steel
ELECTED GENERAL MEMBER



Thomas A. Sullivan
ELECTED SAFETY (POLICE) MEMBER



Richard R. Tartre
MAYORAL APPOINTEE

K. Denise Thompson
MAYORAL APPOINTEE



Jeffrey J. Wallace
ELECTED GENERAL MEMBER



Richard E. Wilken
ELECTED RETIREE

VACANT
MAYORAL APPOINTEE

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2014

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, 2014 were as follows:

Audit Committee

David W. Kramer (Chair)*	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.
Edward W. Kitrosser	
James B. Smith*	
K. Denise Thompson	
Marilyn Creson Brown	

Business and Governance Committee

Valentine S. Hoy (Chair)	Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.
Alan J. Arrollado	
Natasha L. Collura	
Edward W. Kitrosser	
Thomas A. Sullivan	
Richard E. Wilken	

Disability Committee

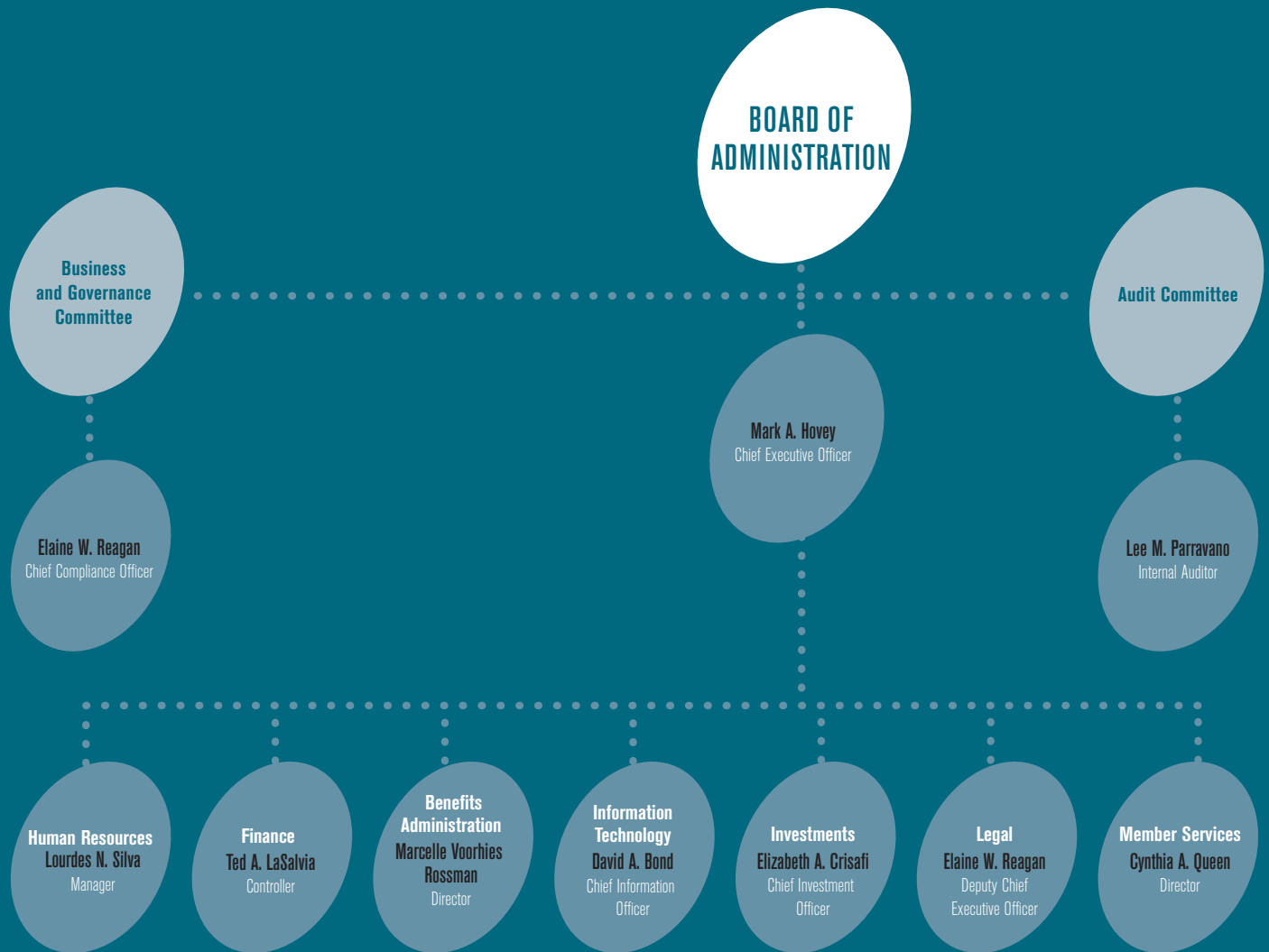
Alan J. Arrollado (Chair)	Responsible for reviewing staff recommendations on disability applications and making recommendations to the Board; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.
Natasha L. Collura	
Edward W. Kitrosser	
Thanasi K. Preovolos	
Richard E. Wilken	

Investment Committee

Richard R. Tartre (Chair)	Responsible for monitoring investment performance; hiring and terminating investment managers and consultants; and recommending changes to the Investment Policy Statement.
William W. Haynor	
Edward W. Kitrosser	
James H. Steel	
K. Denise Thompson	
Jeffery J. Wallace	

San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2014

SDCERS' MEMBERS, RETIREES AND BENEFICIARIES



San Diego City Employees' Retirement System
Professional Services
 As of June 30, 2014

Actuary	
Cheiron McLean, VA	
Consulting and Professional Services	
Xerox State and Local Solutions, Inc Dallas, TX	L.R. Wechsler, LTD Fairfax, VA
Barney & Barney, LLC San Diego, CA	Levi, Ray & Shoup Springfield, IL
CGI Technologies, Fairfax, VA	Atos IT Solutions, Sugarland, TX
Sagitec Solutions, LLC Little Canada, MN	
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	
GCM Grosvenor Private Markets 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



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

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

INDEPENDENT AUDITOR'S REPORT

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

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 year ended June 30, 2014, 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 standard applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller's 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 entity'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 entity'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, 2014, and the changes in the plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, the System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No.25*.

As discussed in Note 4 to the basic financial statements, based on the actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, the total pension liabilities for the City of San Diego and the San Diego Unified Port District exceeded the plans' net position by \$1.5 billion and \$67.0 million, respectively. The plan net position exceeded the total pension liability of the San Diego County Regional Airport by \$3.4 million. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.25 percent, which represents the long-term expected rate of return.

As discussed in Note 8 to the basic financial statements, in connection with the implementation of GASB Statement No. 67, the System restated its beginning net position as of June 30, 2014 to reclassify the Deferred Retirement Obligation Program balances as a component of plan net position.

Our opinion is not modified with respect to these matters.

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, 2013, from which such partial information was derived.

We have previously audited the System's 2013 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated December 4, 2013. In our opinion, the partial comparative information presented herein as of and for the fiscal year ended June 30, 2013, 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, schedule of changes in net pension liability (asset) and related ratios, schedules of plan sponsor contributions, and schedule of investment returns, 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 opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory section, the other supplemental information in the financial section, the investment, actuarial and statistical section, 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, 2014 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.



San Diego, California
December 4, 2014

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, 2014 (FY 2014), with results also compared to the fiscal year ended June 30, 2013 (FY 2013).

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).

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 2014 are presented in this CAFR, as required by GASB Statement No. 67 for pension trusts that administer more than one plan. In addition, the discussion and analysis compares financial information between FY 2014 and FY 2013 for the total of all three plans.

Financial Highlights

As of June 30, 2014, the SDCERS Group Trust had \$6.772 billion in total net position restricted for the payment of pension benefits compared to total net position of \$5.322 billion at June 30, 2013. This represents an increase of \$1.450 billion or 27.2% from FY 2013. Effective for FY 2014, SDCERS implemented GASB Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25* which requires a restatement of June 30, 2013 net position resulting in an increase of \$490.9 million as Deferred Retirement Option Program (DROP) benefits do not meet the definition of a liability as they are not currently due and payable. Operationally, the FY 2014 increase of \$958.8 million reflects plan sponsor and member contributions of \$364.9 million, DROP member and sponsor contributions of \$5.1 million, and net investment gains of \$1.007 billion, offset by benefit payments and administrative expenses of \$418.2 million.

For FY 2014, total contributions plus net investment gains resulted in total additions of \$1.377 billion to the Group Trust net position, an increase of \$340.0 million from FY 2013 total additions of \$1.037 billion. An increase in net investment earnings of \$291.5 million was the main factor in the increase over the prior fiscal year.

For the fiscal year ended June 30, 2014, deductions from Group Trust net position for benefits and expenses totaled \$418.2 million, a \$6.9 million or 1.6% decrease compared to FY 2013 deductions of \$425.1 million. The derecognition of the DROP Liability under GASB Statement No. 67 requires that retirement benefits previously recognized as expense are now accounted for as transfers of reserves. For FY 2014, this reduced benefits expense by \$66.7 million. This reduction was offset by the recognition of DROP Payments expense as a result of the implementation of GASB Statement No. 67 of \$40.1 million and increased benefit payments of \$19.6 million to retirees due to an increase in the total number of retirees and annual cost of living increases.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the Board for approval. Assumption changes from a Plan Experience Study for the period July 1, 2007 through June 30, 2010 conducted by the actuarial consultant were implemented in the June 30, 2012 actuarial valuations for all three plan sponsors. The June 30, 2012 actuarial valuation determined the actuarially determined contribution amount for FY 2014.

Financial Highlights (continued)

An indicator of funding status is the ratio of the Plan Net Position to the Total Pension Liability (TPL). An increase in the percentage over time usually indicates a plan is becoming financially stronger, but a decline in the percentage does not necessarily indicate that a plan is weaker. Changes in actuarial assumptions can significantly impact the TPL and Net Pension Liability (NPL), and performance in the stock and bond markets can significantly impact the TPL and fair value of assets and the Plan Net Position.

The NPL for the City and Port as of June 30, 2014 are \$1.536 billion and \$67.0 million, respectively. The Airport as of June 30, 2014 had a Net Pension Asset of \$3.4 million. The Plan Net Position as a percentage of the TPL for the City, Port and Airport are 80.4%, 84.4% and 102.6%, respectively. The NPL as a percentage of covered payroll for the City and Port is 307.4% and 194.1% as of June 30, 2014, respectively. The Net Pension Asset as a percentage of covered payroll for the Airport is 12.7% as of June 30, 2014.

Historical trend information concerning the changes in Net Pension Liability, employer contributions, and investment returns are presented as Required Supplementary Information in the Schedule of Changes in Net Pension Liability, Schedule of Plan Sponsor Contributions, and Schedule of Investment Returns with associated actuarial methods and assumptions located in the Notes to Required Supplementary Information. Additional information is presented in Note 5. Contributions, and in the Actuarial Section. The Actuarial Valuations can be found online at www.sdcers.org.

As discussed in Note 9. Legal Action, SDCERS is involved in 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. 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 3.30%, the discount rate from 7.5% to 7.25%, and adopted a policy of 30-year amortization of funding surplus, if any. The discount rate is the rate at which a pension system discounts future liabilities of member benefits to determine their actuarial present value.

The Integrated Retirement Information System (IRIS) is the new pension system implemented on May 29, 2014. For FY 2014, \$0.2 million of staff salaries and fringe costs were capitalized as costs of the software.

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, 2014, with comparative totals as of June 30, 2013. 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 2014, with comparative totals for FY 2013. The FY 2014 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, 2014.

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 (RSI)** provides information on the sources of changes in the Net Pension Liability for each Plan Sponsor. The statement also provides information about the components of the Net Pension Liability and related ratios, including the pension plan's fiduciary net position as a percentage of the Total Pension Liability, and the Net Pension Liability as a percentage of covered-employee payrolls. The RSI also presents a Schedule of Plan Sponsor Contributions and a Schedule of Investment Returns.

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, 2014 totaled \$6.772 billion, an increase of \$1.450 billion or 27.2% compared to net position of \$5.322 billion as of June 30, 2013. With the implementation of GASB Statement No. 67, \$490.9 million of the increase was due to restatement of the June 30, 2013 net position. 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)

	2014	2013	Percentage Change
Cash and Cash Equivalents	\$240,528	\$237,090	1.5%
Receivables	63,615	214,194	-70.3
Investments, at Fair Value	6,680,200	5,780,277	15.6
Securities Lending Collateral	198,398	190,851	4.0
Capital Assets plus Prepaid Expenses	6,954	5,030	38.3
Total Assets	\$7,189,695	\$6,427,442	11.9%
Current Liabilities	\$205,678	\$404,200	-49.1%
Net Pension and Other Post Employment Obligations	2,092	2,104	-0.6
Supplemental Benefits Payable	11,145	16,462	-32.3
DROP Liabilities	-	490,931	-100.0
Securities Lending Obligations	198,688	191,363	3.8
Total Liabilities	\$417,603	\$1,105,060	-62.2%
Plan Net Position¹	\$6,772,092	\$5,322,382	27.2%

¹ Beginning Plan Net Position for FY 2014 was restated by an increase of \$490.9 million to properly recognize DROP accounts as a component of Net Position pursuant to GASB Statement No. 67 as DROP benefits are reported as plan liabilities when they become due and payable.

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 49.3% of plan net position (\$3.340 billion reserved for current retired members out of \$6.772 billion in plan net position) as of June 30, 2014. A complete listing of SDCERS' reserves and corresponding balances for FY 2014 are presented in Note 6. *Reserve Balances*.

Current Year Results

Key elements of FY 2014 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 2014, contributions and investment gains combined to provide total additions of \$1.377 billion, an increase of \$340.0 million over FY 2013 total additions of \$1.037 billion.

Deductions from Plan Net Position reflect SDCERS' administration of lifetime retirement annuities, survivor benefits, DROP 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 2014 were \$418.2 million, a decrease of \$6.9 million from FY 2013 deductions of \$425.1 million.

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

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

	2014	2013	Percentage Change
Additions:			
Plan Sponsor Contributions	\$294,888	\$246,943	19.4%
Member Contributions and Other Contributions	69,998	74,600	-6.2
DROP-Contributions	5,066	-	N/A
Net Investment Earnings	1,007,011	715,478	40.7
Total Additions	\$1,376,963	\$1,037,021	32.8%
Deductions:			
Benefit Payments	\$381,468	\$382,060	-0.2%
Refund of Member Contributions	2,742	4,064	-32.5
Administrative Expenses	11,528	12,979	-11.2
DROP Interest Expense	22,446	26,044	-13.8
Total Deductions	\$418,184	\$425,147	-1.6%
Changes in Plan Net Position	958,779	611,874	56.7
Beginning Plan Net Position			
Beginning of Year at July 1, as Reported	5,322,382	4,710,508	13.0
Prior Period Adjustments ¹	490,931	-	N/A
Beginning of Year at July 1, as Restated	5,813,313	4,710,508	23.4
Ending Plan Net Position	\$6,772,092	\$5,322,382	27.2%

¹ Beginning Plan Net Position for FY 2014 was restated by an increase of \$490.9 million to properly recognize DROP accounts as a component of Net Position pursuant to GASB Statement No. 67 as DROP benefits are reported as plan liabilities when they become due and payable.

FY 2014 plan sponsor contributions totaled \$294.9 million, an increase of \$47.9 million or 19.4% compared to contributions of \$246.9 million in FY 2013. The total of the Actuarially Determined Contribution (ADC) for all three plan sponsors in FY 2014 was significantly higher than the ADC in FY 2013 primarily due to the effect of the Proposition B plan closure and level dollar amortization of the NPL for the City. For further information about plan sponsor contributions, see Note 5. *Contributions* in the Notes to the Basic Financial Statements and the Schedules of Plan Sponsor Contributions in the Required Supplementary Information.

Financial Section

FY 2014 member contributions and member contributions paid by plan sponsors totaled \$70.0 million, a decrease of \$4.6 million, or 6.2%, from FY 2013. The decrease was driven by a decrease in Purchase Service Credit (PSC) purchases which totaled \$5.1 million for FY 2014 versus \$7.4 million in FY 2013, a decrease in the member portion of contributions paid by Plan Sponsors and a decrease in the number of active members making contributions.

Beginning in FY 2014 with the implementation of GASB Statement No. 67, cash contributions received for member DROP accounts are reported as contributions, and decreases are reported as DROP Payments. DROP contributions consist of member and matching sponsor contribution payments of 3.05% of member payroll. DROP contributions totaled \$5.1 million in FY 2014. DROP payments are defined as benefit payments and totaled \$40.1 million in FY 2014.

In FY 2014, net investment earnings totaled \$1.007 billion, an increase of \$291.5 million or 40.7% due to the growth in investments of 16.8% compared to FY 2013. Appreciation in the fair value of equity holdings accounted for \$209.2 million of the increase, real estate holdings increased by \$5.5 million, while fixed income holdings increased by \$76.6 million. Private equity improved by \$24.8 million, while infrastructure and securities lending collateral decreased by \$12.3 million and \$1.0 million, respectively. Dividend, interest and other income of \$88.9 million decreased \$4.5 million from FY 2013.

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 2014 and long-term investment performance.

SDCERS' one-year investment return as of June 30, 2014 was 16.8%, net of investment management fees. According to the Hewitt EnnisKnupp, SDCERS' annualized total investment return was 7.8% for the past ten years, which is in the top 10% for public pension plans.

In FY 2014, member benefit payments totaled \$381.5 million, a decrease of \$0.6 million or 0.2% from FY 2013's payments of \$382.1 million. A 6.0% increase in the total number of retirees and DROP participants in FY 2014 and annual cost of living increases was offset by a reduction in retirement benefits expense of \$66.7 million due to the implementation of GASB Statement No. 67 which requires that DROP benefits be treated as a transfer of reserves, resulting in the overall decrease.

In FY 2014, refunds of member contributions totaled \$2.7 million, a decrease of \$1.3 million or 32.5% compared to FY 2013 refunds. The fluctuation was due to current year refunds of member contributions associated with lower active member turnover.

FY 2014 administrative expenses totaled \$11.5 million, a decrease of \$1.5 million or 11.2% lower than FY 2013 expenses of \$13.0 million. Lower legal costs due to the settlement of the substantially equal case, the renegotiation of the rental lease and the lower depreciation expenses due to the delayed IRIS implementation resulted in the decrease.

FY 2014 DROP interest expenses totaled \$22.4 million, a decrease of \$3.6 million or 13.8% from FY 2013 expenses of \$26.0 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, 2014			As of June 30, 2013		
	City	Port	Airport	City	Port	Airport
Cash and Cash Equivalents	\$209,499	\$17,394	\$13,635	\$212,474	\$15,489	\$9,127
Receivables	58,756	3,707	1,152	198,271	11,966	3,957
Investments, at Fair Value	6,209,632	351,520	119,048	5,374,028	303,577	102,672
Securities Lending Collateral	184,335	10,409	3,654	177,445	9,967	3,439
Capital Assets plus Prepaid Expenses	6,429	384	141	4,660	274	96
Total Assets	\$6,668,651	\$383,414	\$137,630	\$5,966,878	\$341,273	\$119,292
Current Liabilities	\$191,190	\$10,744	\$3,744	\$375,495	\$21,341	\$7,364
Net Pension and Other Post Employment Obligations	2,092	-	-	2,104	-	-
Supplemental Benefits Payable	10,875	245	25	16,199	240	23
DROP Liabilities	-	-	-	477,478	11,436	2,017
Securities Lending Obligations	184,606	10,424	3,658	177,922	9,993	3,448
Total Liabilities	\$388,763	\$21,413	\$7,427	\$1,049,198	\$43,010	\$12,852
Plan Net Position¹	\$6,279,888	\$362,001	\$130,203	\$4,917,680	\$298,263	\$106,439

¹ Beginning Plan Net Position for the City, Port and Airport at June 30, 2014 was restated by an increase of \$477.5 million, \$11.4 million, and \$2.0 million, respectively, to properly recognize DROP accounts as a component of Net Position. Pursuant to GASB Statement No. 67, DROP benefits are reported as plan liabilities when they become due and payable.

The City plan net position of \$6.280 billion at June 30, 2014 was up \$1.362 billion or 27.7% from \$4.918 billion at June 30, 2013. The increase for FY 2014 is primarily due to an increase in total assets of \$701.8 million and a reduction in total liabilities of \$660.4 million. The growth in assets was primarily due to the growth in investments of \$835.6 million and securities lending collateral of \$6.9 million, offset by a reduction in receivables of \$139.5 million. The decrease in liabilities was primarily due to a reduction in current liabilities of \$184.3 million and the \$477.5 million restatement of DROP liabilities as a component of net position. Year-over-year changes in other assets or liabilities were not significant.

The Port plan net position of \$362.0 million at June 30, 2014 was up \$63.7 million or 21.4% from \$298.3 million at June 30, 2013. The increase for FY 2014 is primarily due to an increase in total assets of \$42.1 million and a reduction in total liabilities of \$21.6 million. The growth in assets was primarily due to the growth in investments of \$47.9 million, an increase in cash of \$1.9 million, offset by a reduction in receivables of \$8.3 million. The decrease in liabilities was primarily due to a reduction in current liabilities of \$10.6 million and the \$11.4 million restatement of DROP liabilities as a component of net position. Year-over-year changes in other assets or liabilities were not significant.

The Airport plan net position of \$130.2 million at June 30, 2014 was up \$23.8 million or 22.3% from \$106.4 million at June 30, 2013. The increase for FY 2014 is primarily due to an increase in total assets of \$18.4 million and a reduction in total liabilities of \$5.4 million. The growth in assets was primarily due to the growth in investments of \$16.4 million, an increase in cash of \$4.5 million, offset by a reduction in receivables of \$2.8 million. The decrease in liabilities was primarily due to a reduction in current liabilities of \$3.6 million and the \$2.0 million restatement of DROP liabilities as a component of net position. Year-over-year changes in other assets or liabilities were not significant.

Financial Section

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

	For The Fiscal Year Ended June 30, 2014			For The Fiscal Year Ended June 30, 2013		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	\$277,244	\$13,916	\$3,728	\$231,143	\$13,200	\$2,600
Member Contributions and Other Contributions	63,119	4,012	2,867	65,492	5,548	3,560
DROP-Contributions	4,762	209	95	-	-	-
Net Investment Earnings	935,052	53,656	18,303	665,171	37,922	12,385
Total Additions	\$1,280,177	\$71,793	\$24,993	\$961,806	\$56,670	\$18,545
Deductions:						
Benefit Payments	\$360,505	\$18,229	\$2,734	\$362,266	\$17,838	\$1,956
Refunds of Member Contributions	2,517	79	146	3,770	194	100
Administrative Expenses	10,467	729	332	12,003	698	278
DROP Interest Expense	21,958	454	34	25,447	542	55
Total Deductions	\$395,447	\$19,491	\$3,246	\$403,486	\$19,272	\$2,389
Changes in Plan Net Position	884,730	52,302	21,747	558,320	37,398	16,156
Beginning Plan Net Position						
Beginning of Year at July 1, as Previously Reported	4,917,680	298,263	106,439	4,359,360	260,865	90,283
Prior Period Adjustments ¹	477,478	11,436	2,017	-	-	-
Beginning of Year at July 1, as Restated	5,395,158	309,699	108,456	4,359,360	260,865	90,283
Ending Plan Net Position	\$6,279,888	\$362,001	\$130,203	\$4,917,680	\$298,263	\$106,439

¹Beginning Plan Net Position for the City, Port and Airport at June 30, 2014 was restated by an increase of \$477.5 million, \$11.4 million, and \$2.0 million, respectively, to properly recognize DROP accounts as a component of Net Position. Pursuant to GASB Statement No. 67, DROP benefits are reported as plan liabilities when they become due and payable.

The City plan net position increased \$884.7 million in FY 2014 compared to an increase of \$558.3 million in FY 2013, as FY 2014 total additions increased \$318.4 million over FY 2013. Net investment earnings of \$935.1 million, reflecting an increase of \$269.9 million over FY 2013, accounted for most of the increase. Plan sponsor contributions in FY 2014 were up \$46.1 million over FY 2013, and member contributions in FY 2014 decreased \$2.4 million or 3.6% from FY 2013 due to lower contributions from fewer active members and lower PSC contributions.

Total deductions of \$395.4 million decreased \$8.0 million in FY 2014. Benefit payments of \$360.5 million decreased \$1.8 million or 0.5% due to a \$61.7 million reduction in benefit expense as a result of the implementation of GASB Statement No. 67, offset by \$21.9 million of increased benefit payments due to an increased number of retirees and cost of living adjustments and the increase in DROP payments of \$38.0 million. Refunds of member contributions were down \$1.2 million, due to lower refunds requested in the current year. Administrative expenses decreased \$1.5 million or 12.8% due to lower litigation costs, salaries and fringe expense, rent, and depreciation expense. DROP interest expense of \$22.0 million was down \$3.5 million or 13.7% from FY 2013 as the result of the implementation of GASB Statement No. 67, and a decrease in both the DROP annuity factor and DROP interest crediting rate.

The Port plan net position increased \$52.3 million in FY 2014, as total additions increased \$15.1 million over FY 2013. Net investment earnings were \$53.6 million, an increase of \$15.7 million in FY 2014 compared to net investment earnings of \$37.9 million in FY 2013. Plan Sponsor contributions increased 5.4% in FY 2014 compared to FY 2013 due to an increase in the Port's ADC, which was fully paid. Member contributions decreased by \$1.5 million or 27.7% due to an 8.9% decline in active members in the current year.

Total deductions were \$19.5 million in FY 2014, up \$0.2 million from FY 2013. Benefit payments were up \$0.4 million or 2.2% in FY 2014 reflecting an increase in the number of retirees and cost of living adjustments of \$1.6 million, the increase in DROP payments of \$1.0 million, offset by a \$2.2 million reduction in benefit expense due

to the implementation of GASB Statement No. 67. Refunds of member contributions were down \$0.1 million and DROP interest expense decreased \$0.1 million from FY 2013. Year-over-year changes in other deduction line items were not material.

The Airport plan net position increased \$21.7 million in FY 2014, as total additions of \$25.0 million increased \$6.4 million or 34.8% over FY 2013. The increase in net position was primarily driven by net investment earnings of \$18.3 million and plan sponsor and member contributions of \$3.7 million and \$2.9 million, respectively, exceeding total deductions for the current year.

Total deductions were \$3.2 million in FY 2014, up \$0.9 million from FY 2013 reflecting an increase in benefit payments due an increase in the number of retirees and cost of living adjustments of \$0.5 million and the increase in DROP payments of \$1.1 million in FY 2014, offset by a \$0.7 million reduction in benefit expense due to the implementation of GASB Statement No. 67. Year-over-year changes in other deduction line items were not material.

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 used for funding to amortize level dollar amounts over 15 years with the effect of increasing the ADC 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 were 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.

Tax Determination Letter Received for City of San Diego Plan

On June 25, 2014, the Internal Revenue Service issued a favorable determination letter following review of the City of San Diego’s plan document. This determination letter will expire on January 31, 2019.

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, 2014 (with Comparative Totals as of June 30, 2013)

(Dollars in Thousands)

	2014				2013
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash on Deposit with Wells Fargo Bank	\$960	\$143	\$64	\$1,167	\$1,785
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	208,539	17,251	13,571	239,361	235,305
Total Cash and Cash Equivalents	209,499	17,394	13,635	240,528	237,090
Receivables					
Member - Purchased Service Contracts	2,563	646	36	3,245	4,440
Plan Sponsor and Member Contributions	3,728	177	126	4,031	3,834
Investment Income Receivable	9,306	521	173	10,000	8,327
Securities Sold	43,159	2,363	817	46,339	197,593
Total Receivables	58,756	3,707	1,152	63,615	214,194
Investments, at Fair Value					
Domestic Fixed Income Securities	1,649,206	93,227	31,767	1,774,200	1,552,205
International Fixed Income Securities	418,916	23,944	8,209	451,069	166,714
Domestic Equity Securities	1,583,869	89,356	30,198	1,703,423	1,839,561
International Equity Securities	1,172,877	66,358	22,439	1,261,674	1,052,717
Global Equity Securities	338,883	19,258	6,277	364,418	301,122
Real Estate	644,674	36,524	12,438	693,636	572,682
Private Equity	353,984	20,161	6,830	380,975	258,176
Infrastructure	47,223	2,692	890	50,805	37,100
Total Investments	6,209,632	351,520	119,048	6,680,200	5,780,277
Securities Lending Collateral					
Total Investments Including Securities Lending Collateral	184,335	10,409	3,654	198,398	190,851
Collateral	6,393,967	361,929	122,702	6,878,598	5,971,128
Prepaid Expenses					
	244	14	5	263	410
Capital Assets at Cost, Net of Accumulated Depreciation of \$1,907					
	6,185	370	136	6,691	4,620
TOTAL ASSETS	\$6,668,651	\$383,414	\$137,630	\$7,189,695	\$6,427,442
LIABILITIES					
Accounts Payable	\$1,143	\$98	\$30	\$1,271	\$1,750
Accrued Investment Fees	6,034	342	115	6,491	3,479
Accrued Wages and Benefits	744	41	14	799	823
Net Pension and Other Post Employment Obligations	2,092	-	-	2,092	2,104
Supplemental Benefits Payable	10,875	245	25	11,145	16,462
DROP Liability	-	-	-	-	490,931
Securities Purchased	183,269	10,263	3,585	197,117	398,148
Securities Lending Obligations for Cash Collateral	184,606	10,424	3,658	198,688	191,363
TOTAL LIABILITIES	\$388,763	\$21,413	\$7,427	\$417,603	\$1,105,060
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$6,279,888	\$362,001	\$130,203	\$6,772,092	\$5,322,382

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, 2014 (with Comparative Totals for the Fiscal Year Ended June 30, 2013)

(Dollars in Thousands)

	2014				2013
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	\$277,244	\$13,916	\$3,728	\$294,888	\$246,943
Member Portion Paid by Plan Sponsor	14	2,575	1,895	4,484	5,364
Member	58,055	1,153	893	60,101	61,539
Member for Purchased Service	4,850	226	73	5,149	7,374
Earned Interest on Purchased Service Installment Contract	200	58	6	264	323
DROP - Contributions	4,762	209	95	5,066	-
Total Contributions	296,635	18,748	6,160	321,543	313,690
Investment Earnings					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity Securities	691,073	39,624	13,468	744,165	534,962
Fixed Income Securities	76,526	4,397	1,509	82,432	5,839
Real Estate	63,487	3,658	1,271	68,416	62,880
Private Equity	56,781	3,271	1,134	61,186	36,407
Infrastructure	(5,210)	(301)	(103)	(5,614)	6,705
Securities Lending Collateral	206	12	4	222	1,224
Total Net Appreciation in Fair Value of Investments	882,863	50,661	17,283	950,807	648,017
Dividend Income	39,068	2,243	765	42,076	40,400
Interest Income	29,802	1,711	584	32,097	34,894
Real Estate Income	8,117	466	159	8,742	12,028
Private Equity Income	2,630	151	51	2,832	2,566
Infrastructure Income	1,217	70	24	1,311	1,324
Other Income	724	41	14	779	884
Securities Lending Income					
Gross Earnings	1,255	72	25	1,352	1,912
Less: Borrower Rebates & Bank Charges	(280)	(16)	(6)	(302)	(632)
Net Securities Lending Income	975	56	19	1,050	1,280
Total Investment Income	965,396	55,399	18,899	1,039,694	741,393
Investment Expenses	(30,344)	(1,743)	(596)	(32,683)	(25,915)
Net Investment Income	935,052	53,656	18,303	1,007,011	715,478
TOTAL ADDITIONS	\$1,280,177	\$71,793	\$24,993	\$1,376,963	\$1,037,021
DEDUCTIONS					
Benefit Payments					
Monthly Retirement and Disability Allowances	\$311,238	\$16,933	\$1,563	\$329,734	\$370,368
DROP Payments	37,996	1,037	1,114	40,147	-
13th Check	5,626	250	27	5,903	5,805
Corbett Benefit	5,334	-	-	5,334	5,469
Death Benefit	311	9	30	350	418
Total Benefit Payments	360,505	18,229	2,734	381,468	382,060
Refunds of Member Contributions	2,517	79	146	2,742	4,064
Administrative Expenses	10,467	729	332	11,528	12,979
DROP Interest Expense	21,958	454	34	22,446	26,044
TOTAL DEDUCTIONS	\$395,447	\$19,491	\$3,246	\$418,184	\$425,147
INCREASE IN NET POSITION	884,730	52,302	21,747	958,779	611,874
NET POSITION RESTRICTED FOR PENSION BENEFITS					
Beginning of Year at July 1, as Previously Reported	4,917,680	298,263	106,439	5,322,382	4,710,508
Prior Period Adjustments	477,478	11,436	2,017	490,931	-
Beginning of Year at July 1, as Restated	5,395,158	309,699	108,456	5,813,313	4,710,508
NET POSITION RESTRICTED FOR PENSION BENEFITS AT JUNE 30	\$6,279,888	\$362,001	\$130,203	\$6,772,092	\$5,322,382

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, 2014

(Dollars in Thousands)

ASSETS	Total
Cash and Cash Equivalents	\$ 14
Accounts Receivable	<u>31</u>
TOTAL ASSETS	<u>\$ 45</u>
LIABILITIES	
Sundry Trust Liability	<u>45</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, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The San Diego City Employees' Retirement System's (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. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25* establishes 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 pursuant to legal requirements. 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. 67 and is stated net of investment management fees and related expenses.

The Board of Administration (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 of San Diego (City), San Diego Unified Port District (Port), and San Diego County Regional Airport Authority (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, Port plan and trust in August 2012 and an updated determination letter was received for the City in June 2014. The financial statements for each plan are presented in separate columns in this CAFR, as required by GASB Statement No. 67 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 fund accounts for assets held by SDCERS in an agent capacity on behalf of the City and Port. During FY 2014 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, 2014

Receivables

SDCERS' receivables reflect accrued plan sponsor and member contributions due to SDCERS pursuant to legal requirements and member contributions for executed purchase of service credit contracts where payment is pending, net of an allowance for contract cancellations. See Note 5. *Contributions*.

In accordance with GASB Statement No. 67, 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 market values of exchange traded assets (fixed income and equity investments). Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the 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.

Capital Assets

Purchased capital assets are recorded at historical cost. SDCERS capitalizes assets with an estimated useful life in excess of one year and must meet or exceed a capitalization threshold of five thousand dollars. 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.

On May 29, 2014, SDCERS implemented the new Pension Administration System (IRIS) and began to depreciate the system. 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, 2014 were \$1.9 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. 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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.

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. 67

GASB Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25* addresses reporting by pension plans that administer benefits for governments, and is effective for financial periods beginning after June 15, 2013. SDCERS is 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 allows asset smoothing while the asset valuation method required for accounting purposes is 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 are 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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 defined benefit 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. Lastly, under GASB Statement No. 67, the DROP benefit does not meet the criteria for classification as a liability and must be accounted for as a component of Plan Net Position. SDCERS implemented the provisions of GASB Statement No. 67 for the fiscal year ended June 30, 2014. See Note 8 – Restatement for more information on the restatement of the FY 2013 DROP liability.

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 Entry Age Normal (EAN) method and trust assets restricted to pay future retirement benefits. This standard does not affect the financial reporting for SDCERS, but information is provided to the plan sponsors to assist them in complying with the standard.

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 as of and for the year ended June 30, 2013, from which the summarized information was derived.

2. Plan Descriptions

General

SDCERS is governed by a 13-member Board, responsible for the administration of retirement benefits for City, Port and Airport members, and for overseeing the investment portfolio of the retirement system's trust fund. The Board is comprised of seven appointed members, four active members, one retired member, and one ex-officio member.

SDCERS administers three separate single employer 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

San Diego City Employees' Retirement System

Notes to the Basic Financial Statements (continued)

June 30, 2014

PEPRA are subject to pensionable compensation caps. The Port's Miscellaneous plan members are not subject to the PEPRA 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 PEPRA 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 non-safety 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.

Contributions

SDCERS' uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for each plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contributions rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the Board of Administration annually.

The actuarial valuations for each of the plan sponsors are completed as of June 30 of each year. Once accepted by the Board of Administration, the approved rates for each plan sponsor apply to the fiscal year beginning 12 months after the valuation date. For FY 2014, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2012 actuarial valuations. SDCERS' Board of Administration approved the valuations for the City and Airport on March 1, 2013, and for the Port on April 12, 2013.

The funding objective of SDCERS is to fully fund the plans' liabilities with contributions which, over time will remain as a level percent of payroll for the Police portion of the plan and 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 (UAL).

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 close entrance to the SDCERS defined benefit plan for all City 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 PEPRA. PEPRA reduces the benefit formula, raises the retirement age, applies a three year final compensation period and imposes a cap on pensionable salary. PEPRA prohibits retroactive benefit enhancements, excludes certain types of compensation from pensionable pay and requires that the member pay 50% of the normal 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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 193 in FY 2014. This was comprised of a net decrease of 350 Members and an increase of 543 Retirees and DROP participants.

As of June 30, 2014

	City General Members	City Safety Members	Port General Members	Port Safety Members	Airport All Members	Total Members
Active	5,118	2,157	275	104	362	8,016
Inactive	2,359	559	255	36	91	3,300
Retirees	4,809	3,058	406	79	55	8,407
DROP Participants	629	447	22	16	12	1,126
Totals	12,915	6,221	958	235	520	20,849

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 Statement of Net Position – Agency Funds, Statement of Changes in Assets and Liabilities – Agency Funds 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 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 2014 totaling \$1.5 million. A balance of \$8 thousand remained in the fund at June 30, 2014 and will be carried forward to pay the City's FY 2015 POB Plan expenses, currently estimated at \$1.6 million.

San Diego City Employees' Retirement System

Notes to the Basic Financial Statements (continued)

June 30, 2014

The Port made monthly payments into the POB Plan in FY 2013 totaling \$0.2 million. A balance of \$5 thousand remained in the fund at June 30, 2014 and will be carried forward to pay the Port's FY 2015 POB Plan expenses, currently estimated at \$0.3 million.

POB Plan activity is presented within this CAFR's Statement of Net Position - Agency Funds, the Statement of Changes in Assets and Liabilities – Agency Funds, and is also included in the City's and Port's CAFRs.

3. Deposits and Investments

Cash and Cash Equivalents

At June 30, 2014, SDCERS' cash balance was \$1.2 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was \$239.4 million, which includes cash collateral for SDCERS' cash overlay program of \$58.7 million and residual cash held in each manager's portfolio of \$180.7 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 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. 67.

Investment earnings are recorded in accordance with GASB Statement No. 67. 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 \$422.5 million for the year ended June 30, 2014. 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.

SDCERS' Policy in regard to the allocation of invested assets is established and may be amended by SDCERS' Board. The asset allocation policy is reviewed and approved on an annual basis. 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. SDCERS' assets are 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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

The following was SDCERS' adopted asset allocation policy as of June 30, 2014:

ASSET CLASS	TARGET ALLOCATION
U.S. Equity	21.0%
Non-U.S. Equity	14.0
Emerging Market Equity	1.0
Global Equity	5.0
U.S. Fixed Income	22.0
Emerging Market Debt	5.0
Real Estate	11.0
Private Equity	10.0
Infrastructure	3.0
Opportunity Fund	8.0
Total	100.0%

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 16.84%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Securities Lending

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

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to 102% for domestic loans and 105% for international loans. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During FY 2014, 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, 2014, securities on loan collateralized by cash had a fair value of \$194.7 million, and SDCERS received cash collateral of \$198.7 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, 2014, securities on loan collateralized by securities, irrevocable letters of credit or tri-party collateral had a fair value of \$123.9 million, and a collateral value of \$132.5 million, which was not reported as assets or liabilities in

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

the accompanying Statement of Plan Net Position in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at June 30, 2014 for its securities lending activities was \$331.2 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, 2014, these collateral pools are not rated by the nationally-recognized statistical rating organizations (NRSROs).

As of June 30, 2014, SDCERS had \$186.4 million invested in the Quality D liquidity collateral pool, which had an average duration of 37.4 days and an average weighted final maturity of 103.7 days; SDCERS had \$12.0 million invested in the Quality D duration pool, which had an average duration of 41.8 days and an average weighted final maturity of 1,770.3 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.

Fixed Income Instruments

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, 2014 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 Intermediate 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 Government 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 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 three emerging market debt commingled funds, one passive core fixed income index fund, and one global credit fund. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core fixed income manager is limited to U.S. fixed income investments only.

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

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

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2014.

Credit Quality of SDCERS' Fixed Income Strategies
(Domestic & International)
As of June 30, 2014
(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	Mortgage Backed Securities	Short-Term/ Other
U.S. Treasuries	\$169,297	\$-	\$-	\$-	\$-	\$169,297	\$-	\$-
GNMA Securities	15,292	-	-	-	-	15,292	-	-
AAA	57,893	11,412	27,469	139	-	18,873	-	-
AA+	33,262	12,776	-	1,484	2,013	16,989	-	-
AA	12,338	3,396	6,755	72	-	2,115	-	-
AA-	12,040	4,187	-	-	5,710	2,143	-	-
A+	30,313	8,132	-	9,044	11,080	2,057	-	-
A	26,953	1,620	172	1,236	22,378	1,547	-	-
A-	85,815	-	6	134	82,703	2,972	-	-
BBB+	29,900	166	-	129	29,605	-	-	-
BBB	50,576	308	-	290	22,916	27,062	-	-
BBB-	33,597	-	4,398	-	29,199	-	-	-
BB+	12,154	-	-	-	12,050	104	-	-
BB	21,518	-	-	109	21,409	-	-	-
BB-	18,506	-	-	11	18,213	282	-	-
B+	13,905	-	88	478	13,339	-	-	-
B	3,074	-	289	101	2,684	-	-	-
B-	15,924	-	25	1,332	13,220	1,347	-	-
CCC+	900	-	-	-	900	-	-	-
CCC	75	-	75	-	-	-	-	-
CCC-	2,617	-	-	-	2,617	-	-	-
D	263	-	-	263	-	-	-	-
NR	1,579,057	9,057	14,754	16,887	102,654	121,475	235,303	1,078,927 ³
Totals	\$2,225,269	\$51,054	\$54,031	\$31,709	\$392,690	\$381,555	\$235,303	\$1,078,927

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 \$1,053,901. These institutional quality fund investments are not directly rated by major credit rating agencies.

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.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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, 2014, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS' uninvested cash balances held in a demand deposit account (DDA) are subject to custodial credit risk. Such a balance or deposit with the bank establishes a debtor-creditor relationship and is not subject to the protection afforded SDCERS' other investments. Cash balances held in Short-Term Investment Funds (STIF) at State Street are held in SDCERS' name and are not subject to custodial credit risk. As of June 30, 2014, SDCERS held \$216.3 million in STIF and a cash balance of \$23.0 million. SDCERS does not have a specific policy relating to custodial credit risk because the majority of SDCERS' assets are held in SDCERS' name and 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 \$132.5 million as of June 30, 2014. 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 \$198.7 million as of June 30, 2014, 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, 2014, SDCERS had no single issuer that exceeded 5% of total investments as required to be disclosed by GASB Statement 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. 67, 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, 2014

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, 2014
(Dollars in Thousands)

Type of Security	Effective Duration (in years)	Fair Value ¹
Asset-Backed Securities		
Asset-Backed Securities	0.76	\$51,054
Commercial Mortgage-Backed Securities		
Commercial Mortgage-Backed Securities	1.15	54,031
Collateralized Mortgage Obligations		
Collateralized Mortgage Obligations	1.55	31,709
Corporate Bonds²		
Corporate Bonds	1.84	207,168
Bank Loans	0.73	1,600
Government & Agency Obligations		
Municipals	6.55	13,793
Foreign	1.69	65,074
Agency & Treasury Securities	3.97	302,688
Mortgage-Backed Securities		
Mortgage-Backed Securities	3.54	235,303
Short-Term/Other³		
Cash Equivalents	0.43	22,052
Total	2.81	\$984,472

¹ Fair Value does not include convertible bonds, mutual funds and derivative instruments of \$1,240,797. These securities do not exhibit interest rate risk and duration cannot be calculated.

² Corporate Bonds do not include convertible securities of \$183,922.

³ Short-Term/Other does not include derivative instruments, short term instruments and mutual funds of \$1,056,875. 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 (Dollars in Thousands):

Name of Institutional Mutual Fund	Fair Value	Weighted Average Maturity (In Years)
BlackRock U.S. Debt NL Fund	\$324,497	4.35
MetWest Floating Rate	6,796	5.22
PIMCO FDS Pac Mgmt Ser Emrg	575	1.31
PIMCO PAPS Short-Term Floating NAV II Portfolio	275,345	0.25
Stone Harbor	119,525	7.57
Wellington Trust Company CIF II Opportunistic Emerging Markets Debt Portfolio	94,130	12.35
Investec Emerging Market Debt	124,152	6.96
GCM WindandSea Fund	108,881	3.60
Total	\$1,053,901	

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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, 2014

(Dollars in Thousands)

Type of Security	Fair Value	Percent of Fixed Income Portfolio
Floating Rate Notes	\$115,110	5.2%
Asset-Backed Securities	25,329	1.1
Range Notes	6,300	0.3
Adjustable Rate Notes	2,988	0.1
Total	\$149,727	6.7%

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

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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, 2014:

Foreign Currency Risk¹

As of June 30, 2014

(Dollars in Thousands)

Local Currency Name	Cash	Equity	Fixed Income	Real Estate	Total
Australian Dollar	\$2	\$6,758	\$-	\$3,078	\$9,838
Canadian Dollar	1,005	4,161	1,432	2,176	8,774
Danish Krone	-	4,257	-	-	4,257
Euro Currency	8,317	77,718	68,825	5,573	160,433
Hong Kong Dollar	-	19,245	-	7,497	26,742
Japanese Yen	411	68,417	-	9,077	77,905
Singapore Dollar	-	3,495	-	2,932	6,427
South Korean Won	-	1,073	-	-	1,073
Swedish Krona	-	7,016	-	975	7,991
Swiss Franc	9	20,225	-	-	20,234
Thai Baht	-	-	-	1,087	1,087
United Kingdom Pound	-	53,882	1,100	6,528	61,510
Total	\$9,744	\$266,247	\$71,357	\$38,923	\$386,271

¹ This schedule does not include the foreign currency exposure to two international equity, one global equity, two emerging market equity and three emerging market 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. An important 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, 2014

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, 2014, 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, 2014:

Investment Derivative Disclosure (Dollars in Thousands)

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2014			
	Amount	Classification	Amount	Notional (Dollars)	Notional (Shares)
Credit Default Swaps	\$470	Domestic Fixed Income	\$985	\$56,453	
Fixed Income Futures	4,103	Domestic Fixed Income	-	751,550	
Fixed Income Options	3,244	Domestic Fixed Income	(2,030)	(723,780)	
Foreign Currency Futures	401	Domestic Fixed Income	-	5,300	
Foreign Currency Options	1	Domestic Fixed Income	-	-	
Futures Options	155	Domestic Fixed Income	-	-	
Foreign Currency Forwards	(1,831)	Domestic Fixed Income	(77)	201,757	
Index Futures	53,813	Domestic Fixed Income	-	106	
Interest Rate Swaps	(4,480)	Domestic Fixed Income	1,812	129,700	
Rights	9	Domestic Equity	-	-	
Warrants	5	Domestic Equity	5	-	4
Total Derivative Instruments	\$55,890		\$695	\$421,086	4

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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, 2014. 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, 2014.

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, 2014

Counterparty Name	Fair Value	S&P Rating
Deutsche Bank AG London	\$519	A
Barclays Capital	208	A
Credit Suisse International	124	A
Morgan Stanley CME	105	A-
Citibank N.A.	88	A
UBS AG	80	A
Barclays Bank PLC Wholesale	58	A
Bank of America N.A.	49	A
National Australia Bank Limited	44	AA-
Goldman Sachs Capital Markets LP	16	A-
HSBC Bank USA	16	AA-
JPMorgan Chase Bank N.A.	13	A+
Morgan Stanley Bank N.A.	10	A
Total	\$1,330	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2014 was \$1.3 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, 2014, 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, 2014

Derivative 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, 2014, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Derivative Interest Rate Risk

At June 30, 2014, 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	\$985	\$26	\$959	\$-	\$-
Fixed Income Options	(2,030)	(2,421)	398	(7)	-
Interest Rate Swaps	1,812	-	569	-	1,243
Total	\$767	\$(2,395)	\$1,926	\$(7)	\$1,243

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, 2014**
(Dollars in Thousands)

Investment Type	Fair Value	Notional
Credit Default Swaps	\$985	\$56,453
Fixed Income Futures	-	751,550
Fixed Income Options	(2,030)	(723,780)
Interest Rate Swaps	1,812	129,700
Total	\$767	\$213,923

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

Derivative Foreign Currency Risk

At June 30, 2014, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

Currency Name	Options/ Warrants	Foreign Currency Forwards		Swaps	Total
		Net Receivables	Net Payables		
Canadian Dollar	\$-	\$-	\$(34)	\$-	\$(34)
Euro Currency	-	376	(389)	5	(8)
Pound Sterling	-	13	(43)	-	(30)
Hong Kong Dollar	5	-	-	-	5
Subtotal	\$5	\$389	\$(466)	\$5	\$(67)
Investments Denominated in USD	(2,030)	-	-	2,792	762
Total	\$(2,025)	\$389	\$(466)	\$2,797	\$695

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of \$5.3 million and in foreign index futures with a total notional value of \$5.5 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, 2014.

Contingent Features

At June 30, 2014, 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, 2014, real estate investments totaled \$693.6 million and unfunded capital commitments totaled \$190.7 million. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2014, SDCERS' real estate portfolio had leverage of 28.8%. SDCERS' share of outstanding debt in the real estate portfolio is \$127.9 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 August 2016 through November 2025.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

The following table illustrates the mortgage loans that SDCERS has outstanding as of June 30, 2014 (Dollars in Thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2015	\$230	\$5,843	\$6,073
2016	237	5,842	6,079
2017	25,495	5,214	30,709
2018	22,777	3,575	26,352
2019	41,611	2,849	44,460
2020-2024	19,502	5,863	25,365
2025	18,000	1,385	19,385
Total	\$127,852	\$30,571	\$158,423

Private Equity

Private Equity assets are generally defined as direct investments in projects or companies that are privately negotiated and typically do not trade in a capital market. The risk is that these instruments are usually equity interests that are generally illiquid and long-term in nature.

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, 2014 totaled \$242.6 million. As of June 30, 2014, private equity investments totaled \$381.0 million.

Infrastructure

Infrastructure is a subset of Private Equity, defined as permanent essential assets society requires to facilitate the orderly operation of the economy, such as roads, water supply, sewers, power and telecommunications. The risk is that these investments are usually equity interests that are generally illiquid and long-term in nature. 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, 2014 totaled \$147.9 million. As of June 30, 2014, infrastructure investments totaled \$50.8 million.

4. Net Pension Liability of Plan Sponsors

Measurements as of the reporting date are based on the fair value of assets as of June 30, 2014 and the Total Pension Liability (TPL) as of the valuation date, June 30, 2013, with updated procedures to roll forward to June 30, 2014. There were no significant events between the valuation date and the measurement date so the update procedures only include the addition of service cost and interest cost offset by actual benefit provisions.

The Net Pension Liability (NPL) for each of the plan sponsors determined in accordance with GASB Statement No. 67 as of June 30, 2014, is as shown below (Dollars in Thousands):

	City of San Diego	Unified Port District	Airport Authority
Total Pension Liability	\$7,815,425	\$429,009	\$126,852
Plan Net Position	6,279,888	362,001	130,203
Net Pension Liability (Asset)	\$1,535,537	\$67,008	\$(3,351)
Plan Net Position as a Percentage of the Total Pension Liability	80.4%	84.4%	102.6%
Covered Employee Payroll	\$499,463	\$34,528	\$26,380
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	307.4%	194.1%	-12.7%

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

Actuarial valuations of the plan sponsors involve the use of estimates and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study conducted by the actuary for the period July 1, 2007 – June 30, 2013, and the results of an economic experience study performed by the actuary prior to the completion of the June 30, 2013 valuation.

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below.

Actuarial Assumptions

	City	Port	Airport
Valuation date	6/30/2013	6/30/2013	6/30/2013
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Actuarial Assumptions:			
Discount Rate	7.25%	7.25%	7.25%
Wage inflation ¹	0.00% for FY15-18, 3.30% thereafter	3.30%	3.30%
Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	0.5% - 5.0%
Cost of living increase	2.00%	2.00%	2.00%

¹ Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

Mortality: Healthy retired members use the RP-2000 Combined Mortality Table (male and female). For Safety female members, rates are set forward one year.

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

Long-Term Expected Rates of Return

SDCERS' long-term (30-year) expected nominal return is 7.36%, and expected real return net of inflation is 4.94%. Expected return estimates for equity and fixed income are developed using a geometric (long-term compounded) building block approach: 1) expected returns based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other assets classes are based on historical results, current market characteristics, and professional judgment from SDCERS' general investment consultant specialist research teams.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

Best estimates of geometric long-term real rates of return and nominal rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Long-Term Expected Real and Nominal Rates of Return
as of June 30, 2014

Asset Class	Long-Term Expected Real Rates of Return	Long-Term Expected Nominal Rates of Return
U.S. Equity	4.7%	7.1%
Non-U.S. Developed Equity	5.0	7.4
Emerging Market Equity	6.4	8.8
Global Equity	5.0	7.4
U.S. Fixed Income	1.7	4.0
Emerging Market Debt	4.1	6.5
Real Estate	4.3	6.7
Private Equity	6.6	9.1
Infrastructure	5.4	7.8
Opportunity Fund	4.6	7.0

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that the employees will continue to contribute to SDCERS at the current rates and the plan sponsors will continue their historical practice of contributing to SDCERS based on an actuarially determined contribution, reflecting a payment equal to annual Normal Cost, an amount necessary to amortize the remaining Unfunded Actuarial Liability, and the amount needed to avoid negative amortization, if any. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the discount rate of 7.25% was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City of San Diego, Unified Port District and Airport Authority, as of June 30, 2014, calculated using the discount rate of 7.25 percent, as well as what the net pension liability for each Plan Sponsor would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate (Dollars in Thousands):

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
City of San Diego's Net Pension Liability	\$2,416,130	\$1,535,537	\$804,310
Unified Port District's Net Pension Liability	\$119,428	\$67,008	\$23,451
Airport Authority's Net Pension Liability (Asset)	\$14,641	(\$3,351)	(\$18,252)

5. Contributions

SDCERS' uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for each plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contributions rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the Board of Administration annually.

The actuarial valuations for each of the plan sponsors are completed as of June 30 of each year. Once accepted by the Board of Administration, the approved rates for each plan sponsor apply to the fiscal year beginning 12 months after the valuation date. For FY 2014, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2012 actuarial valuations. SDCERS' Board of Administration approved the valuations for the City and Airport on March 1, 2013, and for the Port on April 12, 2013.

The funding objective of SDCERS is to fund the plans' liabilities with contributions which, over time will remain as a level percent of payroll for the Police portion of the plan and 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 (UAL).

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, whereby the normal cost rate is computed as the average level percent of pay required to fund the retirement benefits for all members between the dates of hire and assumed dates of retirement.

The difference between the EAN actuarial liability and the actuarial value of assets is the UAL. The UAL as of the June 30, 2013 actuarial valuation, the most recent available is split into several tiers, each using a different amortization period. The UAL is amortized by annual payments. The payments are determined as a level percentage of pay, assuming payroll increases of 3.30% per year, for the Police portion of the City plan, the Port and the Airport. The payments for the non-Police portion of the City plan are determined as level dollar amounts.

The City, Port and Airport make annual plan sponsor contributions to SDCERS based upon the ADC as determined by SDCERS' actuary and reported in the Statement of Changes in Plan Net Position.

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, 2014

The following table illustrates the required FY 2014 plan sponsors' contribution rates, as a percent of payroll, as calculated annually by SDCERS' actuary, Cheiron:

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2012, Actuarial Valuation)								Weighted Total
	General Old Plan	General 2009 Plan	Elected Officers	Police Old Plan	Police 2009 Plan	Police 2012 Plan	Fire	Lifeguard	
Normal Cost ¹	8.81%	7.72%	23.42%	14.70%	14.37%	13.47%	14.44%	15.43%	11.02%
Amortization Payment ²	47.51	0.60	72.89	56.62	1.13	0.00	79.38	54.86	48.46
Total Contribution Rate	56.32	8.32	96.31	71.32	15.50	13.47	93.82	70.29	59.48

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego Unified Port District (June 30, 2012, Actuarial Valuation)				Weighted Total
	General	Executives	Police		
Normal Cost ¹	10.68%	11.86%	16.28%		12.63%
Amortization Payment ²	26.02	51.82	25.71		26.68
Total Contribution Rate	36.70	63.68	41.99		39.31

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2012, Actuarial Valuation)			Weighted Total
	General	Executives		
Normal Cost ¹	11.70%	11.21%		11.37%
Amortization Payment ²	0.39	0.88		0.54
Total Contribution Rate	12.09	12.09		11.90

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).

In November 2013, the Board approved assumption changes lowering SDCERS' actuarial discount rate from 7.5% to 7.25% and lowering the wage inflation rate from 3.75% to 3.30%. These assumption changes are reflected in the June 30, 2013 valuation which will impact contribution rates for members and plan sponsors beginning July 1, 2014.

In November 2012, the Board approved revised contribution rates for new members as defined by the California Public Employees' Pension Reform Act of 2013 (PEPRA) for the Port Safety Plan and the Airport effective January 1, 2013.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

Member average contribution rates for FY 2014 from the June 30, 2012 actuarial valuations 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	9.93%	9.99%	10.16%
Safety Members ²	14.67	13.57	n/a
All Members	11.79	11.19	10.16

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. It is important to note that PEPRA members for the Port and Airport are not eligible for employer paid contributions.

For FY 2014, the City did not have contractual rates to pay member contributions, but adjustments may arise and for FY 2014, adjustments paid totaled \$14.6 thousand.

For FY 2014, 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 Executive Members:	7.50% to 10.30%

For FY 2014, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	7.00% to 8.50%
For Executive Members:	10.47%

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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, 2014, a total of 218 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 \$2.2 million has been included in the accompanying Statement of Plan Net Position at June 30, 2014.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

6. 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, 2014 (Dollars in Thousands):

Reserve for Current Retired Members	\$3,339,959
Reserve for Member Contributions	946,130
Reserve for DROP	522,531
Reserve for Plan Sponsor Contributions	389,713
Reserve for Receivables	3,245
Reserve for Supplemental COLA	344
Undistributed Earnings Reserve	332,496
Total Reserves¹	\$5,534,418

¹ Total 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 \$1.238 billion as of and for the year ended June 30, 2014.

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

Reserve for Deferred Retirement Option Program (DROP). Balances representing accumulated deferred retirement benefits, plus accumulated allocated interest, held on account for members participating in DROP. DROP accounts receive a member's pension allowance, 3.05% of salary contributed by the DROP member and a 100% matching contribution (3.05%) by the employer, plus interest calculated at the current DROP interest crediting rate, credited quarterly. Reserve for DROP for each Plan Sponsor at June 30, 2014 is as follows (Dollars in Thousands):

	City of San Diego	Port	Airport	Total
Reserve for DROP	\$507,856	\$12,911	\$1,764	\$522,531

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

Reserve for Supplemental COLA. These are funds appropriated by the applicable plan sponsor each year as part of its budget process and transferred to SDCERS to pay the Supplemental COLA Benefit to retirees of that plan sponsor whose effective date of retirement was prior to June 30, 1982, for the rest of their lives and then to their survivors for the remainder of their life. The benefit is not paid in any month in which the plan sponsor has failed to provide sufficient funds to pay the benefit. System assets are not used to pay this benefit.

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, 2014

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, 2014:

Year Ending June 30 (Dollars in Thousands)

2015	\$909
2016	936
2017	965
2018	993
2019	1,023
Thereafter	4,506
<u>Total</u>	<u>\$9,332</u>

Rent expense related to the operating lease was \$0.7 million for the year ended June 30, 2014.

8. Restatement

The Deferred Retirement Option Program (DROP) benefit was previously reported in prior years as a liability and retirement benefit expense and has been reclassified as a component of Net Position to conform to the provisions of GASB Statement No. 67 effective for the fiscal year ended June 30, 2014.

Beginning Net Position as of July 1, 2013 has been restated as follows (Dollars in Thousands):

	City of San Diego	Port	Airport	Total
Net Position Restricted for Pension Benefits at July 1, as Previously Reported	\$4,917,680	\$298,263	\$106,439	\$5,322,382
Prior Period Adjustment to recognize DROP benefits as a component of Net Position	477,478	11,436	2,017	490,931
Net Position Restricted for Pension Benefits at July 1, as Restated	\$5,395,158	\$309,699	\$108,456	\$5,813,313

Total Net Position was restated by \$490.9 million to properly recognize the DROP amounts as a component of Net Position pursuant to GASB Statement No. 67 as DROP benefits are reported as plan liabilities when they become due and payable.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

9. 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 seeking an order requiring SDCERS to charge City employees half of the pension plan's investment losses. On February 21, 2014, the Court approved the parties' good faith settlement agreement and dismissed the case in its entirety. The settlement allows SDCERS to continue to allocate 100% of the investment gains and losses to the City..

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 of San Diego employees (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal decision of June 7, 2010, in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL (PSC I). In the PSC I litigation, the court held that the Board could not recover the underfunding related to the underpriced PSC contracts from the City through the Unfunded Actuarial Liability (UAL). The Baidya complaint seeks unspecified money damages pursuant to causes of action for breaches of common law and constitutional fiduciary duties arising out of the Board's November 2007 decision to continue to recover the underfunding related to underpriced PSC contracts through the UAL. On August 17, 2012, the court granted SDCERS' demurrer without leave to amend as to all causes of action against SDCERS except two causes of action alleging breach of fiduciary duty relating to SDCERS' defense of the underlying litigation (PSC I) and the alleged reopening of the statute of limitations by the Board's November 2007 decision. On June 17, 2014, the court granted SDCERS' Motion for Summary Judgment as to the remaining two causes of action and entered judgment in favor of SDCERS. Plaintiffs have timely appealed. No hearing date has been set on the appeal. 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 related case, *Baidya vs. SDCERS* 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 of San Diego 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 related case, *Baidya vs. SDCERS* 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 City of San Diego 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's decision of June

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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 related case, *Baidya vs. SDCERS* 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 in excess of 300 members of SDCERS who are or were employees of the City of San Diego (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 related case, *Baidya vs. SDCERS* above.)

Abutin, et. al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2013-00077737-CU-OE-CTL

On November 26, 2013, a complaint was filed by 117 members of SDCERS who are or were employees of the City of San Diego (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 related case, *Baidya vs. SDCERS*, above.) The parties have stipulated to stay this case pending the decision in *Baidya vs. SDCERS* and related cases which are currently on appeal and to be bound by the decision of the Court of Appeal in the related cases.

Agnew, et. al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2013-00077705-CU-OE-CTL

On November 27, 2013, a complaint was filed by 115 members of SDCERS who are or were employees of the City of San Diego (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 related case, *Baidya vs. SDCERS*, above.) The parties have stipulated to stay this case pending the decision in *Baidya vs. SDCERS* and related cases which are currently on appeal and to be bound by the decision of the Court of Appeal in the related cases.

Bass, et. al., v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2013-00077556-CU-OE-CTL

On November 27, 2013, a complaint was filed by 21 members of SDCERS 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, 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 related case, *Baidya vs. SDCERS*, above.) The parties have stipulated to stay this case pending the decision in *Baidya vs. SDCERS* and related cases which are currently on appeal and to be bound by the decision of the Court of Appeal in the related cases.

Bao, et. al., vs. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2014-00009006-CU-NP-CTL

On March 28, 2014, a complaint was filed by 51 members of SDCERS who are or were employees of the City of San Diego (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

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2014

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 related case, *Baidya vs. SDCERS*, above.) The parties have stipulated to stay this case pending the decision in *Baidya vs. SDCERS* and related cases which are currently on appeal and to be bound by the decision of the Court of Appeal in the related cases.

10. Subsequent Events

Amendment to San Diego County Regional Airport Authority Plan

On September 4, 2014, the San Diego County Regional Airport Authority Board adopted Amendment No. 1 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013. The amendments were necessary to correct an error in the plan document relating to the historical treatment of Executive Member offsets to clarify that offsets paid by the Airport Authority on behalf of Executive Members are credited to the member accounts of those Executive Members. The amendment also revised Exhibit A of the plan document to correct typographical errors relating to pensionable pay codes, to delete obsolete and unused pay codes and to conform the categories of pensionable earnings for PEPRA New Members to comply with the requirements of PEPRA.

Tax Determination Letter Received for San Diego County Regional Airport Authority Plan

On September 15, 2014, the Internal Revenue Service issued a favorable determination letter following review of the Airport Authority's plan document. This determination letter will expire on January 31, 2019.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Fiscal Year Ended June 30, 2014¹ (Dollars in Thousands)

	City of San Diego	Unified Port District	Airport Authority
Total Pension Liability			
Service Cost	\$107,003	\$8,388	\$6,099
Interest	537,875	29,357	8,466
Changes in Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions	-	-	-
Benefit Payments and Refunds of Contributions	(384,980)	(18,763)	(2,913)
Net Change in Total Pension Liability	259,898	18,982	11,652
Total Pension Liability - Beginning	7,555,527	410,027	115,200
Total Pension Liability - Ending	\$7,815,425	\$429,009	\$126,852
Plan Net Position			
Contributions - Plan Sponsor	\$279,659	\$16,595	\$5,671
Contributions - Member	65,466	1,542	1,019
Net Investment Income	935,052	53,656	18,303
Benefit Payments and Refunds of Contributions	(384,980)	(18,762)	(2,914)
Administrative Expense	(10,467)	(729)	(332)
Net Change in Plan Net Position	884,730	52,302	21,747
Plan Net Position - Beginning as Restated	5,395,158	309,699	108,456
Plan Net Position - Ending	6,279,888	362,001	130,203
Net Pension Liability (Asset) - Ending	\$1,535,537	\$67,008	(\$3,351)
Plan Net Position as a Percentage of the Total Pension Liability	80.4%	84.4%	102.6%
Covered Employee Payroll	\$499,463	\$34,528	\$26,380
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	307.4%	194.1%	-12.7%

¹ Data is not available for years prior to FY 2014.

San Diego City Employees' Retirement System
Required Supplementary Information (continued)

City of San Diego
Schedule of Plan Sponsor Contributions
For the Ten Years Ended June 30 (2005 - 2014)

(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency/ (Excess) ^{1,2,3}	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2014	\$275,400	\$275,400	\$-	\$499,463	55.14%
2013	231,100	231,143	(43)	511,091	45.23
2012	231,200	231,200	-	514,265	44.96
2011	229,100	229,297	(197)	530,238	43.24
2010	154,200	192,533	(38,333)	536,591	35.88
2009	161,700	162,475	(775)	535,774	30.33
2008	137,700	165,581	(27,881)	512,440	32.31
2007	162,000	169,126	(7,126)	534,103	31.67
2006	170,071	271,349	(101,278)	557,631	48.66
2005	181,284	122,089	59,195	540,181	22.60

¹ Contributions for 2010 were made at a full actuarially-determined rate using the Entry Age Normal. In addition, the City made contributions above this amount associated with the final settlement of litigation associated with the UAL.

² Contributions for 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount to ensure no negative amortization of the UAL.

³ Contributions for 2006 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its Retirement UAL SDCERS Reserve Fund year-end balance.

Unified Port District
Schedule of Plan Sponsor Contributions
For the Ten Years Ended June 30 (2005 - 2014)

(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency/ (Excess) ⁴	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2014	\$13,900	\$13,900	\$-	\$34,528	40.26%
2013	13,200	13,200	-	35,873	36.80
2012	12,600	12,600	-	34,632	36.38
2011	11,500	11,501	(1)	39,165	29.37
2010	7,200	7,201	(1)	40,370	17.84
2009	7,300	7,340	(40)	38,635	19.00
2008	6,900	6,900	-	37,160	18.57
2007	8,300	9,300	(1,000)	33,927	27.41
2006	8,121	8,121	-	35,077	23.15
2005	7,613	7,613	-	34,916	21.80

⁴ Contributions for 2007 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the Port made contributions above this amount to achieve certain funding level thresholds.

San Diego City Employees' Retirement System
Required Supplementary Information (continued)

Airport Authority
Schedule of Plan Sponsor Contributions
For the Ten Years Ended June 30 (2005 - 2014)
(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency/ (Excess) ^{1,2}	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2014	\$2,900	\$3,728	\$(828)	\$26,380	14.13%
2013	2,600	2,600	-	24,840	10.47
2012	3,800	3,800	-	25,148	15.11
2011	4,300	4,300	-	25,596	16.80
2010	3,000	7,600	(4,600)	24,693	30.78
2009	3,000	3,035	(35)	23,488	12.92
2008	2,200	2,520	(320)	21,957	11.48
2007	2,600	2,962	(362)	19,116	15.49
2006	2,879	3,300	(421)	17,609	18.74
2005	2,312	7,625	(5,313)	15,606	48.86

¹ Contributions for 2010 and 2014 were made at a full actuarially-determined rate using the Entry Age Normal. In addition, the Airport made contributions above this amount to achieve certain funding level thresholds.

² Contributions for 2005 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the Airport made contributions above this amount to achieve certain funding level thresholds.

Schedule of Investment Returns
For the Fiscal Year Ended June 30, 2014³

	2014
Annual Money-Weighted Rate of Return, Net of Investment Expense	16.84%

³ Data for the money-weighted rate of return is not available for years prior to FY 2014.

**San Diego City Employees' Retirement System
Required Supplementary Information
Notes to Required Supplementary Information**

1. Changes of Benefit Terms

There were no changes of benefit terms for the fiscal year ended June 30, 2014.

2. Methods and Assumptions Used to Determine Contributions

The actuarially determined contribution rates in the Schedules of Plan Sponsor Contributions for FY 2014 are calculated using the June 30, 2012 actuarial valuation, which is one year prior to the beginning of the plan year.

The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule for the fiscal year ended June 30, 2014:

	City	Port	Airport
Valuation date	6/30/2012	6/30/2012	6/30/2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Asset valuation method	Expected Value Method	Expected Value Method	Expected Value Method
Amortization Method	Closed; Level % (Police), Level S (non-Police)	Level Percent Closed	Level Percent Closed
Discount rate	7.50%	7.50%	7.50%
Amortization growth rate	3.75%	3.75%	3.75%
Salary increases ¹	3.75%	3.75%	3.75%
Cost of living increase	2.00%	2.00%	2.00%

¹ Salary increases assumed for the City and Airport following a wage freeze in fiscal years 2013 and 2014. Additional merit salary increases of 0.50% to 8.00% based upon a member's classification and years of service are also assumed.

Mortality: Healthy retired members use the RP-2000 Combined Mortality Table (male and female). For Safety female members, rates are set forward one year.

Actuarial valuations are available online at www.sdcers.org.

San Diego City Employees' Retirement System
Other Supplemental Information

Schedule of Administrative Expenses
For the Year Ended June 30, 2014

(Dollars in Thousands)

Salaries and Personnel ¹	\$6,085
Information and Technology Services	
Data Processing and Computer Services	1,013
Contracted Services	702
Total Data Processing	<u>1,715</u>
Legal/External	
Litigation/Fiduciary/Tax/General	1,012
Disability	43
Total Legal/External	<u>1,055</u>
General Operations	
Rent	673
Fiduciary Insurance	525
Office Operations Expenses	421
Actuary Services	410
Depreciation Expense	354
Audit Services	121
Disability Processing	91
Travel & Training	78
Total General Operations	<u>2,673</u>
Grand Total	<u>\$11,528</u>

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, 2014

(Dollars in Thousands)

	Fair Value of Assets Under Management ¹	Total Fees Paid
Domestic Equity Managers	\$1,899,820	\$4,420
International Equity Managers	1,199,346	3,454
Global Equity Managers	369,656	2,038
Domestic Fixed Income Managers	1,605,260	2,112
Emerging Market Debt Strategies	337,806	1,315
Emerging Market Equity Strategies	71,248	147
Real Estate Managers	666,839	12,346
Private Equity Managers	380,975	2,671
Infrastructure Managers	50,805	1,303
Opportunistic Strategies	148,310	68
Cash & Cash Overlay	189,496	187
Total	\$6,919,561	\$30,061
Other Investment Services Fees		
SDCERS Salaries and Personnel		\$962
Custodian Services		191
Investment Consultants		685
Investment Accounting Applications		41
Legal Services		225
General Operations		13
Taxes		443
Other		62
Total Other Investment Service Fees		\$2,622
Total Investment Expenses		\$32,683

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, real estate, private equity, and infrastructure.

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

Schedule of Payments to Consultants
For the Year Ended June 30, 2014
(Dollars in Thousands)

<u>Individual or Firm</u>	<u>2014</u>	<u>Nature of Service</u>
Sagitec Solutions, LLC	\$2,026	Pension Administration System Development
Legal Firms & Professional Legal Services ¹	1,055	Legal, Arbitration, Mediation, Court Reporting
CGI Technologies	773	Computer/Applications Support
Barney & Barney, LLC	525	Fiduciary Insurance
Cheiron, Inc.	410	Actuary
Atos IT Solutions and Services, Inc.	240	Computer/Applications Support
L.R. Wechsler, LTD	232	Pension Administration System Development
Levi, Ray & Shoup	143	Member Benefit Systems Maintenance
Xerox State & Local Solutions, Inc.	138	Network Services
Macias Gini & O'Connell LLP	121	Audit
Doctors & Disability Services ¹	64	Medical Consulting
Various Providers	15	Various Contractual Services
<u>Total Payments to Consultants and Professional Service Providers</u>	<u>\$5,742</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, 2014

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. A. Lyle Rosenfield

Dr. Enass Rickards

Dr. Neil Tayyab

Southwest & Associates

Dr. Robert S. Warren

Other Doctors

Phillip Azer, M.D.

Daniel J. Bressler, M.D.

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

Dean Delis, PhD.

L. Mercer McKinley, M.D.

Dr. David G. Smith

SDCERS paid the following Legal & Professional Legal Services Firms:

Cox, Castle & Nicholson, LLP

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, 2014
(Dollars in Thousands)

	City of San Diego Preservation of Benefits Fund			
	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$5	\$1,463	\$1,460	\$8
TOTAL ASSETS	\$5	\$1,463	\$1,460	\$8
LIABILITIES				
Sundry Trust Liability	\$5	\$1,463	\$1,460	\$8
TOTAL LIABILITIES	\$5	\$1,463	\$1,460	\$8
	San Diego Unified Port District Preservation of Benefits Fund			
	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$4	\$237	\$236	\$5
Accounts Receivable	107	–	107	–
TOTAL ASSETS	\$111	\$237	\$343	\$5
LIABILITIES				
Sundry Trust Liability	\$111	\$237	\$343	\$5
TOTAL LIABILITIES	\$111	\$237	\$343	\$5
	Preservation of Benefits Funds - Combined			
	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$9	\$1,700	\$1,696	\$13
Accounts Receivable	107	–	107	–
TOTAL ASSETS	\$116	\$1,700	\$1,803	\$13
LIABILITIES				
Sundry Trust Liability	\$116	\$1,700	\$1,803	\$13
TOTAL LIABILITIES	\$116	\$1,700	\$1,803	\$13

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, 2014

(Dollars in Thousands)

	Post Employment Healthcare Benefit Plan Fund			Balance June 30, 2014
	Balance June 30, 2013	Additions	Deductions	
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$ (2)	\$43,981	\$43,978	\$1
Accounts Receivable	2	29	—	31
TOTAL ASSETS	\$—	\$44,010	\$43,978	\$32
LIABILITIES				
Sundry Trust Liability	\$—	\$44,010	\$43,978	\$32
TOTAL LIABILITIES	\$—	\$44,010	\$43,978	\$32

	Total Agency Funds			Balance June 30, 2014
	Balance June 30, 2013	Additions	Deductions	
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$7	\$45,681	\$45,674	\$14
Accounts Receivable	109	29	107	31
TOTAL ASSETS	\$116	\$45,710	\$45,781	\$45
LIABILITIES				
Sundry Trust Liability	\$116	\$45,710	\$45,781	\$45
TOTAL LIABILITIES	\$116	\$45,710	\$45,781	\$45



3 | INVESTMENT

Investment Consultant's Statement



November 3, 2014

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, 2014.

As we entered the Fiscal Year 2014, market sentiment was largely influenced by potential actions of the U.S. Federal Reserve (Fed). The Fed's comments in May 2013 of plans to begin tapering its large asset purchasing program, referred to as QE (Quantitative Easing), sent markets into a quick frenzy. However, the Fed's reassurance of continued support as long as it was needed, including the actual tapering beginning later than expected, sent markets climbing to start the 2014 fiscal year. Investors' nerves were also tested on the uncertainty surrounding the succession of Federal Reserve Chairman, Ben Bernanke, as he announced his intentions to step down at the end of his term. Janet Yellen's nomination and ultimate appointment appeared to provide markets comfort, which elevated equity markets even higher. Despite a host of events with the potential to stall markets, including the government shutdown, disputes over the debt ceiling and the actual start of winding down QE, positive sentiment persisted and markets continued their climb upwards in the first half of the fiscal year. There was some hesitation in this upward march, as challenging winter weather conditions in early 2014 muddied the economic picture, with concerns surrounding slower GDP growth, and geopolitical uncertainties, specifically the tensions between Russian and Ukraine, caused concerns. However, it wasn't enough to prevent most equity markets to continue their move upwards. The year ended with a strong quarter as economic data showed signs of improvement and central banks around the globe continued to provide stimulus support.

The 'risk-on' mentality and resiliency to negative news throughout the year produced extremely strong equity market returns. Global equity markets continued to add to the now five-year rally with the support of stimulus from central banks across the globe and the slow, yet mostly steady, improvement in economic data. Domestic equity markets trended up over the year, as the Dow Jones U.S. Total Stock Market Index posted a 25.0% return. Developed international equity markets performed similarly, with a return of 23.6%, as measured by the MSCI EAFE Index. Emerging equity markets, being more sensitive to the tapering news and economic data, were among the weaker equity market performers, although still posted a return of 14.3% over the year, as measured by the MSCI Emerging Markets Index. The broad U.S. fixed income market, as represented by the Barclays Intermediate Aggregate Bond Index, was fairly steady, but also posted a positive, albeit modest, return of 3.5%. The modest change in the yield on the 10-Year U.S. Treasury masked the volatility experienced over the period. The 10-Year yield ended the year at 2.5%,

Page 2
November 3, 2014

mostly unchanged from the start of the period, although it spiked to 3.0% on two separate occasions, reacting to news out of the Federal Open Market Committee meetings.

Against this backdrop, the SDCERS Trust Fund grew by approximately \$959 million over the 2014 fiscal year, totaling \$6.8 billion at year-end. The growth in assets reflects the Total Fund's 16.8% net-of-fee return for the year, as measured on a time-weighted basis. The Total Fund's return outperformed its Policy Benchmark return of 16.5% and ranked in the top half of its peer universe¹. Over the year, absolute performance was driven by strong public equity and private equity returns. Relative to its Policy Benchmark, the Total Fund's outperformance over the year is primarily attributable to strong performance from the private equity asset class, which returned 17.7%. The SDCERS Trust Fund has also benefitted from strong absolute and relative returns over longer time periods. Over the trailing five- and ten-years, the SDCERS' Total Fund has returned an annualized 13.5% and 7.8%, respectively. Over both time periods, the Total Fund has outperformed its Policy Benchmark return and ranked in the top quartile among its peer universe¹.

During the 2014 fiscal year, the SDCERS Trust Fund made progress towards its long term asset allocation targets. The modest enhancements, which the Board had previously approved, were fully implemented throughout the year. These included: 1) shortening the duration of the fixed income asset class; 2) hiring a dedicated emerging markets equity manager; 3) increasing the emerging market debt allocation and hiring a local currency emerging markets debt manager; and 4) increasing the private equity target. Over the year, SDCERS' private equity and infrastructure allocations continued to grow towards their long term targets, ending the year at 5.5% and 0.7% of Total Fund assets, respectively. Additionally, SDCERS made significant strides towards funding the Opportunity Fund. Over the past year, SDCERS thoughtfully committed \$270 million to four investment managers. These mandates target attractive opportunistic real estate debt and equity and opportunistic credit investments. At the end of the year, approximately \$150 million had been drawn by two of the four managers, representing just over 2% of the Total Fund's assets. Throughout the year, the asset allocation and investment structure of SDCERS Plan is continually monitored and evaluated to ensure it is in line with SDCERS' long-term goals.

Sincerely,



Steve Voss
Partner



Satya Kumar, CFA
Partner

¹Universe data is compiled by BNY Mellon and Investment Metrics. The universe includes only public pension plan total fund returns.

San Diego City Employees' Retirement System

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

For the Periods Ended June 30, 2014

	Annualized Performance			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Domestic Equity Performance	24.7%	15.9%	19.5%	8.6%
Benchmark: Dow Jones U.S. Total Stock Market	25.0%	16.4%	19.9%	8.8%
International Equity Performance	22.1%	6.5%	11.3%	7.1%
Benchmark: MSCI AC World Ex-US IMI Index	22.3%	5.9%	11.6%	8.2%
Emerging Market Equity Performance⁴	N/A	N/A	N/A	N/A
Benchmark: MSCI Emerging Markets Index	14.3%	-0.4%	9.2%	11.9%
Global Equity Performance	20.6%	N/A	N/A	N/A
Benchmark: MSCI All-Country World Index	22.9%	10.3%	14.3%	7.5%
Domestic Fixed Income Performance	3.3%	3.6%	7.0%	6.0%
Benchmark: Barclays Intermediate Aggregate Bond Index	3.5%	3.4%	4.7%	4.5%
Emerging Market Debt Performance	9.0%	5.4%	N/A	N/A
Benchmark: JPM EMBI Global Diversified (40% weight)	7.8%	4.3%	8.9%	9.7%
JPM GBI-EM Global Diversified (60% weight)				
Opportunity Fund Performance⁵	N/A	N/A	N/A	N/A
Benchmark: MSCI All Country World Index IMI (78% weight)	18.8%	8.9%	12.6%	7.4%
Barclays Intermediate Aggregate Bond Index (22% weight)				
Real Estate Performance	11.2%	11.3%	11.6%	7.3%
Benchmark: NFI-ODCE + 50 basis points (90.0% weight)	12.5%	11.9%	11.9%	7.7%
FTSE EPRA/NAREIT Developed REIT Index (10.0% weight)				
Private Equity Performance	17.7%	17.5%	N/A	N/A
Benchmark: Ten-year Annualized S&P 500 Index + 300 basis points	10.0%	10.0%	10.0%	10.0%
Infrastructure Performance⁵	N/A	N/A	N/A	N/A
Benchmark: CPI + 300 basis points	5.1%	4.9%	5.1%	5.4%
Total Fund Performance⁶	16.8%	10.2%	13.5%	7.8%
Performance Benchmark, comprised of:	16.5%	10.0%	12.9%	7.7%
Dow Jones U.S. Total Stock Market Index (29.0%);				
International Equity Benchmark (19.0%);				
Barclays Intermediate Agg (24.0%);				
Custom Real Estate Benchmark (11.0%);				
MSCI AC World Index (5.0%); Emerging Market Debt Benchmark (5.0%);				
Private Equity Benchmark (5.0%); and Opportunity Fund Benchmark (2.0%)				

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

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

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

⁴ This allocation was funded in February 2014. Performance for time period shown will be shown when allocation reaches sufficient history.

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 17.0%.

San Diego City Employees' Retirement System
Investment Managers
 As of June 30, 2014

Domestic Equity Investment Managers

Allianz Global Investors Capital
San Diego, CA

Dodge & Cox
San Francisco, CA

BlackRock Institutional Trust Company
San Francisco, CA

Fisher Investments
Woodside, CA

Wall Street Associates
La Jolla, CA

Dimensional Fund Advisors
Santa Monica, CA

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
San Francisco, CA

Global Equity Investment Managers

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

Walter Scott & Partners Limited
Edinburgh, Scotland

International Equity Investment Managers

Brandes Investment Partners
San Diego, CA

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

BlackRock Institutional Trust Company
San Francisco, CA

Emerging Market Equity Investment Managers

Aberdeen Asset Management
Philadelphia, PA

Neuberger Berman
New York

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

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

Mesa West Capital
Los Angeles, CA

EII Capital Management, Inc.
New York, NY

Private Equity and Infrastructure Consultants

GCM Grosvenor Private Markets
Los Angeles, CA

StepStone Group, LLC
San Diego, CA

Opportunity Fund Investment Managers

GCM Grosvenor (Global Credit Fund)
Chicago, IL

Torchlight Investors (Opportunistic Real Estate)
New York, NY

The Carlyle Group (Opportunistic Real Estate)
Washington, DC

LaSalle Investment Management (Opportunistic Real Estate)
San Francisco, 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, 2014**

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 7.25%.
- 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.

* * *

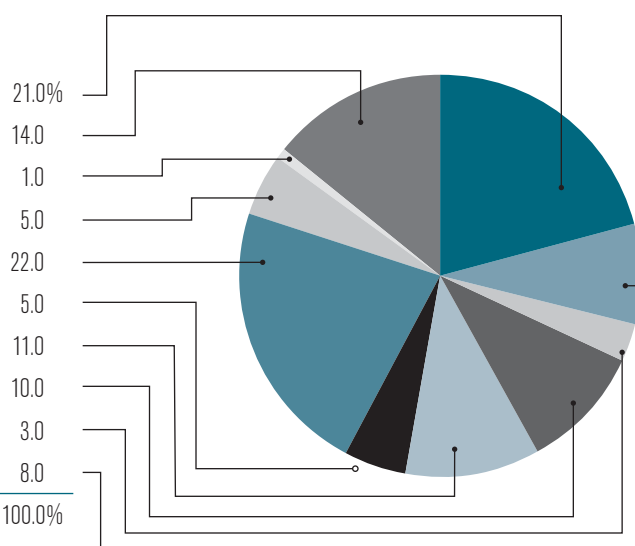
These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS' 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, 2014

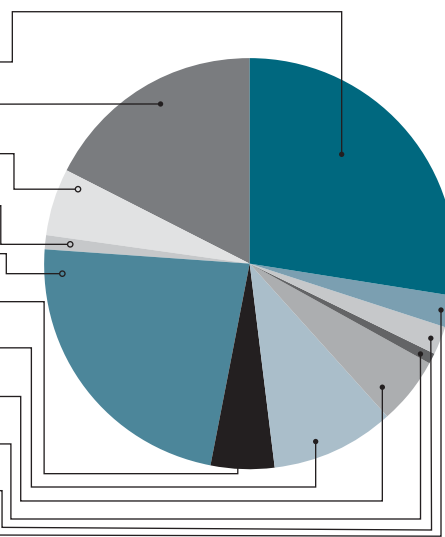
Long-Term Strategic Target Asset Allocation¹

Domestic Equity Strategies	21.0%
International Equity Strategies	14.0
Emerging Market Equity Strategies	1.0
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 Strategies	27.5%
International Equity Strategies	17.3
Global Equity Strategies	5.4
Emerging Market Equity Strategies	1.0
Domestic Fixed Income Strategies	23.2
Emerging Market Debt Strategies	4.9
Real Estate Strategies	9.6
Private Equity Strategies ³	5.5
Infrastructure Strategies ⁴	0.7
Opportunity Fund Strategies	2.2
Cash ⁵	2.7
Total	100.0%



(Dollars in
Thousands)

Domestic Equity Strategies	\$1,899,820
International Equity Strategies	1,199,346
Global Equity Strategies	369,656
Emerging Market Equity Strategies	71,248
Domestic Fixed Income Strategies	1,605,260
Emerging Market Debt Strategies	337,806
Real Estate Strategies	666,839
Private Equity Strategies ³	380,975
Infrastructure Strategies ⁴	50,805
Opportunity Fund Strategies	148,310
Cash ⁵	189,496
Total Investments, At Fair Value⁶	\$6,919,561
Less Pending Transactions	(150,778)
Total Net Investments⁷	\$6,768,783

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.

Investment Section

San Diego City Employees' Retirement System

At June 30, 2014 (Dollars in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	320	Microsoft Corp.	594918104	\$13,348	0.2%
2	111	Schlumberger LTD	806857108	13,045	0.2
3	361	Hewlett Packard Co.	428236103	12,145	0.2
4	145	Capital One Financial Corp.	14040H105	11,977	0.2
5	225	Wells Fargo & Co.	949746101	11,805	0.2
6	108	Novartis AG Sponsored ADR	66987V109	9,732	0.1
7	126	Walmart Stores Inc.	931142103	9,459	0.1
8	169	Comcast Corp. Class A	20030N101	9,053	0.1
9	116	Time Warner Inc.	887317303	8,170	0.1
10	206	Bank of New York Mellon Corp.	064058100	7,702	0.1
Total				\$106,436	1.6%

Schedule of Largest Fixed Income Holdings

Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	64,200	U.S. Treasury Note 1.5% 31 May 2019	912828WLO	\$63,879	0.9%
2	56,700	Interest Rate Swap - Rec USD Fixed 1.5% 18 Mar 2016	99S0C5JQ1	57,191	0.8
3	41,445	FNMA TBA 30 Year Single Family 3.5% 01 Dec 2099	01F032674	42,663	0.6
4	24,648	U.S. Treasury Inflation Protection Bond 2.375% 15 Jan 2025	912810FR4	29,861	0.4
5	25,000	Interest Rate Swap - Rec USD Variable 3 Month LIBOR 1% 18 Dec 2043	99S0G8SZ1	25,000	0.4
6	22,000	FNMA TBA Aug 30 Single Family 4.5% 01 Aug 2099	01F042681	23,771	0.4
7	16,700	Interest Rate Swap - Rec USD Variable 3 Month LIBOR 1% 19 Jun 2043	99S0EIVK0	16,700	0.2
8	15,300	Credit Default Swap - Rec USD Fixed 1.000001% 20 Jun 2019	99S0J6F29	15,500	0.2
9	14,000	FNMA TBA July 15 Single Family 3.5% 01 Dec 2099	01F032476	14,838	0.2
10	12,717	U.S. Treasury Inflation Protection Bond 1.25% 15 Jul 2020	912828NM8	13,936	0.2
Total				\$303,339	4.5%

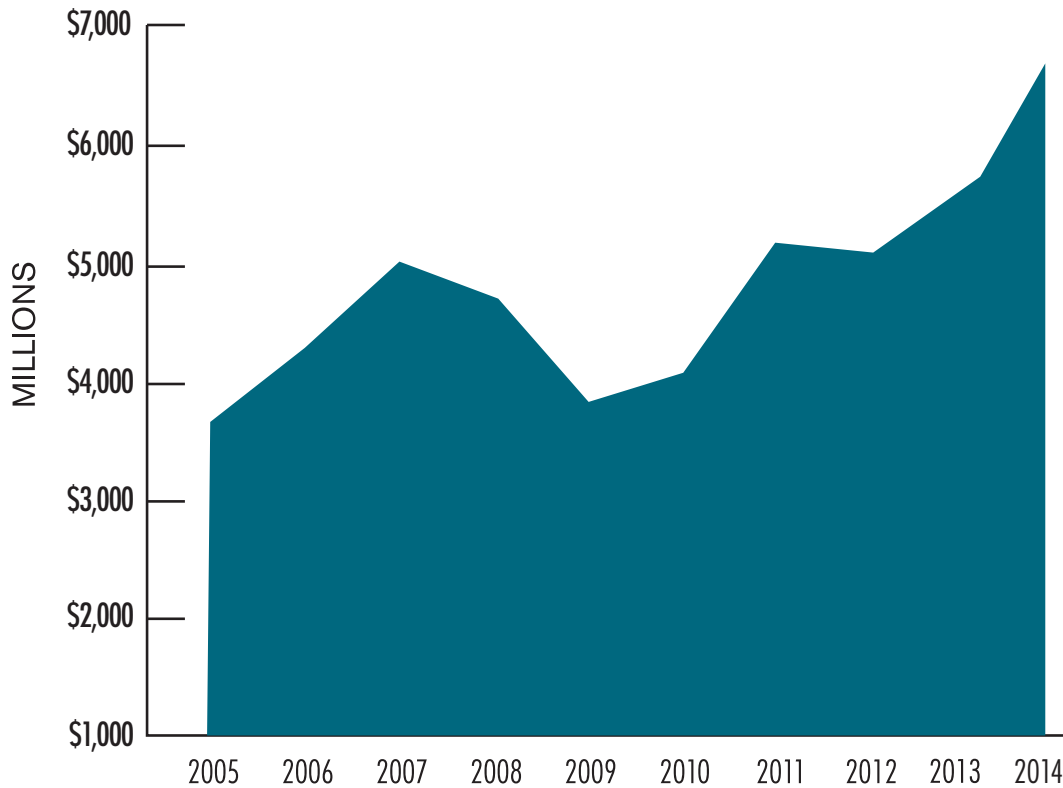
A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Commissions¹
Top 25 Brokerage Firms Used
For the Year Ended June 30, 2014 (Dollars in Thousands)

Rank	Broker Name	Shares	Base Commission	Commission Per Share
1	Morgan Stanley Co., Inc.	1,384,429	\$ 121	\$0.0001
2	Goldman Sachs & Co.	2,339,309	111	0.0000
3	ConvergEx Group	1,431	52	0.0364
4	Merrill Lynch & Co.	47,140	38	0.0008
5	UBS AG	34,339	36	0.0011
6	Stephens, Inc.	1,775	34	0.0189
7	Jefferies LLC	85,396	32	0.0004
8	Credit Suisse Group	1,053,349	30	0.0000
9	J.P. Morgan Chase & Co.	821,680	30	0.0000
10	Stifel, Nicolaus & Company, Inc.	1,743	25	0.0144
11	Deutsche Bank Securities, Inc.	695,104	24	0.0000
12	Cowen and Company	847	22	0.0262
13	Citigroup Global Markets, Inc.	937,756	22	0.0000
14	Sanford C. Bernstein and Co., Inc.	1,721	21	0.0120
15	Craig-Hallum Capital Group LLC	507	18	0.0353
16	Piper Jaffray	3,106	16	0.0050
17	Barclays PLC	894,574	14	0.0000
18	William Blair & Company	1,953	14	0.0072
19	Raymond James & Associates, Inc.	2,886	12	0.0041
20	RBC Dominion Securities	29,887	12	0.0004
21	Instinet LLC	3,500	10	0.0030
22	Canaccord Genuity Group, Inc.	289	10	0.0356
23	Pershing LLC	22,789	9	0.0004
24	Wedbush, Inc.	214	9	0.0417
25	Northland Securities, Inc.	248	8	0.0339
	All Other Brokers	1,399,732	199	0.0001
	Total	9,765,704	929	\$0.0001

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.

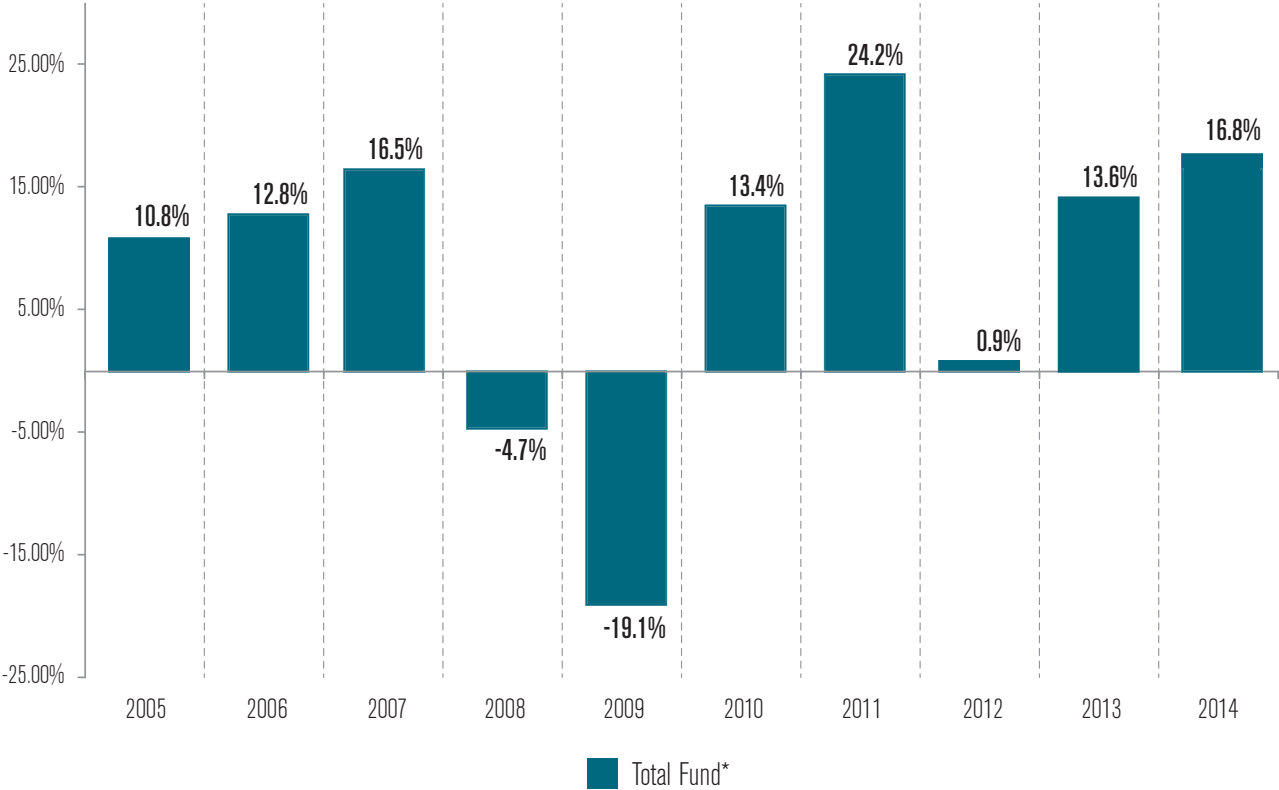
**San Diego City Employees' Retirement System
Growth of Investments, at Fair Value
For Ten Years Ended June 30**



Fiscal Year	Fair Value ¹ (Dollars in Thousands)
2014	\$6,768,783
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

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 30, 2014

Members of the Retirement Board
 San Diego City Employees' Retirement System
 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, 2013 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 as a level percent of payroll for the Police portion of the plan and 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. The plan's funding policy is adopted by the SDCERS Board with significant input from the actuary.

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, 2013 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

The June 30, 2013 valuation results reflect a number of assumption and method changes that were approved by the SDCERS Board in November 2013.

Inflationary pay increases are assumed to be 0% through FY 2018 based on the negotiated labor agreements for the City, and the long-term across the board pay inflation assumption was lowered from 3.75% to 3.3% per year for all three plan sponsors. The assumed investment return was also lowered from 7.5% to 7.25% per year, net of investment expenses.

In addition, the SDCERS Board adopted a policy of 30-year amortization of funding surplus, if any. Finally, the gross normal cost rate is now determined by dividing the sum of the individual normal costs by the total valuation salary, instead of by dividing the total present value of future normal costs by the total present value of future salaries. This change was made to be consistent with the disclosure requirements of GASB Statements Number 67 and Number 68.

All other assumptions and methods remain the same as in the June 30, 2012 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

For the City, a new plan for Police Members was implemented on August 2, 2012. The only change to the predecessor Police plan was to remove the COL Annuity benefit.

For the Unified Port District and the Airport Authority, the California Public Employees' Pension Reform Act (PEPRA) was effective January 1, 2013 and has a significant impact on the plan provisions for most employees hired on or after that date. However, there were no such members in the June 30, 2013 valuation.

All other plan provisions remain the same as in the June 30, 2012 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.

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, 2013 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. Schedules of funding progress and employer contributions
10. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.

San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

1. General Comments

The June 30, 2013 valuation results reflect a number of assumption and method changes that were approved by the SDCERS Board in November 2013. Inflationary pay increases are assumed to be 0% through FY 2018 based on the negotiated labor agreements for the City, and the long-term across the board pay inflation assumption was lowered from 3.75% to 3.3% per year for all three plan sponsors. The assumed investment return was also lowered from 7.5% to 7.25% per year, net of investment expenses.

For the Unified Port District and the Airport Authority, the California Public Employees' Pension Reform Act (PEPRA) was effective January 1, 2013 and has a significant impact on the plan provisions for most employees hired on or after that date. The June 30, 2013 membership census data did not contain any New Members. However, the calculation of the FY 2015 ADC reflects an estimate of PEPRA's impact on the normal cost for any New Members hired between July 1, 2014 and June 30, 2015.

For the City, two additional tiers had active members in the June 30, 2013 valuation: a Fire-2012 Plan and a Police-2012 No COL Plan. There will also be a new tier under Proposition B for Police Members hired on or after July 1, 2013. Membership data for this tier will be disclosed in next year's valuation.

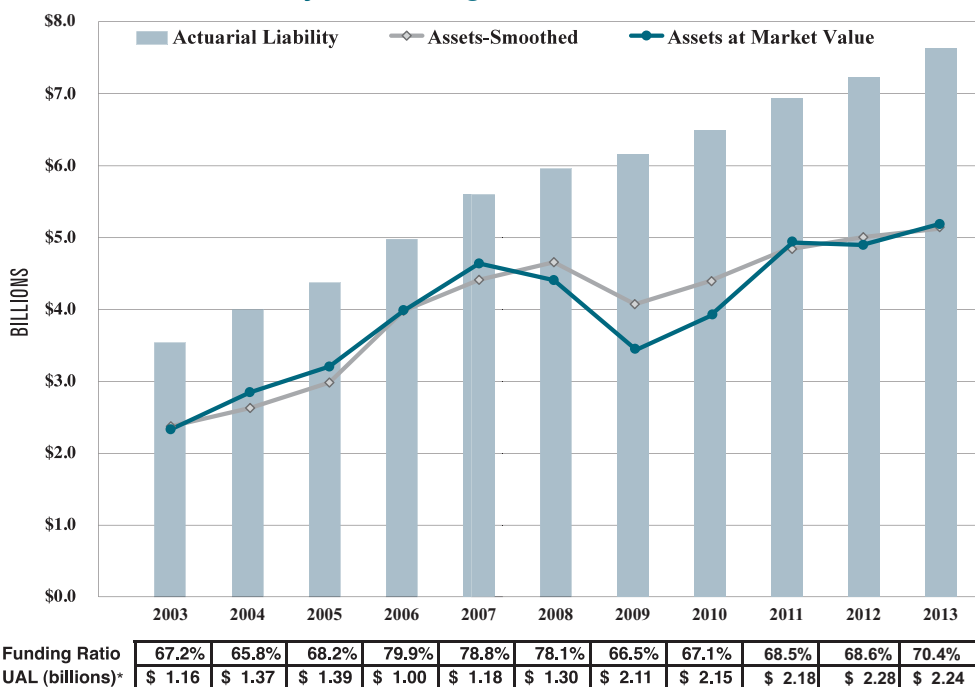
More details on the actuarial assumptions and plan provisions can be found in the Actuarial Assumptions and Methods section presented as Required Supplementary Information in this CAFR.

In FY 2014 GASB Statement No. 25, which outlines standards for pension plan financial reporting, was replaced by GASB Statement No. 67. Similarly, in FY 2015 GASB Statement No. 27 (standards for plan sponsor reporting) will be replaced by GASB Statement No. 68. As described above, one purpose of the June 30, 2013 valuation is to develop contribution rates for FY 2015. However, neither GASB Statement No. 67 nor GASB Statement No. 68 retain the concept of an Annual Required Contribution (ARC), which had previously been used as the System's de-facto funding policy. In response, the SDCERS Board at its November 2013 meeting adopted to formalize the funding policy based on the existing practices used to develop the ARC. In this report we have replaced the term ARC with Actuarially Determined Contribution (ADC), to refer to the contribution determined by the actuary each year based on the adopted funding policy. GASB Statements No. 67 and 68 also use this term to refer to a contribution determined by the actuary in accordance with Actuarial Standards of Practice, but do not define it further. GASB Statements No. 67 and 68 do not establish parameters for actuarial valuations used to determine funding requirements.

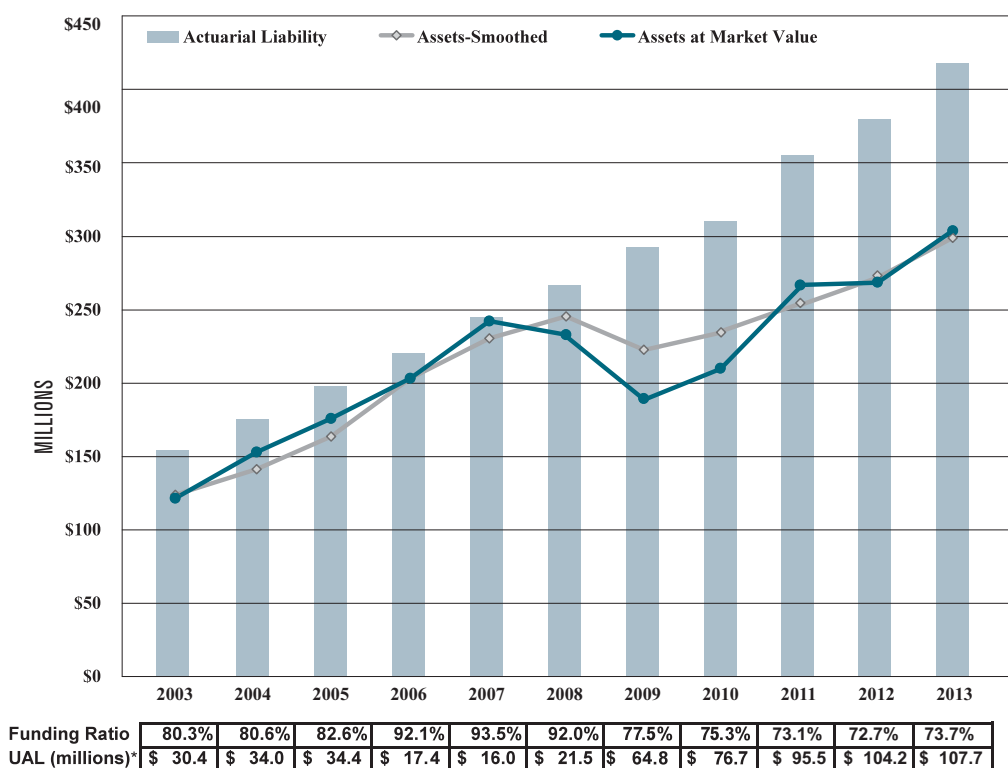
San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

2. Historical Trends Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 2003 - 2013



SDCERS - Unified Port District Assets and Liabilities 2003 - 2013

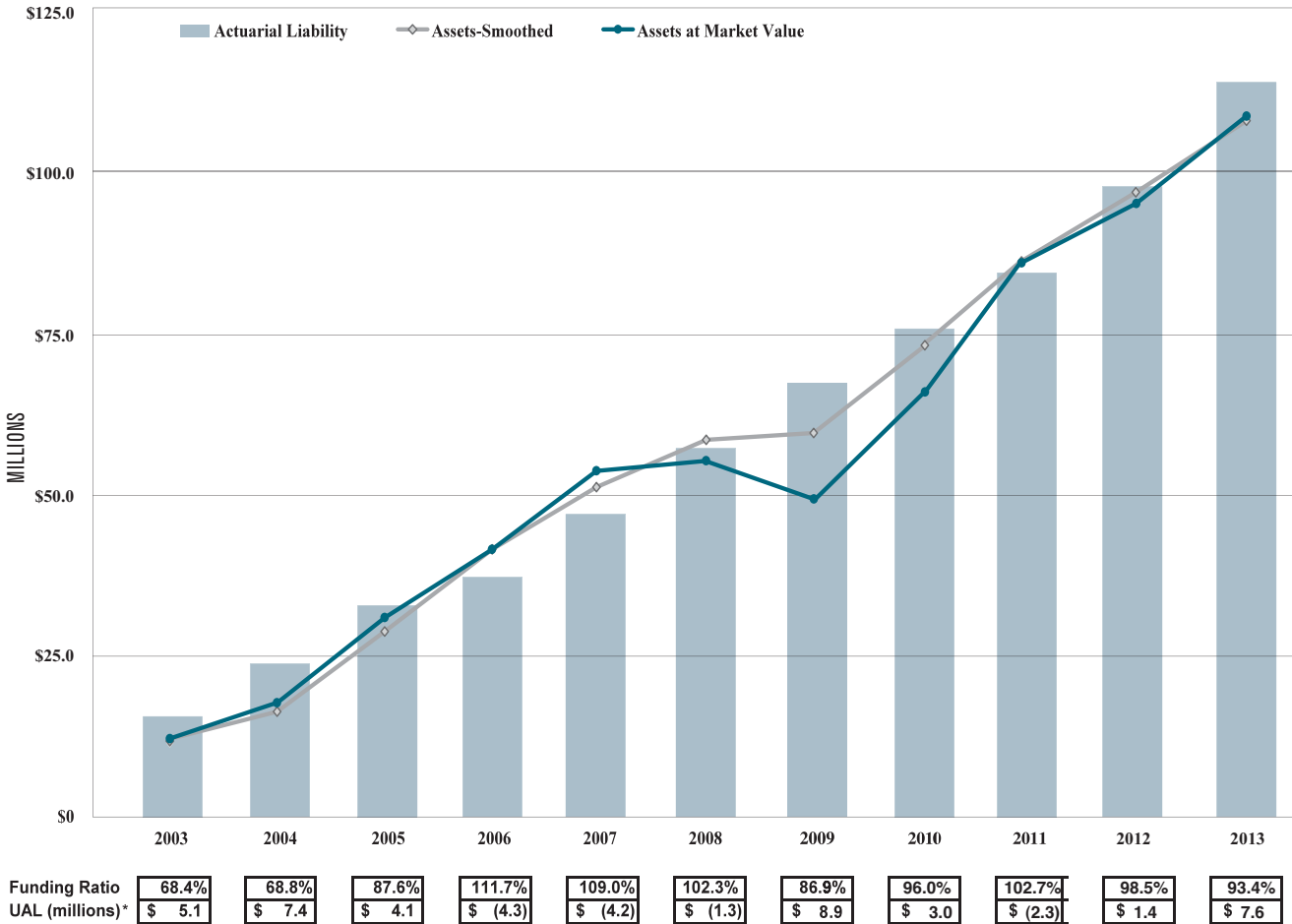


* The UAL for 2007 and after is calculated using the Entry Age Normal method, 2006 and prior years are calculated using the Projected Unit Credit method.

San Diego City Employees' Retirement System
Summary of June 30, 2013 Valuation Results (continued)

2. Historical Trends
Assets and Liabilities

SDCERS - Airport Authority Assets and Liabilities 2003 - 2013



* 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.

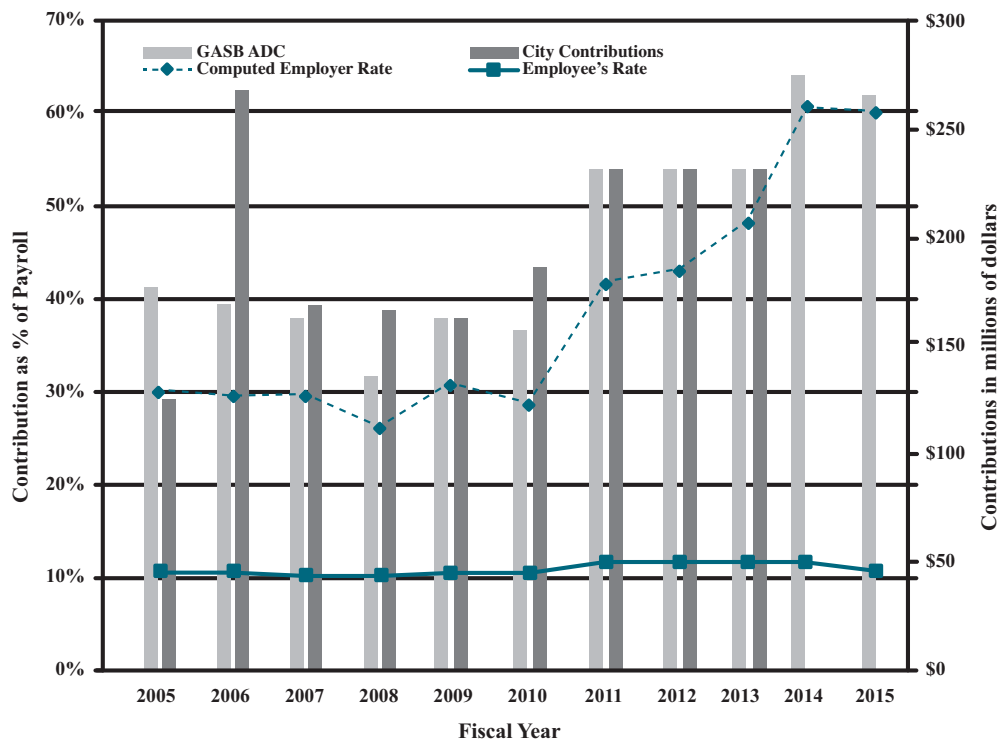
For funding purposes, the target amount is represented by the top of the bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

For the period shown, the funding ratios were generally increasing until the significant market losses of 2008 and 2009. The City and the Airport's funding ratios have generally increased since 2009, while the Port's has slightly decreased.

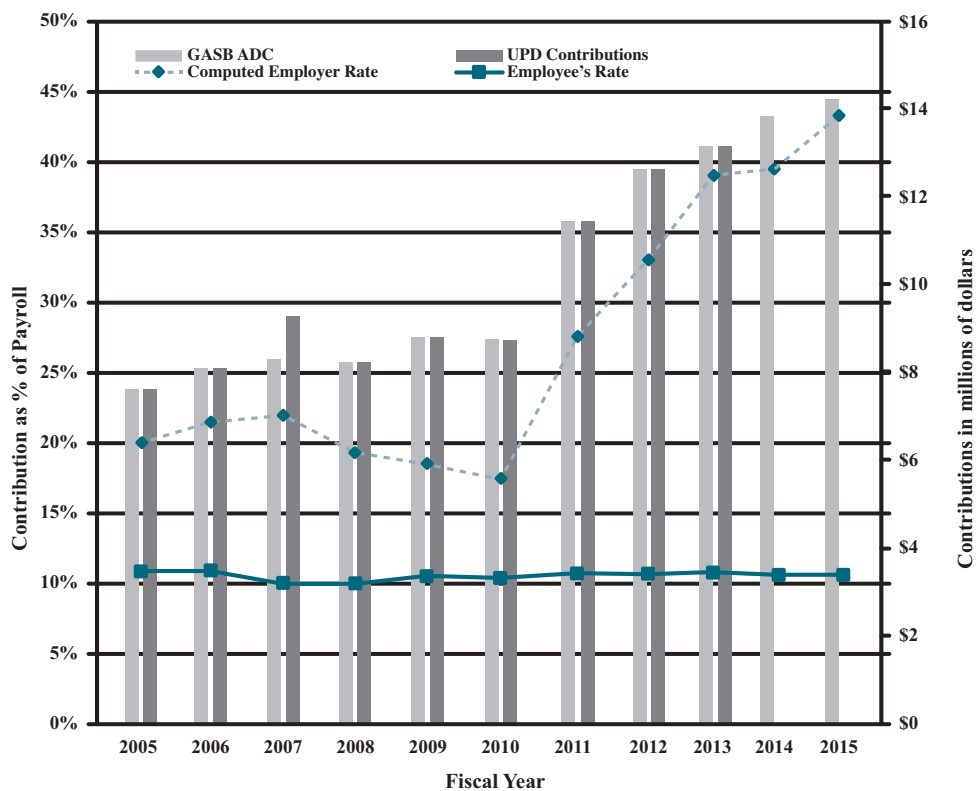
San Diego City Employees' Retirement System
 Summary of June 30, 2013 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates FY 2005 - 2015



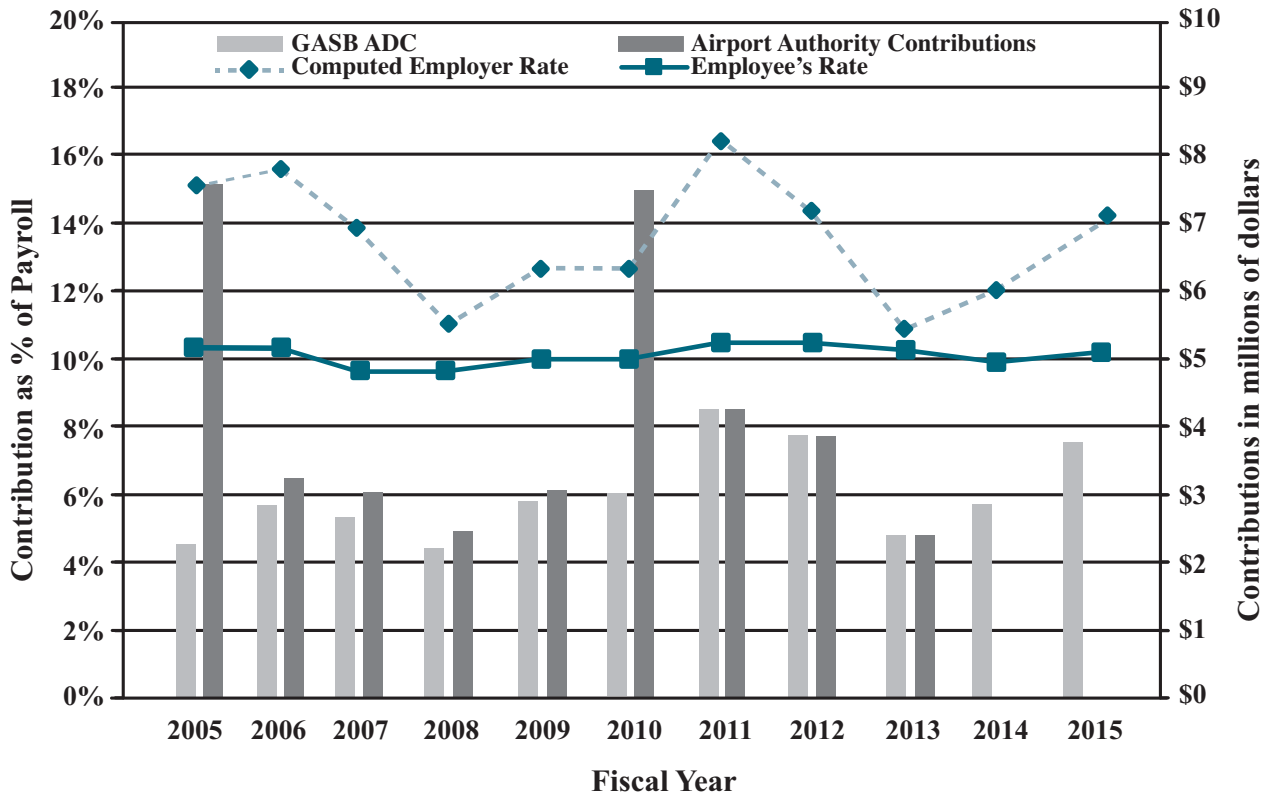
SDCERS - Unified Port District and Member Contribution Rates FY 2005 - 2015



San Diego City Employees' Retirement System
Summary of June 30, 2013 Valuation Results (continued)

3. Contribution Rates

SDCERS - Airport Authority and Member Contribution Rates 2005 - 2015



The light bars show the actuarially computed GASB ADC 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 2005, all three plan sponsors have consistently contributed at or above the ADC during the period shown. The charts also show the significant increase (with exception of the Airport) and volatility in the calculated employer contribution rates, in contrast to the relative stability of the employee rates.

San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

	Valuation Date	June 30, 2013	June 30, 2012
Unfunded Actuarial Liability (millions)		\$2,237.7	\$2,279.3
Funding Ratio		70.4%	68.6%
City Contribution Rate		59.6%	59.5%
	Fiscal Year	2015	2014
Actuarially Determined Contribution			
• if paid at the beginning of the year		\$263.6 million	\$275.4 million
• if paid throughout the year		\$272.9 million	\$285.5 million

SDCERS - City of San Diego - Membership Total

Valuation as of:	June 30, 2013	June 30, 2012	% Change
Active Counts	7,566	7,724	-2.0%
Terminated Vested	2,971	2,892	2.7
Disabled	1,212	1,221	-0.7
Retirees	6,042	5,796	4.2
Beneficiaries	1,200	1,188	1.0
Total City Members	18,991	18,821	0.9%
Active Member Payroll	\$499,463,072	\$511,090,601	-2.3%
Average Pay per Active Member	66,014	66,169	-0.2
Benefits in Pay Status	\$371,628,344	\$350,163,968	6.1%
Average Benefit	43,959	42,677	3.0

SDCERS - City of San Diego - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2013	June 30, 2012	% Change
Actives	\$2,275,193,142	\$2,352,526,805	-3.3%
Terminated Vested	304,783,508	284,094,147	7.3
Disabled	459,745,043	445,229,719	3.3
Retirees	4,327,095,904	4,003,952,290	8.1
Beneficiaries	188,709,141	175,927,694	7.3
Total Actuarial (EAN) Liability	\$7,555,526,738	\$7,261,730,655	4.0%
Market Value Assets	\$5,395,158,000	\$4,799,827,000	12.4%
Actuarial Value Assets	5,317,778,092	4,982,441,649	6.7
Unfunded Actuarial Liability	\$2,237,748,646	\$2,279,289,006	-1.8%
Funding Ratio-Actuarial Value	70.4%	68.6%	1.8%

SDCERS - City of San Diego-Change in UAL

(Dollars in Millions)

1. UAL at June 30, 2012	\$2,279.3
2. Expected change in UAL*	29.7
3. Investment experience gain	
a. Anticipated loss/(gain)	49.1
b. Actual loss/(gain)	(25.0)
c. Difference (b - a)	(74.1)
4. Liability experience loss	40.6
5. Reduction in discount rate and long-term pay inflation assumption	146.9
6. Additional 4-year freeze on pay inflation	(194.9)
7. Method changes	8.2
8. Employee contributions paid less than expected	1.0
9. Other misc. (includes purchased service)	1.1
10. Total change in UAL: sum of 2 through 9	(41.6)
11. UAL at June 30, 2013: 1 + 10	\$2,237.7

* Includes projected phase-in of investment gains or losses.

SDCERS - City of San Diego-Change in ADC

(Dollars in Millions)

1. ADC at June 30, 2012	\$275.4
2. Expected change in ADC*	5.9
3. Investment experience gain	
a. Anticipated increase/(decrease)	4.6
b. Actual increase/(decrease)	(2.4)
c. Difference (b - a)	(7.0)
4. Liability experience loss	4.0
5. Reduction in discount rate and long-term pay inflation assumption	9.3
6. Additional 4-year freeze on pay inflation	(24.6)
7. Method changes	0.4
8. Employee contributions paid less than expected	0.1
9. Other misc. (includes purchased service)	0.0
10. Total change in ADC: sum of 2 through 9	(11.8)
11. ADC at June 30, 2013: 1 + 10	\$263.6

* Includes projected phase-in of investment gains or losses.

San Diego City Employees' Retirement System

Summary of June 30, 2013 Valuation Results (continued)

3. Contribution Rates

SDCERS - Unified Port District

	Valuation Date	June 30, 2013	June 30, 2012
Unfunded Actuarial Liability (millions)		\$107.7	\$104.2
Funding Ratio		73.7%	72.7%
Port Contribution Rate		42.9%	39.3%
	Fiscal Year	2015	2014
Actuarially Determined Contribution			
• if paid at the beginning of the year		\$14.3 million	\$13.9 million
• if paid throughout the year		\$14.8 million	\$14.4 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2013	June 30, 2012	% Change
Active Counts	417	435	-4.1%
Terminated Vested	286	290	-1.4
Disabled	64	64	0.0
Retirees	346	342	1.2
Beneficiaries	75	69	8.7
Total UPD Members	1,188	1,200	-1.0%
Active Member Payroll	\$34,528,283	\$35,872,676	-3.7%
Average Pay per Active Member	82,802	82,466	0.4
Benefits in Pay Status	\$18,670,937	\$17,847,929	4.6%
Average Benefit	38,497	37,575	2.5

SDCERS - Unified Port District - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2013	June 30, 2012	% Change
Actives	\$163,679,055	\$148,611,793	10.1%
Terminated Vested	15,467,373	14,447,739	7.1
Disabled	19,407,836	18,907,495	2.6
Retirees	198,498,073	190,322,590	4.3
Beneficiaries	12,974,134	9,723,543	33.4
Total Actuarial (EAN) Liability	\$410,026,471	\$382,013,160	7.3%
Market Value Assets	\$309,699,000	\$271,703,000	14.0%
Actuarial Value Assets	302,321,696	277,821,539	8.8
Unfunded Actuarial Liability	\$107,704,775	\$104,191,621	3.4%
Funding Ratio-Actuarial Value	73.7%	72.7%	1.0%

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

1. UAL at June 30, 2012	\$104.2
2. Expected change in UAL*	0.4
3. Investment experience gain	
a. Anticipated loss/(gain)	1.6
b. Actual loss/(gain)	(2.5)
c. Difference (b - a)	(4.1)
4. Liability experience gain	(2.9)
5. Reduction in discount rate and pay inflation assumption	8.1
6. Method changes	2.3
7. Other misc. (includes purchased service)	(0.3)
8. Total change in UAL: sum of 2 through 7	3.5
9. UAL at June 30, 2013: 1 + 8	\$107.7

*Includes projected phase-in of investment gains or losses.

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

1. ADC at June 30, 2012	\$13.9
2. Expected change in ADC*	0.5
3. Investment experience gain	
a. Anticipated increase/(decrease)	0.1
b. Actual increase/(decrease)	(0.3)
c. Difference (b - a)	(0.4)
4. Liability experience gain	(0.2)
5. Reduction in discount rate and pay inflation assumption	0.5
6. Method changes	0.0
7. Other misc. (includes purchased service)	0.0
8. Total change in ADC: sum of 2 through 7	0.4
9. ADC at June 30, 2013: 1 + 8	\$14.3

*Includes projected phase-in of investment gains or losses.

San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

3. Contribution Rates

SDCERS - Airport Authority

Valuation Date	June 30, 2013	June 30, 2012
Unfunded Actuarial Liability (millions)	\$7.6	\$1.4
Funding Ratio	93.4%	98.5%
Airport Contribution Rate	14.3%	11.9%
Fiscal Year	2015	2014
Actuarially Determined Contribution		
• if paid at the beginning of the year	\$3.8 million	\$2.9 million
• if paid throughout the year	\$4.0 million	\$3.0 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2013	June 30, 2012	% Change
Active Counts	347	341	1.8%
Terminated Vested	79	76	3.9
Disabled	2	1	100.0
Retirees	45	41	9.8
Beneficiaries	4	4	0.0
Total Airport Authority Members	477	463	3.0%
Active Member Payroll	\$26,380,323	\$24,839,570	6.2%
Average Pay per Active Member	76,024	72,843	4.4
Benefits in Pay Status	\$2,013,899	\$1,716,384	17.3%
Average Benefit	39,488	37,313	5.8

SDCERS - Airport Authority - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2013	June 30, 2012	% Change
Actives	\$84,024,915	\$70,540,876	19.1%
Terminated Vested	4,396,239	4,246,096	3.5
Disabled	456,604	228,252	100.1
Retirees	25,451,563	21,356,642	19.2
Beneficiaries	870,727	852,988	2.1
Total Actuarial (EAN) Liability	\$115,200,048	\$97,224,854	18.5%
Market Value Assets	\$108,456,000	\$91,997,000	17.9%
Actuarial Value Assets	107,616,363	95,792,613	12.3
Unfunded Actuarial Liability	\$7,583,685	\$1,432,241	429.5%
Funding Ratio-Actuarial Value	93.4%	98.5%	-5.1%

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

1. UAL at June 30, 2012	\$1.4
2. Expected change in UAL*	1.5
3. Investment experience gain	
a. Anticipated loss/(gain)	1.0
b. Actual loss/(gain)	(0.3)
c. Difference (b - a)	(1.3)
4. Liability experience loss	4.3
5. Reduction in discount rate and pay inflation assumption	1.6
6. Method changes	0.1
7. Employee contributions paid less than expected	0.1
8. Decrease in negative amortization cost component	0.0
9. Other misc. (includes purchased service)	(0.1)
10. Total change in UAL: sum of 2 through 9	6.2
11. UAL at June 30, 2013: 1 + 10	\$7.6

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

1. ADC at June 30, 2012	\$2.9
2. Expected change in ADC*	0.1
3. Investment experience gain	
a. Anticipated increase/(decrease)	0.1
b. Actual increase/(decrease)	0.0
c. Difference (b - a)	(0.1)
4. Liability experience loss	0.7
5. Reduction in discount rate and pay inflation assumption	0.1
6. Method changes	0.2
7. Employee contributions paid less than expected	0.0
8. Decrease in negative amortization cost component	(0.1)
9. Other misc. (includes purchased service)	0.0
10. Total change in ADC: sum of 2 through 9	0.9
11. ADC at June 30, 2013: 1 + 10	\$3.8

* 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, 2013 Valuation Results (continued)

4. Summary of Assumptions and Methods

The actuarial assumptions and methods described on the following pages were adopted by the SDCERS Board with significant input from the actuary. The last full experience study was performed in 2011, using data from July 1, 2007 to June 30, 2010. An economic experience study was presented to the SDCERS Board at its November 18, 2013 meeting, resulting in changes to certain economic assumptions, as described at the end of this section.

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 3.30% 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 2015 is amortized over several different periods, which as of June 30, 2013, are as follows:

City of San Diego

2013 Police Salary Freeze – 15 years (level percentage of pay)
2013 Police Assumption Change – 30 years (level percentage of pay)
2013 Police Experience Loss – 15 years (level percentage of pay)
2013 Non-Police Salary Freeze – 15 years (level dollar payments)
2013 Non-Police Assumption Change – 30 years (level dollar payments)
2013 Non-Police Experience Loss – 15 years (level dollar payments)
2012 Non-Police UAL – 14 years (level dollar payments)
2012 Method Change – 29 years
2012 Experience Loss – 14 years
2011 Assumption Change – 28 years
2011 Experience Gain – 13 years
2010 Experience Gain (PSC) – 11 years
2010 Experience Loss – 12 years
2009 Experience Loss – 11 years
2008 Experience Loss – 10 years
2008 Assumption Change – 25 years
2007 Original UAL – 14 years

San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

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

<u>Unified Port District</u>	<u>Airport Authority</u>
2013 Assumption Change – 30 years	2013 Assumption Change – 30 years
2013 Experience Gain – 15 years	2013 Experience Loss – 15 years
2012 Method Change – 29 years	2012 Method Change – 29 years
2012 Experience Loss – 14 years	2012 Experience Loss – 14 years
2011 Assumption Change – 28 years	2011 Assumption Change – 28 years
2011 ERIP – 18 years	2011 Experience Gain – 13 years
2011 Experience Gain – 13 years	2010 Experience Gain (PSC) - 12 years
2010 Experience Loss – 12 years	2010 Experience Gain – 12 years
2009 Experience Loss – 11 years	2009 Experience Loss – 11 years
2008 Experience Loss – 10 years	2008 Experience Gain – 10 years
2008 Assumption Change – 25 years	2008 Assumption Change – 25 years
2007 Original UAL – 8 years	2007 Original UAL – 8 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.

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 SDCERS Board adopted a policy of 30-year amortization of funding surplus, if any, at its November 8, 2013 meeting.

The gross normal cost rate is now determined by dividing the sum of the individual normal costs by the total valuation salary, instead of by dividing the total present value of future normal costs by the total present value of future salaries. This change was made to be consistent with the disclosure requirements of GASB Statements No. 67 and No. 68.

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, 2013 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010 and include a projection to 2013. All active members follow the RP2000 Combined Healthy table (male and female) projected to 2013.

Rates of Mortality for Active Lives at Selected Ages

General and Safety

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

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

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

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

Rates of Mortality for Retired Healthy Lives at Selected Ages

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, 2013 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%	0.67%	0.19%	0.20%
45	1.65	0.99	0.25	0.26
50	1.63	1.25	0.44	0.36
55	1.86	1.58	0.56	0.55
60	2.19	1.63	0.78	0.80
65	2.99	1.97	1.39	1.18
70	3.76	3.02	2.24	1.72
75	5.42	3.92	3.59	2.67
80	7.90	5.56	6.93	4.53
85	12.48	9.58	11.80	8.02

Termination of Employment (Prior to Normal Retirement Eligibility)

Rates of termination vary by plan sponsor.

SDCERS - City of San Diego Rates of Termination

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

For the City of San Diego, 20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 3.8% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2013 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 3.8% 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 10-year 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, 2013 Valuation Results (continued)

Retirement

Rates of retirement vary by plan sponsor.

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, 2013 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, a Police-2012 Plan, a Police-2012 No COL Plan, or a Fire-2012 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, 2013 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 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, 2013 Valuation Results (continued)

E. Economic Assumptions

Investment Return: SDCERS' assets are assumed to earn 7.25% net of investment expenses.
 Interest Credited to Member Contributions: 7.25%, compounded annually.
 Rate of Wage Increase: 3.30% compounded annually (following an assumed freeze in FYs 2015-2018 for City. A freeze had also been assumed for FYs 2013 and 2014 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.
 3.30% assumed annual adjustment for the closed group of Special Safety Officers.

Total Payroll Increase (For amortization): 3.30% 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 following revisions to the economic assumptions were adopted by the SDCERS Board at its November 8, 2013 meeting:

- The assumed investment return was lowered from 7.5% to 7.25%,
- A freeze on inflationary pay increases is assumed for FYs 2015-2018 for the City, and
- The inflation assumption used for amortization of the UAL and inflationary pay increases was lowered from 3.75% to 3.3% for all three plan sponsors.

The DROP interest crediting and annuity rates used to value the liability for account balances were reduced from 1.9% to 1.2% and from 4.4% to 3.3%, respectively, to reflect the Board's adoption of these rates at its December 2012 meeting.

San Diego City Employees' Retirement System
Summary of June 30, 2013 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 Payroll¹</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2013	7,566	\$499,463,072	\$66,014	-0.23%
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
6/30/2006	8,887	534,102,800	60,099	1.70
6/30/2005	9,436	557,630,735	59,096	6.65
6/30/2004	9,749	540,180,941	55,409	4.88

SDCERS - Unified Port District

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll¹</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2013	417	\$34,528,283	\$82,802	0.41%
6/30/2012	435	35,872,676	82,466	10.49
6/30/2011	464	34,632,573	74,639	1.39
6/30/2010	532	39,164,664	73,618	2.85
6/30/2009	564	40,370,258	71,578	4.68
6/30/2008	565	38,634,835	68,380	2.87
6/30/2007	559	37,159,870	66,476	4.24
6/30/2006	532	33,927,372	63,773	1.45
6/30/2005	558	35,077,367	62,863	3.52
6/30/2004	575	34,915,741	60,723	8.24

SDCERS - Airport Authority

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll¹</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2013	347	\$26,380,323	\$76,024	4.37%
6/30/2012	341	24,839,570	72,843	-0.36
6/30/2011	344	25,148,489	73,106	-0.89
6/30/2010	347	25,595,623	73,763	0.97
6/30/2009	338	24,693,427	73,057	6.06
6/30/2008	341	23,488,283	68,881	1.64
6/30/2007	324	21,956,656	67,767	4.58
6/30/2006	295	19,115,804	64,799	4.51
6/30/2005	284	17,608,879	62,003	5.29
6/30/2004	265	15,605,857	58,890	5.80

¹ For FY 2013 and FY 2012, reported payroll includes across the board increases for the upcoming fiscal year. Historical data for prior years does not include those increases.

San Diego City Employees' Retirement System
Summary of June 30, 2013 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		
6/30/2013	443	\$19,731,540	57.5	194	\$4,468,578	80.8	8,454	\$371,628,344	66.7	6.13%	\$43,959
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
6/30/2006	619	24,676,720	56.6	213	3,150,596	80.7	6,401	213,747,320	66.6	18.62	33,393
6/30/2005	443	18,168,020	58.6	171	2,342,920	80.4	5,995	180,189,027	67.1	11.71	30,057
6/30/2004	434	16,057,596	59.0	178	2,634,535	79.8	5,723	161,294,618	67.2	11.30	28,184

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		
6/30/2013	21	\$958,662	59.4	11	\$484,745	72.9	485	\$18,670,937	68.1	4.61%	\$38,497
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
6/30/2006	29	1,131,237	57.4	10	335,265	80.2	325	8,731,137	68.2	14.09	26,865
6/30/2005	20	786,944	59.0	4	38,109	81.2	306	7,652,853	68.5	12.86	25,009
6/30/2004	26	895,159	61.8	10	135,199	76.7	290	6,780,541	68.3	15.08	23,381

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		
6/30/2013	6	\$285,905	61.1	1	\$21,407	77.3	51	\$2,013,899	64.8	17.33%	\$39,488
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
6/30/2006	1	21,612	53.5	1	39,833	65.5	7	207,688	64.1	-6.00	29,670
6/30/2005	4	147,730	61.9	-	-	N/A	7	220,945	64.9	207.81	31,564
6/30/2004	2	46,165	66.6	-	-	N/A	3	71,779	67.1	185.84	23,926

San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/2013 ⁵	\$709,796	\$4,975,550	\$1,870,181	\$5,317,778	100.00%	92.61%	0.00%
6/30/2012	662,488	4,625,110	1,974,133	4,982,442	100.00	93.40	0.00
6/30/2011 ⁵	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 ⁵	522,966	3,286,668	2,153,916	4,662,346	100.00	100.00	39.50
6/30/2007 ⁴	482,526	3,101,594	2,013,532	4,413,411	100.00	100.00	41.19
6/30/2006 ³	456,562	2,822,203	1,703,935	3,981,932	100.00	100.00	41.27
6/30/2005	457,550	2,183,263	1,736,279	2,983,080	100.00	100.00	19.71
6/30/2004	414,986 ²	1,946,660	1,635,681	2,628,680	100.00	100.00	16.33

SDCERS - Unified Port District

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/2013 ⁵	\$23,744	\$230,880	\$155,402	\$302,322	100.00%	100.00%	30.69%
6/30/2012	21,236	218,954	141,824	277,822	100.00	100.00	26.53
6/30/2011 ⁵	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 ⁵	19,397	123,029	124,611	245,580	100.00	100.00	82.78
6/30/2007 ⁴	18,374	115,021	113,143	230,585	100.00	100.00	85.90
6/30/2006 ³	16,140	101,542	102,955	203,286	100.00	100.00	83.15
6/30/2005	15,122	86,242	96,708	163,691	100.00	100.00	64.45
6/30/2004	12,885 ²	75,994	86,487	141,375	100.00	100.00	60.70

SDCERS - Airport Authority

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/2013 ⁵	\$13,384	\$26,779	\$75,037	\$107,616	100.00%	100.00%	89.89%
6/30/2012	11,371	22,438	63,416	95,793	100.00	100.00	97.74
6/30/2011 ⁵	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 ⁵	7,335	6,341	43,131	58,096	100.00	100.00	102.99
6/30/2007 ⁴	6,681	4,288	35,668	50,812	100.00	100.00	111.71
6/30/2006 ³	5,402	2,783	28,720	41,222	100.00	100.00	115.03
6/30/2005	4,255	2,713	25,635	28,551	100.00	100.00	84.19
6/30/2004	2,935 ²	795	19,848	16,225	100.00	100.00	62.95

¹ Actuarial Value of Assets.

² Estimated.

³ Reflects contingent liabilities (Corbett pre-July 1, 2000 for the City only and 13th check for all plan sponsors), DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

⁴ The actuarial liability on June 30, 2007 and after is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method.

⁵ Reflects revised actuarial and economic assumptions.

San Diego City Employees' Retirement System
Summary of June 30, 2013 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
6/30/2013	\$24,968,204	\$(40,640,350)	\$(15,672,146)	\$37,857,388	\$22,185,242
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
6/30/2013	\$2,471,939	\$2,915,682	\$5,387,622	\$(10,117,448)	\$(4,729,826)
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
6/30/2013	\$316,719	\$(4,308,779)	\$(3,992,059)	\$(1,715,295)	\$(5,707,354)
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)

San Diego City Employees' Retirement System Summary of June 30, 2013 Valuation Results (continued)

9. Schedules of Funding Progress (Dollars in Thousands) and Employer Contributions

The Required Supplementary Information in the Financial Section of the CAFR contains a 10-year schedule of employer contributions for each of the plan sponsors. The schedules of funding progress are shown below.

SDCERS – City of San Diego

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll ⁴	UAL Ratio to Member Payroll
6/30/2013	\$5,317,778	\$7,555,527	\$2,237,749	70.4%	\$499,463	448.0%
6/30/2012	4,982,442	7,261,731	2,279,289	68.6	511,091	446.0
6/30/2011 ³	4,739,399	6,917,175	2,177,776	68.5	514,265	423.5
6/30/2010	4,382,047	6,527,224	2,145,176	67.1	530,238	404.6
6/30/2009	4,175,229	6,281,636	2,106,407	66.5	536,591	392.6
6/30/2008 ³	4,660,346	5,963,549	1,303,203	78.1	535,774	243.2
6/30/2007 ²	4,413,411	5,597,653	1,184,242	78.8	512,440	231.1
6/30/2006 ¹	3,981,932	4,982,699	1,000,768	79.9	534,103	187.4
6/30/2005	2,983,080	4,377,093	1,394,013	68.2	557,631	250.0
6/30/2004	2,628,680	3,997,328	1,368,648	65.8	540,181	253.4

SDCERS – San Diego Unified Port District

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll ⁴	UAL Ratio to Member Payroll
6/30/2013	\$302,322	\$410,026	\$107,705	73.7%	\$34,528	311.9%
6/30/2012	277,822	382,013	104,191	72.7	35,873	290.4
6/30/2011 ³	259,315	354,837	95,521	73.1	34,632	275.8
6/30/2010	233,788	310,467	76,679	75.3	39,165	195.8
6/30/2009	223,879	288,698	64,819	77.5	40,370	160.6
6/30/2008 ³	245,580	267,036	21,456	92.0	38,635	55.5
6/30/2007 ²	230,585	246,538	15,953	93.5	37,160	42.9
6/30/2006 ¹	203,286	220,637	17,351	92.1	33,927	51.1
6/30/2005	163,691	198,072	34,381	82.6	35,077	98.0
6/30/2004	141,375	175,366	33,991	80.6	34,916	97.4

SDCERS – San Diego County Regional Airport Authority

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll ⁴	UAL Ratio to Member Payroll
6/30/2013	\$107,616	\$115,200	\$7,584	93.4%	\$26,380	28.7%
6/30/2012	95,793	97,225	1,432	98.5	24,840	5.8
6/30/2011 ³	86,309	84,042	-2,266	102.7	25,148	-9.0
6/30/2010	73,401	76,447	3,047	96.0	25,596	11.9
6/30/2009	58,981	67,871	8,890	86.9	24,693	36.0
6/30/2008 ³	58,096	56,808	-1,288	102.3	23,488	-5.5
6/30/2007 ²	50,812	46,637	-4,176	109.0	21,957	-19.0
6/30/2006 ¹	41,222	36,905	-4,317	111.7	19,116	-22.6
6/30/2005	28,551	32,603	4,051	87.6	17,609	23.0
6/30/2004	16,225	23,579	7,354	68.8	15,606	47.1

¹ Reflects revised actuarial methodologies.

² Reflects revised actuarial methodologies, including the return to the most widely-accepted funding method, Entry Age Normal (EAN).

³ Reflects revised actuarial assumptions.

⁴ For FY 2013 and FY 2012, reported payroll includes across the board increases for the upcoming fiscal year. Historical data for prior years does not include those increases.

**San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2013**

10. 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	<p>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)</p> <p>Membership is permissive for Elected Officers who initially assume office prior to July 20, 2012. (§24.1702, City Charter §140)</p>
2. Monthly Base Salary for Benefits	<p>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)</p> <p>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)</p> <p>Final monthly compensation for Elected Officers. (§24.1706)</p>
3. Service Retirement Eligibility	<p>General Members - Age 62 with 10 years of service credit, or age 55 with 20 years of service credit. (City Charter §141)</p> <p>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)</p> <p>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)</p>

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, 2013

City of San Diego

Benefit Formula Per Year of Service	<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>
General Members	<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>
Miscellaneous Members (Port only)	N/A
Executive General/Classic Members	N/A
Classic Participants -Port & Airport only (where not specifically identified, treated as part of General Members)	
Safety Members (City - Fire & Police, Port - Harbor Police)	<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>
Safety Members (City - Lifeguard)	<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>
Elected Officers	<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>PEPRA Participants:</p> <p>General Members – 1% per year of service at age 52, increasing to 2.5% at age 67, not to exceed 90% of Final Compensation (Gov. Code §7522.20)</p> <p>Safety Members – 2% per year of service at age 50, increasing to 2.7% at age 57, not to exceed 90% of final compensation (Gov. Code §7522.25)</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, 2013 - 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, 2013

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, 2013

City of San Diego

4. Non-Industrial Disability Eligibility All Members	Ten years of service credit. (City Charter §141)
Benefit Formula Per Year of Service General Members Miscellaneous Members (Port only) Safety Members Elected Officers	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) N/A 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) Earned service retirement benefit. (§24.1707)
5. Industrial Disability Eligibility All Members	No age or service requirement. (§24.0501)
Benefit Formula Per Year of Service General Members Miscellaneous Members (Port only) Safety Members Elected Officers	Greater of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0505) N/A Greater of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0503) Earned service retirement benefit. (§24.1707)
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus one month's salary for each completed year of service, to a maximum of six months salary. (§24.0702)
7. Non-Industrial Death After Eligible to Retire for Service All Members	50% of earned benefit payable to eligible surviving spouse or domestic partner designated as a beneficiary, or dependent child(ren) under 18 years of age. (§24.0704)

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, 2013

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

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)	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)
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)	N/A
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)	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)
1. Less than five years of service credit (ten years of service if employee terminated before December 31, 2002) - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§0205, 0401)	1. Less than five years of service credit - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§0205, 0401)
2. Five or more years of service credit (ten or more years of service if employee terminated before December 31, 2002) - If contributions left on deposit, entitled to earned benefits commencing any time after eligible to retire. (§0205)	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)
Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)
Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)	N/A
Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)
Vary by age at time of entrance into SDCERS (§0200). While a significant portion of these contributions may be "offset," such offsets are not directly reflected in either the employee contributions or related refund calculations.	Vary by age at time of entrance into SDCERS (§0200). Any portion of these contributions paid by the plan sponsor (employer) are not directly reflected in either the member (employee) contributions or related refund calculations.
Benefits provided by the SDCERS' 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))	Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code. (§1000(h))
Members may retire and receive benefits from multiple Plan IDs (e.g., a Unified Port District Employee could have also worked for the Airport Authority). (Port and Airport Plans @ §0400)	Members may retire and receive benefits from multiple Plan IDs (e.g. – an Airport Authority member could have also worked for the Unified Port District). (Port and Airport Plans @ §0400)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2013

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 | S T A T I S T I C A L

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 ²	End of Year
2014	\$1,376,963	\$418,184	\$958,779	\$5,813,313	\$6,772,092
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

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 ²	End of Year
City of San Diego	2014	\$1,280,177	\$395,447	\$884,730	\$5,395,158	\$6,279,888
	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	2014	\$71,793	\$19,491	\$52,302	\$309,699	\$362,001
	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	2014	\$24,993	\$3,246	\$21,747	\$108,456	\$130,203
	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

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

² In FY 2014, SDCERS implemented GASB 67 which resulted in a prior period adjustment for beginning Net Position. Beginning Net Position for the City, Port and Airport was increased by \$477,478, \$11,436, and \$2,017, respectively. See Note 8 to the Financial Statements for more information.

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	Drop Contributions ³	Net Investment Income ²	Other Income	Total Additions
Dollars	2014	\$294,888	\$4,484	\$60,101	\$5,149	\$264	\$5,066	\$1,006,232	\$779	\$1,376,963
% of Total		21.4%	0.3%	4.4%	0.4%	0.0%	0.4%	73.1%	0.0%	100.0%
Dollars	2013	246,943	5,364	61,539	7,374	323	-	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

¹ Earned 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 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.

³ In FY2014, SDCERS implemented GASB Statement No. 67 which requires the DROP benefits to be recognized as a liability only when they become currently due and payable. The DROP contribution represents the actual contribution made by the plan sponsors and members during the fiscal year. See Note 8 to the Financial Statements for more information.

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	Drop Payments ⁴	Health Insurance Payments ³	Administrative Expenses	DROP Program Interest Expense	Allowance for Uncollectible Purchased Service Payments ¹	Litigation Settlement Expense ²	Refund of Member Contributions	Total Deductions
Dollars	2014	\$341,321	\$40,147	\$ -	\$11,528	\$22,446	\$ -	\$ -	\$2,742	\$418,184
% of Total		81.6%	9.6%	-	2.8%	5.4%	-	-	0.6%	100.0%
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

¹ Allowance for Uncollectible 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.

⁴ In FY2014, SDCERS implemented GASB Statement No. 67 which requires the DROP benefits to be recognized as a liability only when they become currently due and payable. The DROP contribution represents the actual contribution made by the plan sponsors and members during the fiscal year. See Note 8 to the Financial Statements for more information.

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		\$312,528,881	\$39,597,716	\$711,764	\$18,789,983	\$371,628,344
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

¹ Data for all years is final data from the respective June 30 valuations. FY 2013 data was previously reported as preliminary.

² Total 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, 2013²

City of San Diego

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	988	303	99	586
\$1,001 - \$2,000	1,561	743	446	372
\$2,001 - \$3,000	1,444	1,064	236	144
\$3,001 - \$4,000	1,221	945	223	53
\$4,001 - \$5,000	867	774	65	28
\$5,001 - \$6,000	832	780	44	8
\$6,001 - \$7,000	654	597	51	6
\$7,001 - \$8,000	440	408	31	1
\$8,001 - \$9,000	216	206	8	2
\$9,001 - \$10,000	98	91	7	0
Over \$10,000	133	131	2	0
	8,454	6,042	1,212	1,200

San Diego Unified Port District

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	74	34	6	34
\$1,001 - \$2,000	112	57	34	21
\$2,001 - \$3,000	91	63	14	14
\$3,001 - \$4,000	73	65	5	3
\$4,001 - \$5,000	43	40	3	0
\$5,001 - \$6,000	25	23	1	1
\$6,001 - \$7,000	30	30	0	0
\$7,001 - \$8,000	10	9	0	1
\$8,001 - \$9,000	10	9	1	0
\$9,001 - \$10,000	4	3	0	1
Over \$10,000	13	13	0	0
	485	346	64	75

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	9	2	3
\$2,001 - \$3,000	16	15	0	1
\$3,001 - \$4,000	6	6	0	0
\$4,001 - \$5,000	0	0	0	0
\$5,001 - \$6,000	3	3	0	0
\$6,001 - \$7,000	3	3	0	0
\$7,001 - \$8,000	3	3	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
	51	45	2	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 2013 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 (Decrease) Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
City of San Diego							
2013	8,454	\$371,628,344	\$43,959	3.00%	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

¹ Data for all years is final data from the respective June 30 valuations. FY 2013 data was previously reported as preliminary.

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	2013	Average Monthly Benefit	\$-	\$2,749	\$1,759	\$2,702	\$3,835	\$5,331	\$5,471
		Average Final Monthly Salary	-	8,399	5,375	5,614	6,159	6,809	6,224
		Number of New Retirees	-	7	45	33	109	113	56
	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	2013	Average Monthly Benefit	\$44	\$933	\$2,089	\$3,466	\$4,231	\$7,624	\$-
		Average Final Monthly Salary	2,264	7,023	5,884	7,358	6,409	9,302	-
		Number of New Retirees	1	3	2	3	2	5	-
	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 2013 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	2013	Average Monthly Benefit	\$-	\$1,666	\$-	\$-	\$4,981	\$-	\$-
		Average Final Monthly Salary	-	8,864	-	-	9,543	-	-
		Number of New Retirees	-	2	-	-	2	-	-
	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 2013 is the most recent available from SDCERS' actuary.

Statistical Section

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

Fiscal Year ¹	Number of Members	Salaries	Averages			
			Annual Salary	Percentage Increase (Decrease) Over Prior Year	Current Age	Years of Service Credit
City of San Diego						
2013 ²	7,566	\$499,463,072	\$66,014	-0.23%	44.5	13.3
2012 ²	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 ²	417	\$34,528,283	\$82,802	0.41%	45.9	12.5
2012 ²	435	35,872,676	82,466	10.49	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 ²	347	\$26,380,323	\$76,024	4.37%	48.1	9.9
2012 ²	341	24,839,570	72,843	-0.36	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

¹ Data for all years is final data from the respective June 30 valuations. FY 2013 data was previously reported as preliminary.

² For FY 2013 and FY 2012, reported payroll includes across the board increases for the upcoming fiscal year. Historical data for prior years does not include those increases.

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	2,971	\$134,186,414	46.2	6.6	\$45,165
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	286	\$5,071,031	49.2	4.4	\$17,731
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	79	\$1,414,252	46.7	4.0	\$17,902
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 Data for all years is final data from the respective June 30 valuations. FY 2013 data was previously reported as preliminary.

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



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