



NATIONAL STEEL AND SHIPBUILDING COMPANY
A GENERAL DYNAMICS COMPANY

RICHARD H. VORTMANN
PRESIDENT

February 18, 2002

Mr. Frederick W. Pierce, IV
Chairman – San Diego City Employee Retirement System
The Pierce Company, Inc.
5250 Campanile Drive
Fourth Floor
San Diego, CA 92182-1940

Via Fax: 619/583-5439

Dear Fred:

My reading of the new actuarial report raises several questions. Possibly some (or all) are due to my ignorance but I am concerned there are some significant issues buried here. I would respectfully request that staff address these to assure the full Board truly understands what is happening (or educate me separately if I'm the problem). I have copied Larry on this letter, but I am not sure of the protocol here.

SDCERS – Actuarial Report

Page
Numbers Question/Statement

- i) Who is the "Manager" referred to herein "Manager's Proposed Rates?"
- 1 & 2 This statement of philosophy is simple and direct. Unfortunately it is not being followed.
- 4 Funding objective is clearly stated. It is not being followed!
- 4 Contribution rates:
Normal Cost
+ amortization of unfunded actuarial accrued liability
= Total contribution

Does "amortization" include both amortization of "principal" (i.e. unfunded balance) plus interest on the unfunded balance?

- 4 Is it a level P & I payment or level P, plus interest on top of that?
- 4 Why the year gap – i.e. computed contributions as of 6/30/01 apply to FY beginning in 7/1/02. *What actuarial rates apply to w/years?* *level for 2002*
- 6 Why did contribution as % of payroll drop significantly in 01-02 (before Corbet settlement)?
- 6 What, when and why was "Mgr's Proposal"?

↳ purpose?, how well understood by successful retirees?

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EXHIBIT # 25

8 How is the City's "pick-up portion" of ee's contribution determined? Is this a "Meet and Confer" item? Is it different every year? *- what part of \$ & etc?*
10 Total accrued liabilities of \$2.8B. What does this include?

- ✓ Basic pension
- ✓ Corbet
- Ø 13th Check
- Ø Medical
- Etc.

10 Shows "Assets allocated to Funding" = \$2,525,645,008

Which "reserves" and "contingencies", etc. does this include? (Reconcile with data on page 22.)

Why do we consider any of these as a reserve if the actuary assumes these dollars are available to cover accrued liabilities?

11 C. Present Value of expected future members contributions: Is this the gross amount, or is it net of expected City's "pick-up" contribution:

If gross, does this not eventually result in a significantly understated liability for the City if the City is also going to pay some of ee's cost?

14 B. Why did Staff request this to be included as an asset to pay benefits? Why was the \$105m contingency established if we now tell Actuary it is to be used for benefits?

Am I confused here? If not, this is a rather big issue - i.e. the \$105m can't be used twice. A funded ratio at 85.6% is getting close to the 82.3% trigger where the current "unconventional" actuarial method is violated.

89.9% → 85.6% (if Reserve is a true reserve) → 83.1% (if Corbet not contingent)

(This note seems to answer in part my question on page 10 of what is in liabilities, i.e. Corbet is not. But it is really not a contingency? So why is it excluded?)

14 C. The "brewing storm cloud" needs to be fully explained. The 5 year smoothing will, I take it, carry '01's poor investment performance into future years.

14 C. How did "average compensation" increase 7.7%? What was the acknowledged general wage increase percentage? How does that reconcile with the 7.7%? How well is that understood at the City?

15 D. What impact will a change in assumed retirement age have? (Ball park estimates?)

15 E. Again this is a disturbing note. How will this "revisited assumption" impact the numbers?

15 F. What is the significance of the point being made here?

16 G. The actuary seems to be saying there should have been an adjustment to the "Mgr's Proposal" once Corbet happened. Was this addressed? *Why didn't actuary force it.*

ditto *ditto* *ditto*

- 16 H. What do these "adders" get added to?
- 17 I. What is the significance of this "undercounting of the liability" due to purchased service credits? How significant?
- 17 I. Why is the Actuary questioning the appropriation of the 2% COLA payment?
- 17 J. What is the significance to the numbers of this statement?
- 17 L. What are the merits of transferring to an Entry Age Normal method? Does it really mean the City's contribution would be:

Mgr's Proposal	-	9.83% 10.33%
Actuary's number	-	15.59%
Entry Age Normal	-	17.75%

17 M. I get a very strong sense of "game playing" or anticipatory "ass covering" by the Actuary. This is most disturbing. How can they say the "system continues to be in sound condition in accordance with actuarial principles of level cost financing". The actual practice is not "level cost funding".

Sincerely,

Richard H. Vortmann
President

RHV/lh

cc: Larry Grissom Via Fax: 619/533-4611

24. Net applicable asset

	2,341,407	
	+ 91,809	unrealized gains
	<hr/>	
	2,433,216	
V.	2,525,645	pg. 10