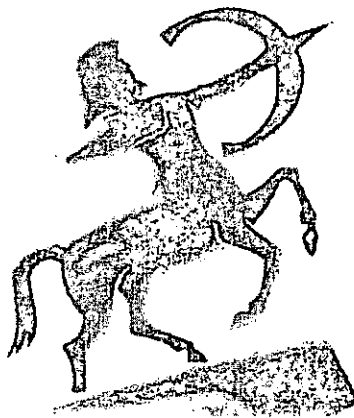


June 30, 2008
Actuarial Valuation

Presentation to the
San Diego City Council

DRAFT



February 23, 2009



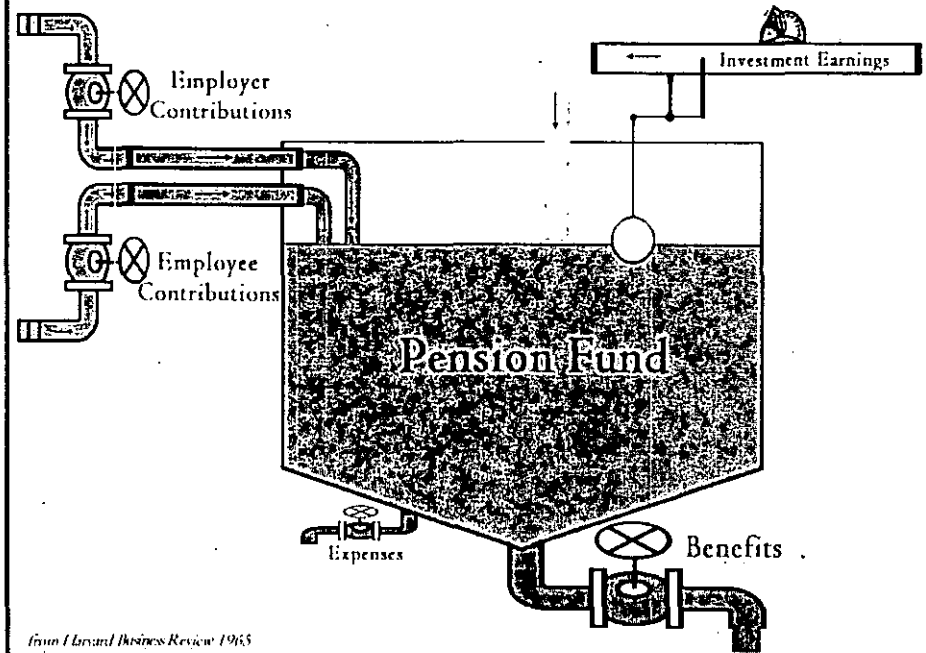
Topics

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- The Actuarial Valuation Process
- SDCERS City - Historical Trends
- SDCERS City- 2008 Actuarial Valuation
 - Valuation report contents
 - Valuation changes from 2007
 - Key 2008 results
 - Causes for change in UAL and ARC
- A Look Ahead
- Closing Remarks

The Actuarial Valuation Process In General

1. Collect data
 - Participants
 - Plan provisions
 - Financial
2. Apply assumptions
 - Demographic
 - Economic
3. Project all future benefit payments
4. Determine a present value of the benefits
5. Compare to assets
6. Calculate employer contribution



from Harvard Business Review 1965

The Actuarial Valuation Process

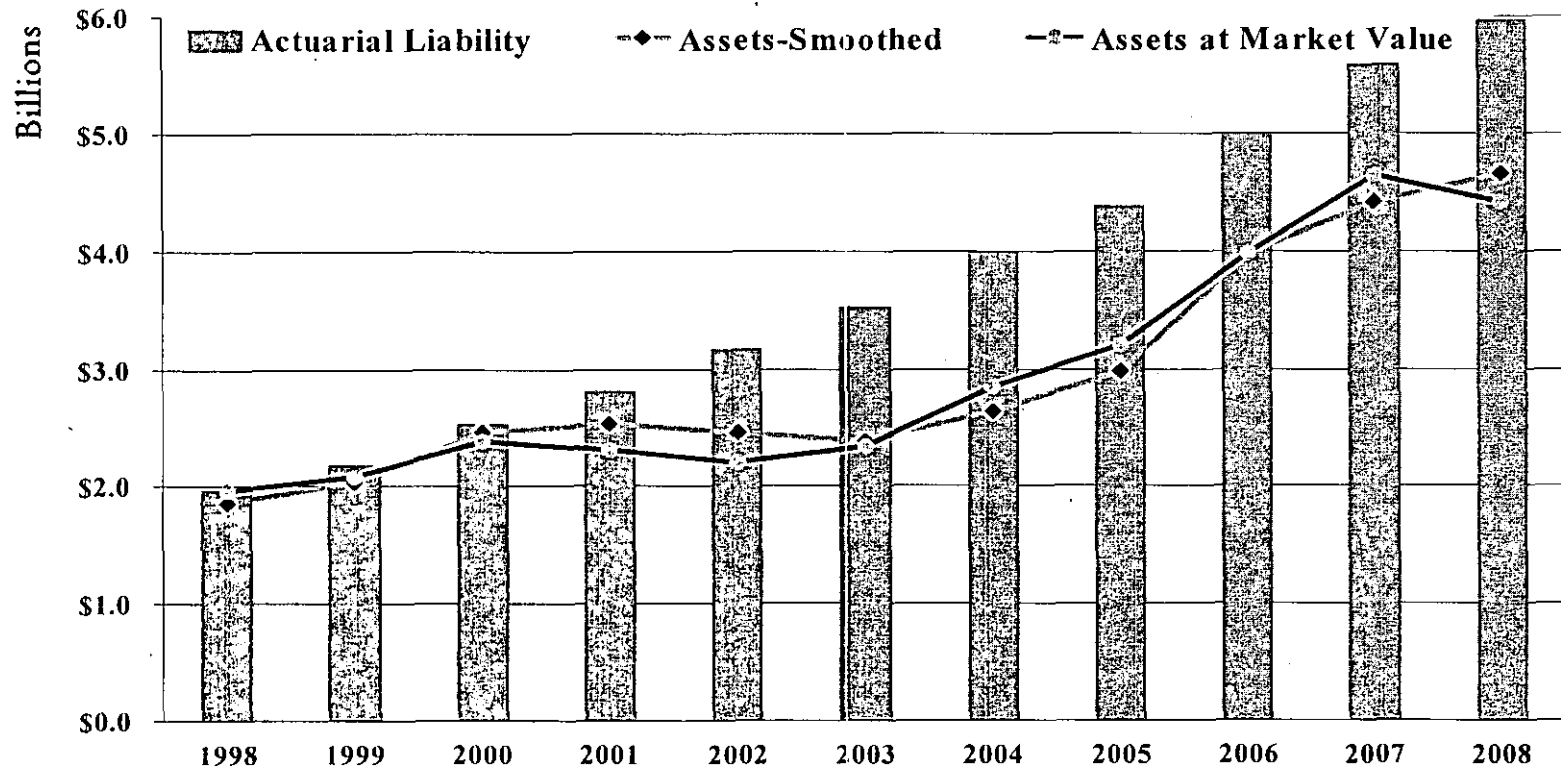
Timing

The June 30, 2008 valuation results are used to determine the FY 2010 Annual Required Contribution (ARC) for the City.

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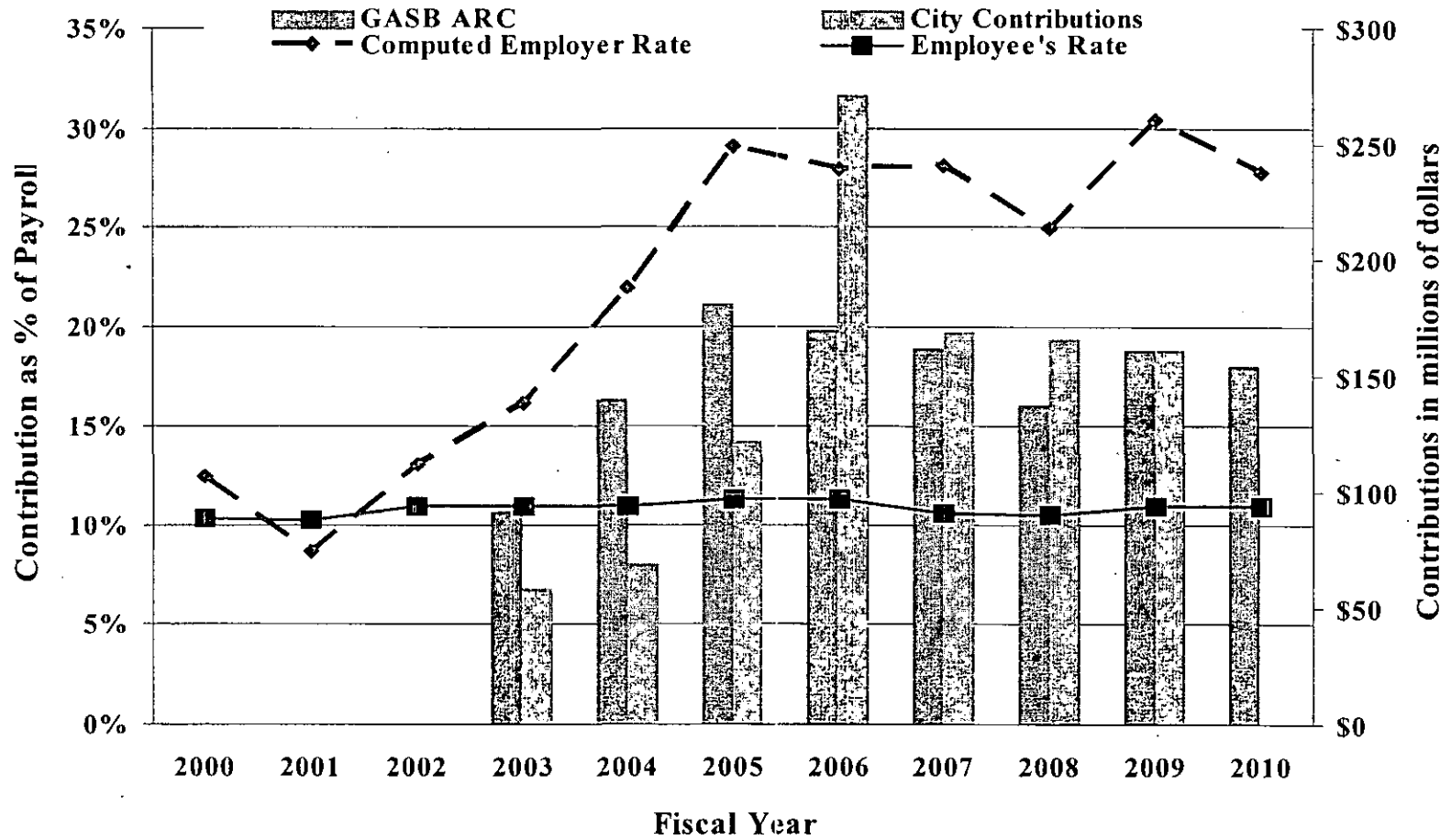
Historical Trends

Historical Trends Assets and Liabilities (\$ in billions)

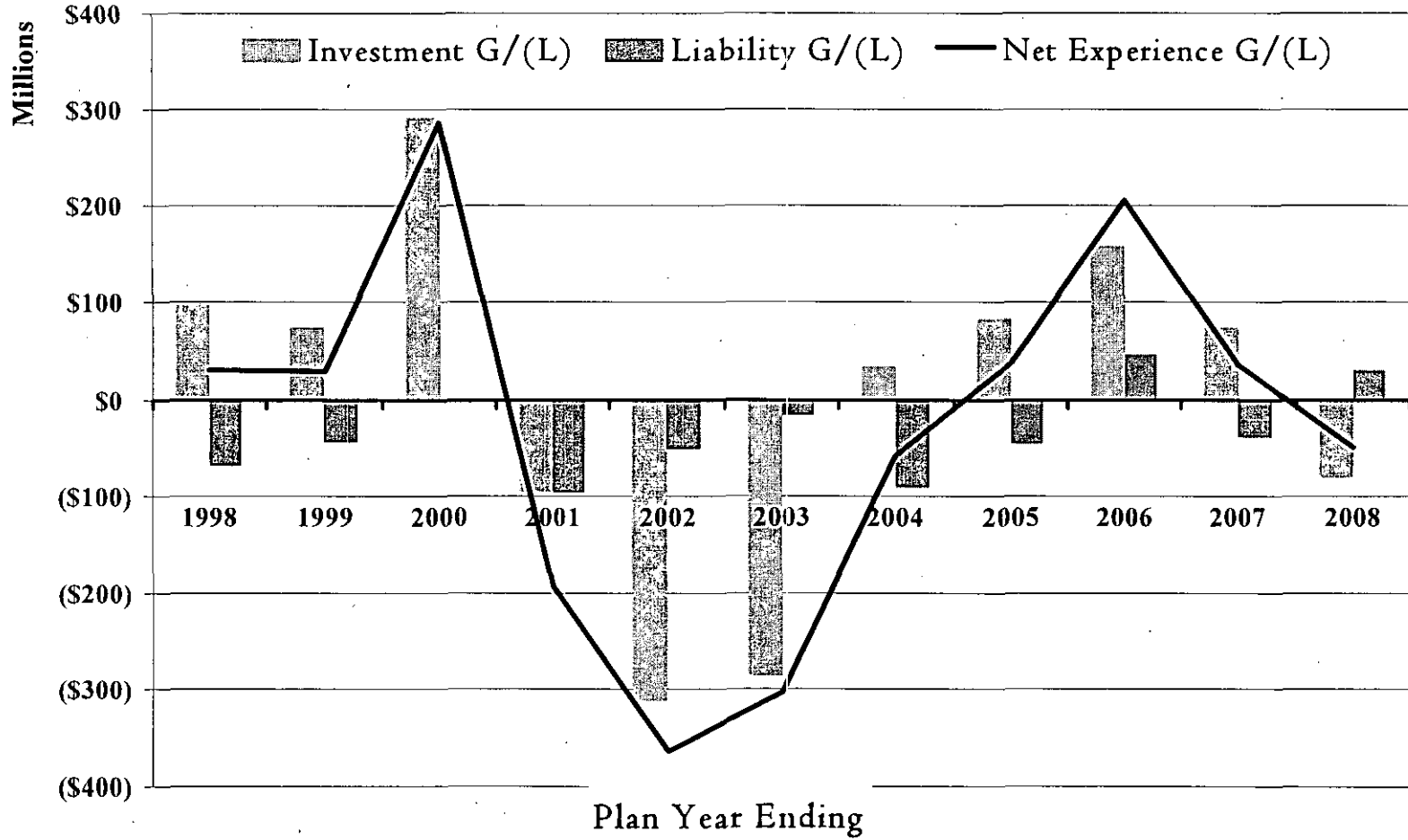


Funding Ratio	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%	78.1%
UAL	\$ 0.13	\$ 0.15	\$ 0.07	\$ 0.28	\$ 0.72	\$ 1.16	\$ 1.37	\$ 1.39	\$ 1.00	\$ 1.18	\$ 1.30 *

Historical Trends Contributions



Historical Trends Experience Gains and Losses



SDCERS' City 2008 Actuarial Valuation

Report Contents

- Letter of Transmittal
- Section I – Board Summary
- Section II – Assets
- Section III – Liabilities
- Section IV – Contributions
- Section V – Accounting Statement Information

- Appendix A – Membership Information
- Appendix B – Actuarial Assumptions and Methods
- Appendix C – Summary of Plan Provisions
- Appendix D – Glossary of Terms

Changes in Actuarial Procedures 2006-2008

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Assets

1. Discontinued use of Book Value in asset measurement (2006)
2. Eliminated “waterfall” calculations (2006)
3. Implemented new asset smoothing method (2007)
4. Changed asset apportionment method for plan sponsors (2007)

Liabilities

5. Excluded benefits paid in excess of IRS limits (2006)
6. Full recognition of “contingent liabilities” (2006)
7. Corrected disability benefit calculations under Corbett (2006)

Funding

8. Reduced amortization of the UAL to 20 years (2007)
9. Insured no negative amortization (2007)
10. Changed actuarial funding method from PUC to EAN (2007)
11. Revised actuarial assumptions (2008)

2008 Assumption Changes

(and impact on 2008 costs)

- 1) Increased the rates of retirement and base the assumption on service as opposed to age- increased costs
- 2) Increased the rates of termination across all ages and service groups- decreased costs
- 3) Slightly decreased the disability rates- decreased costs
- 4) Increased rates of mortality for pensioners- decreased costs
- 5) Lowered the 8% investment assumption to 7.75%- increased costs
- 6) Lowered the inflation assumption from 4.25% to 4.0%- decreased costs

Key Valuation Results

**Table I-1
SDCERS - City of San Diego**

Valuation Date	6/30/2008	6/30/2007
Unfunded Actuarial Liability (millions)-EAN	\$ 1,303.2	\$ 1,184.2
Funding Ratio - EAN	78.1%	78.8%
City Contribution Rate - EAN	27.73%	30.45%
Fiscal Year	2010	2009
Annual Required Contribution (GASB):		
-if paid at the beginning of the year	\$ 154.2 million	\$ 161.7 million
-if paid throughout the year	\$ 160.1 million	\$ 168.1 million

Changes Since Last Valuation On City's ARC

FY 2010 ARC Change due to	(millions \$)
1 Annual Required Contribution FY 2009	\$ 161.7
2 Expected increase due to passage of time	\$ 6.9
3 Net experience (gain)/loss in fiscal year ending 6/30/08	\$ 1.2
4 Impact of assumption changes on UAL	\$ 4.8
5 Decline in negative amortization cost component	\$ (6.8)
6 Impact of assumption change on the Normal Cost	\$ (12.9)
7 Other factors	\$ (0.7)
8 Annual Required Contribution FY 2010	\$ 154.2

Numbers may not add due to rounding

Changes Since Last Valuation On City's UAL

2008 UAL Change due to

- 1 UAL 6/30/2007
- 2 Expected UAL change due to passage of time
- 3 Investment loss
- 4 Purchased service credit
- 5 Overall liability gain
- 6 Contributions in excess of expected
- 7 Change in demographic actuarial assumptions
- 8 Change in economic actuarial assumptions
- 9 UAL 6/30/2008

(millions \$)

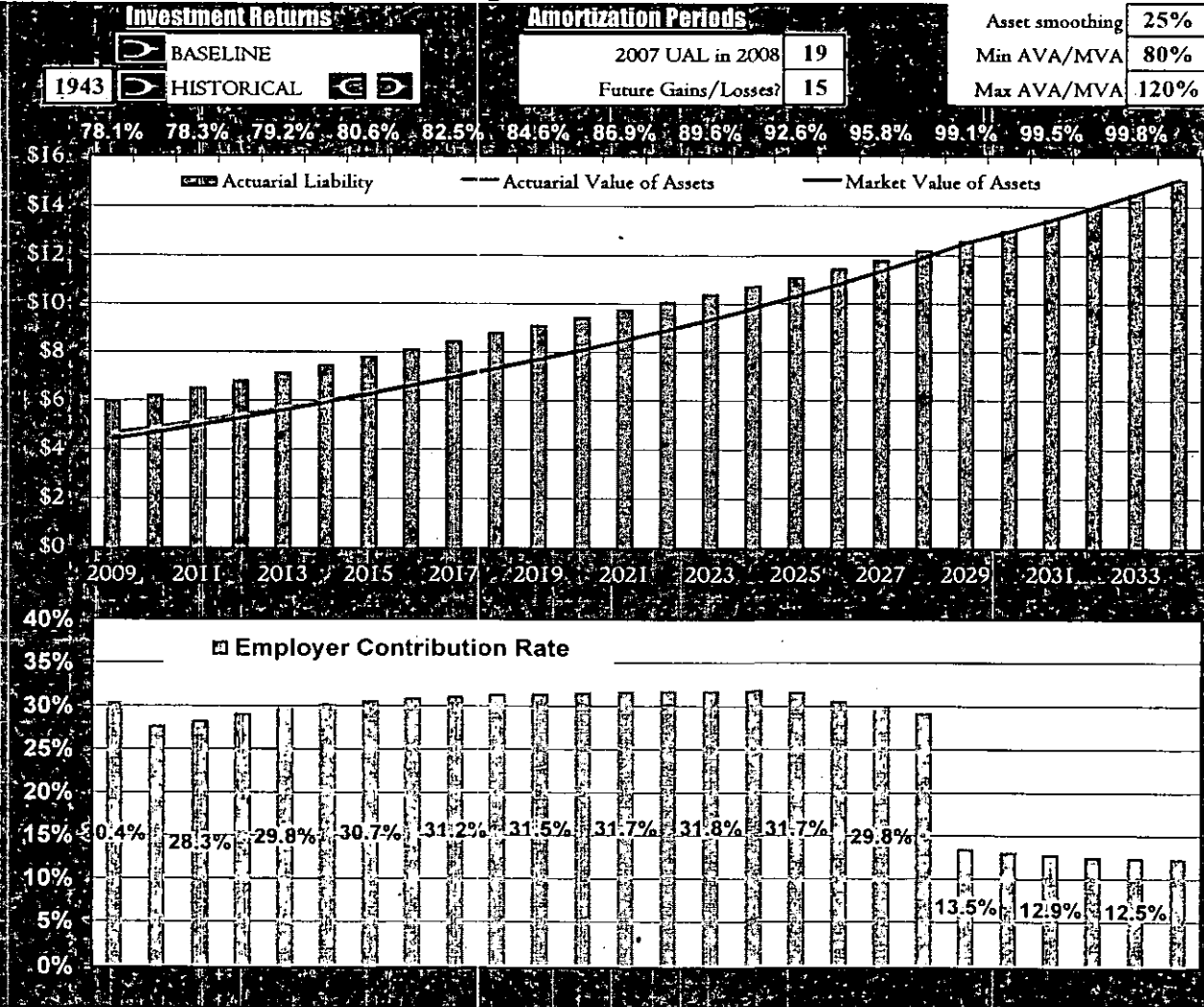
\$	1,184.2
\$	21.6
	81.3
	1.5
	(32.9)
	(36.4)
	(45.8)
	129.6
\$	1,303.2

Numbers may not add due to rounding

A Look Forward

SDCERS Projections

FY	ARC (m)	UAL (b)
2009	7.75%	\$ 161.7 \$ 1.18
2010	7.75%	\$ 154.2 \$ 1.30
2011	7.75%	\$ 163.9 \$ 1.36
2012	7.75%	\$ 175.4 \$ 1.42
2013	7.75%	\$ 186.5 \$ 1.47
2014	7.75%	\$ 197.2 \$ 1.50
2015	7.75%	\$ 207.7 \$ 1.51
2016	7.75%	\$ 218.2 \$ 1.52
2017	7.75%	\$ 228.6 \$ 1.51
2018	7.75%	\$ 239.1 \$ 1.49
2019	7.75%	\$ 249.8 \$ 1.46
2020	7.75%	\$ 260.7 \$ 1.41
2021	7.75%	\$ 271.9 \$ 1.35
2022	7.75%	\$ 283.3 \$ 1.28
2023	7.75%	\$ 295.2 \$ 1.19
2024	7.75%	\$ 307.4 \$ 1.09
2025	7.75%	\$ 317.7 \$ 0.96
2026	7.75%	\$ 319.6 \$ 0.82
2027	7.75%	\$ 323.6 \$ 0.66
2028	7.75%	\$ 329.5 \$ 0.50
2029	7.75%	\$ 157.6 \$ 0.31
2030	7.75%	\$ 159.3 \$ 0.12
2031	7.75%	\$ 161.9 \$ 0.09
2032	7.75%	\$ 165.3 \$ 0.07
2033	7.75%	\$ 169.5 \$ 0.05
ave=	7.75%	



Closing Remarks

- From 2005 through this 2008 valuation SDCERS has experienced relatively stable valuation results (ARCs, UALs, and funding ratios)
- Due to investment climate, the City's June 30, 2009 valuation (FY 2011) will be challenging
- Keep in mind:
 - Actuarial valuations are just a snapshot of the financial status of a retirement plan taken on one day
 - A public retirement system's focus should be on the long-term
 - Undue focus on the short-term results can lead to poor decisions that may hurt a plan in the long run

SDCERS

Compared to Other Large Public Plans

