

Report to the San Diego City Council

Concerning the City's June 30, 2006 Actuarial Valuation

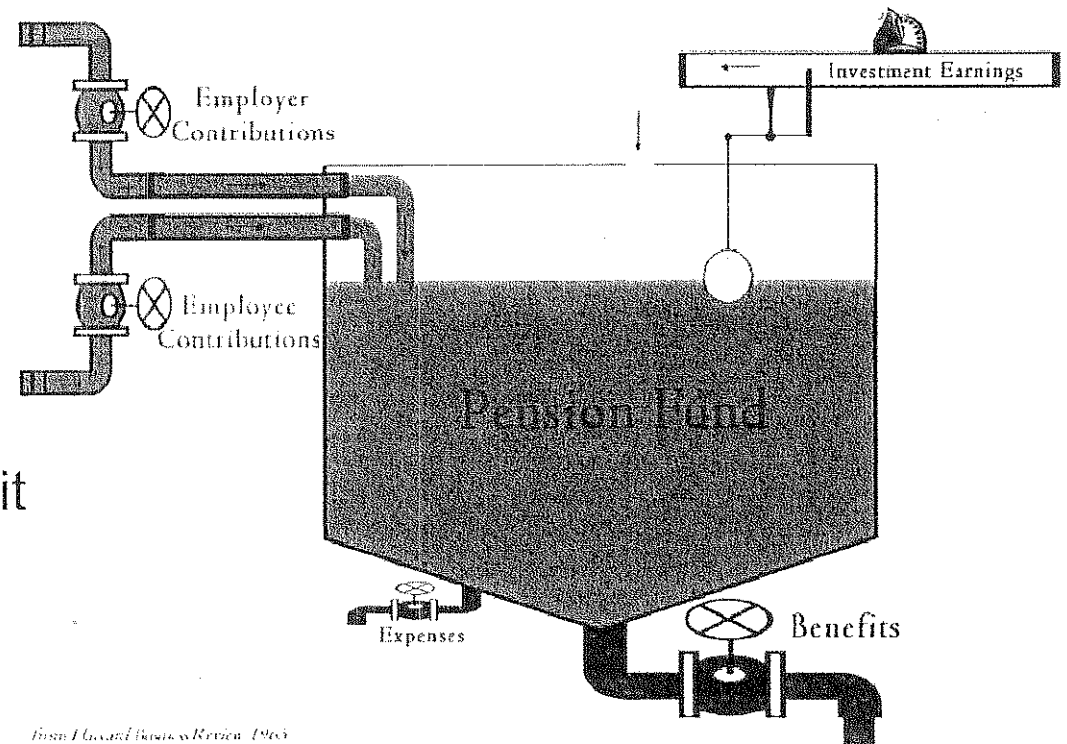
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Discussion Topics

- The Actuarial Valuation Process in General
- 2006 Actuarial Valuation
 - Changes since the 2005 valuation
 - Comparison of 2006 and 2005 key results
 - Factors causing UAL to decline
 - Historical funding condition of SDCERS-City
- 2007 and beyond
 - Entry age normal funding
 - Revised amortization basis
 - Projected financial outlook

The Actuarial Valuation Process

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



from Harvard Business Review 1963

Changes Reflected in the 2006 Valuation

- Assets
 - Apportionment between plan sponsors now based on actual cash flows of each sponsor
 - Board adopted a more widely-accepted asset smoothing method, replacing an outdated method rarely in use today
- Liabilities
 - Full recognition of “contingent” liabilities (i.e. 13th check and Corbett)
 - Proper treatment of disability benefits
 - Proper treatment of benefits in excess of IRS limitations

Comparison of 2006 and 2005

Key Results

Table I-1
SDCERS - City of San Diego

Valuation Date	6/30/2006	6/30/2005
Unfunded Actuarial Liability (millions)	\$ 1,000.8	\$ 1,394.0
Funding ratio	79.9%	68.2%
Fiscal Year	2008	2007
City Contribution Rate during year	24.95%	28.06%
City Contribution Rate start of year	24.01%	27.00%
Annual Required Contribution (GASB):		
-if paid at the beginning of the year	\$ 137.7 million	\$ 162.0 million
-if paid throughout the year	\$ 143.1 million	\$ 168.3 million

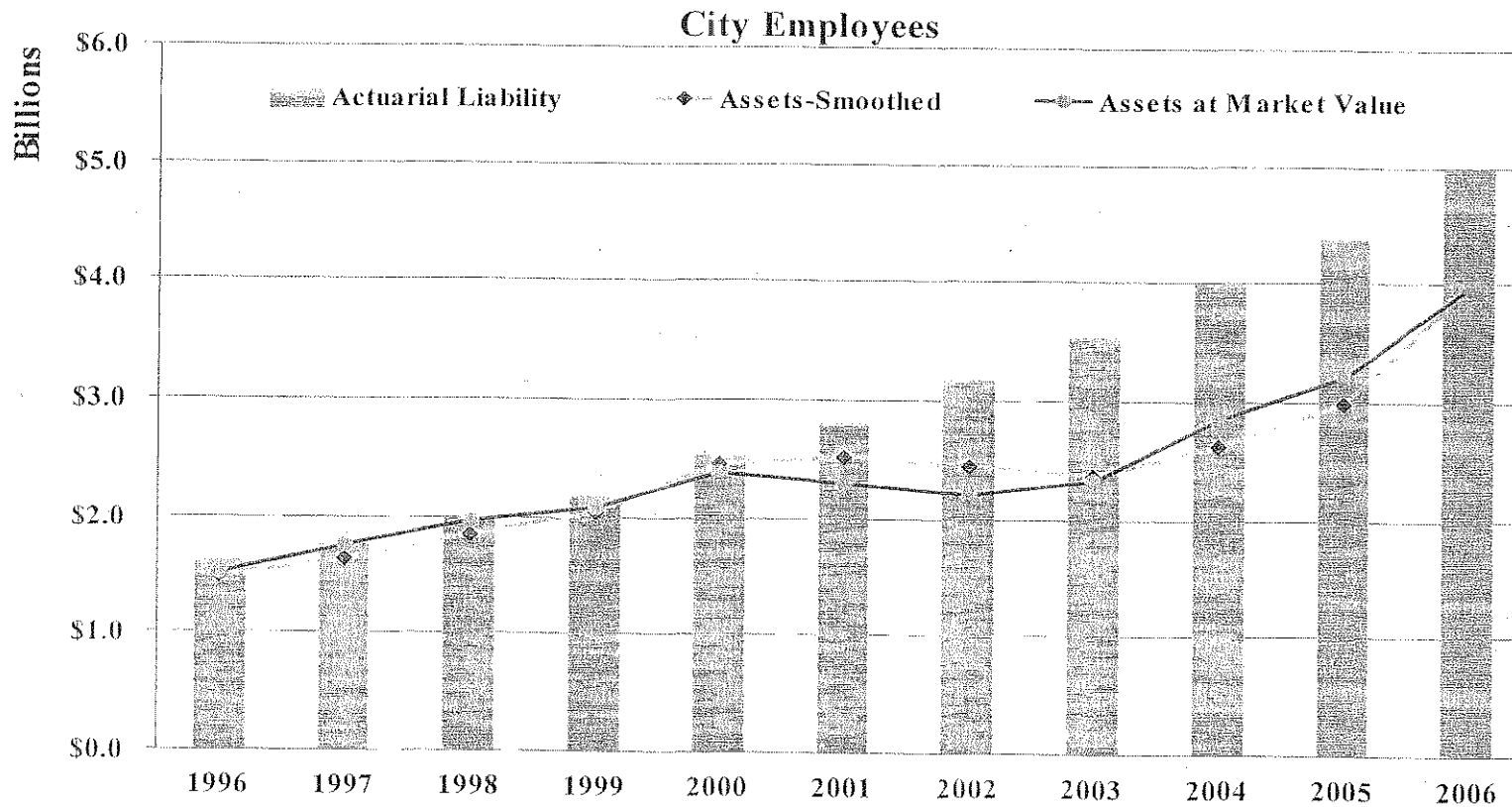
Why the Unfunded Actuarial Liability Decreased

(\$ in millions)

1)	Investment performance.....	\$ 158.9
2)	Asset smoothing method.....	183.8
3)	Contributions greater than expected.....	105.6
4)	Liabilities growing less than expected.....	46.3
5)	Proper treatment of disability benefits.....	9.9
6)	Proper treatment of IRS benefit limitations....	22.8
7)	Addition of "contingent" liabilities.....	(112.7)
8)	Expected growth in the UAL.....	<u>(21.4)</u>
	Total decrease in UAL	\$ 393.2

Historical Funding Condition

SDCERS (\$ in billions)



Funded
Ratio
UAL

91.4%	93.3%	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%
\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.15	\$ 0.07	\$ 0.28	\$ 0.72	\$ 1.16	\$ 1.37	\$ 1.39	\$ 1.00

2007 and Beyond



- Change to Entry Age Normal funding
 - Used by SDCERS prior to 1991
 - Most commonly-used actuarial funding method
 - Costs are more stable and predictable
- New amortization periods adopted by SDCERS Board, March 2007
 - June 30, 2007 UAL to be paid down over 20 years with additional payments to ensure no “negative” amortization
 - Gains and losses in 2008 and beyond to be paid down over 15 years
 - Future benefit changes (UAL increases or decreases) to be paid down over 5 years
 - Future changes in methods and assumptions to be paid down over 30 years
- Experience Study to be conducted in 2008
 - Actuarial assumptions will be compared to actual SDCERS experience
 - Any changes in the assumptions will effect the June 30, 2008 actuarial valuation

Projected Financial Outlook

