

August 14, 2007

Mr. David Wescoe  
 Retirement Administrator  
 San Diego City Employees' Retirement System  
 401 West A Street, Suite 400  
 San Diego, CA 92101

Dear David:

When we appeared before the Board in July, we were asked to update our previous analysis of the experience of the purchase service credit (PSC) program since inception to include all categories of participants (e.g., actives, terminated vested) and those in pay-status (e.g., retirees, beneficiaries and disabilities). This letter presents the results of our update and additional conclusions based on this update.

Exhibit A (attached) provides a summary of our analysis.

Our key findings are as follows:

- Cheiron estimates that the net actuarial deficiency between the additional value of benefits due to the additional service credits and the accumulated amounts paid by all active participants, retirees (including active DROPS), and term vested for such additional credits, as of the June 30, 2006 actuarial valuation, is approximately \$146 million.

As requested, this amount is comprised of the following categories:

a. Pre-2000	\$ 20 million
b. 7/1/2000-6/30/2002	\$ 63 million
c. 7/1/2002-8/15/2003	\$ 29 million
d. 8/16/2003-10/31/2003	\$ 34 million
e. 11/01/2003-6/30/2006	<u>\$ 0 million</u>
Total	\$146 million

- Our analysis is consistent with Navigant Consulting's January 2006 estimate of "more than \$100 million," which was based on the June 30, 2004 actuarial valuation.
- As we have previously reported to the Board, the current rates being charged today "make the system whole." As a result, we continue to recommend that SDCERS make no change to the current rate structure until we complete our experience study in the summer of 2008. At that time, we will likely recommend changes to the current pricing methodology and review process.



Mr. David Wescoe

August 14, 2007

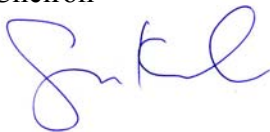
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- Approximately \$20 million of the \$140 million liabilities is not part of SDCERS' unfunded actuarial liabilities (UAL) as of June 30, 2006. This amount represents benefits in excess of IRS limitations (Section 415) and is a direct obligation of the City. Until the on-going work in connection the IRS VCP program is finished, we will not know the final number for this item.
- Amounts reflected in the City's June 30, 2006 UAL are included in the City Annual Required Contribution payment. There would be no impact on SDCERS' financial condition, current or projected, if responsibility for funding this deficiency was transferred from the plan sponsors to others (e.g. current or former members).
- With respect to the UPD and Airport Authority, we presented to the board an analysis in July which showed an additional net PSC liability of \$3.7 million attributable to active members as of June 30, 2006.

Finally, our analysis is based June 30, 2006 actual data and reflects accumulative experience gains and losses (people living longer, retiring different than assumed, salary increases, etc.) that could not be anticipated at the time any member actually purchased service.

Please let me know if you have any questions.

Sincerely,  
Cheiron



Gene Kalwarski, FSA  
Consulting Actuary

Attachment

## CITY of San Diego Purchase Service Credit Analysis

	GENERAL		SAFETY	TOTAL ACTIVE	RETIREES, TVS, and BENEFICIARIES	GRAND TOTAL
<b>A1. Contracts Effective before 7/1/2000 (Pre-Corbett)</b>						
Total Contracts	97	18	115	332	447	
Average Age at Purchase	44.6	40.9	44.0	53.9	51.3	
Total Years	397	66	463	1,196	1,660	
Average Years/contract	4.1	3.7	4.0	3.6	3.7	
Contract amount accumulated to June 30, 2006	3,832,614	1,452,109	5,284,723	7,134,269	12,418,992	
Additional Liability as of June 30, 2006-Benefits at Purchase Date	5,289,523	1,507,627	6,797,151	26,019,851	32,817,001	
<b>Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date</b>	<b>\$ (1,456,909)</b>	<b>\$ (55,518)</b>	<b>\$ (1,512,427)</b>	<b>\$ (18,885,582)</b>	<b>\$ (20,398,009)</b>	
<b>A2. Contracts Effective 7/1/2000 - 6/30/2002 (MP2/Old Rates)</b>						
Total Contracts	586	134	720	858	1,578	
Average Age at Purchase	44.9	38.4	43.7	53.2	48.9	
Total Years	2,469	366	2,834	3,232	6,066	
Average Years/contract	4.2	2.7	3.9	3.8	3.8	
Contract amount accumulated to June 30, 2006	24,800,778	6,868,596	31,669,375	25,992,860	57,662,235	
Additional Liability as of June 30, 2006-Benefits at Purchase Date	37,186,801	6,414,761	43,601,561	76,653,167	120,254,728	
<b>Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date</b>	<b>\$ (12,386,022)</b>	<b>\$ 453,836</b>	<b>\$ (11,932,186)</b>	<b>\$ (50,660,307)</b>	<b>\$ (62,592,494)</b>	
<b>B1. Contracts Effective 7/1/2002 - 8/15/2003 (Board Action/Old Rates)</b>						
Total Contracts	575	194	769	417	1,186	
Average Age at Purchase	45.9	39.9	44.4	52.7	47.3	
Total Years	2,171	512	2,683	1,446	4,129	
Average Years/contract	3.8	2.6	3.5	3.5	3.5	
Contract amount accumulated to June 30, 2006	19,712,630	9,347,114	29,059,744	13,797,577	42,857,322	
Additional Liability as of June 30, 2006-Benefits at Purchase Date	28,923,615	9,451,816	38,375,431	33,716,183	72,091,615	
<b>Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date</b>	<b>\$ (9,210,985)</b>	<b>\$ (104,702)</b>	<b>\$ (9,315,687)</b>	<b>\$ (19,918,606)</b>	<b>\$ (29,234,293)</b>	
<b>B2. Contracts Effective 8/16/2003 - 10/31/2003 ("Grandfathered" and "Window" members/Old Rates)</b>						
Total Contracts	1,609	412	2,021	371	2,392	
Average Age at Purchase	44.6	40.7	43.8	49.8	44.8	
Total Years	5,726	828	6,554	1,287	7,841	
Average Years/contract	3.6	2.0	3.2	3.5	3.3	
Contract amount accumulated to June 30, 2006	49,363,269	15,510,817	64,874,086	13,297,562	78,171,648	
Additional Liability as of June 30, 2006-Benefits at Purchase Date	71,413,136	14,463,793	85,876,929	26,252,431	112,129,360	
<b>Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date</b>	<b>\$ (22,049,867)</b>	<b>\$ 1,047,024</b>	<b>\$ (21,002,842)</b>	<b>\$ (12,954,869)</b>	<b>\$ (33,957,712)</b>	
<b>C. Contracts Effective 11/1/2003 - Present (New Rates)</b>						
Total Contracts	170	101	271	101	372	
Average Age at Purchase	47.2	36.4	43.1	50.4	45.1	
Total Years	479	273	752	196	948	
Average Years/contract	2.8	2.7	2.8	1.9	2.5	
Contract amount accumulated to June 30, 2006	4,966,536	4,063,647	9,030,183	3,068,633	12,098,816	
Additional Liability as of June 30, 2006-Benefits at Purchase Date	4,964,886	2,426,237	7,391,123	5,133,245	12,524,368	
<b>Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date</b>	<b>\$ 1,650</b>	<b>\$ 1,637,409</b>	<b>\$ 1,639,059</b>	<b>\$ (2,064,612)</b>	<b>\$ (425,553)</b>	
<b>D. GRAND Total For All 5 Periods</b>						
Total Contracts	3,037	859	3,896	2,079	5,975	
Average Age at Purchase	45.1	39.6	43.9	52.5	46.9	
Total Years	11,242	2,045	13,286	7,357	20,643	
Average Years/contract	3.7	2.4	3.4	3.5	3.5	
Contract amount accumulated to June 30, 2006	102,675,827	37,242,284	139,918,111	63,290,901	203,209,012	
Additional Liability as of June 30, 2006-Benefits at Purchase Date	147,777,961	34,264,234	182,042,195	167,774,878	349,817,073	
<b>Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date</b>	<b>\$ (45,102,133)</b>	<b>\$ 2,978,049</b>	<b>\$ (42,124,084)</b>	<b>\$ (104,483,976)</b>	<b>\$ (146,608,060)</b>	