

**San Diego City
Employees' Retirement System**

**June 30, 2006
Actuarial Valuation for the**

**San Diego County
Regional Airport Authority**

Produced by [Cheiron](#)

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LETTER OF TRANSMITTAL

January 12, 2007

Board of Administration
San Diego City Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101

Dear Members of the Board:

At your request, we performed the June 30, 2006 actuarial valuation of the San Diego City Employees' Retirement System (SDCERS). The valuation results with respect to the San Diego County Regional Airport Authority ("Airport Authority") are contained in this report. In the table below we present the key results of the valuation:

- the unfunded actuarial liability (UAL),
- the funding ratio, and
- the Airport Authority contribution rate and GASB's annual required contribution (GASB ARC Statement No. 25).

Valuation results are shown as of June 30, 2006 (rates effective Fiscal Year 2008) and June 30, 2005 (rates effective for Fiscal Year 2007). The contribution rates and dollar amounts shown below are in full compliance with Governmental Accounting Standards Board (GASB) Statement No. 25 as far as determining the annual required contributions (ARC).

Valuation Date	6/30/2006	6/30/2005
Unfunded Actuarial Liability (millions)	\$ (4.3)	\$ 4.1
Funding Ratio	111.7%	87.6%
Fiscal Year	2008	2007
Airport Contribution Rate during year	11.21%	14.30%
Airport Contribution Rate start of year	10.79%	13.76%
Annual Required Contribution (GASB):		
-if paid at the beginning of the year	\$ 2.2 million	\$ 2.6 million
-if paid throughout the year	\$ 2.3 million	\$ 2.7 million

These results are based on the same actuarial assumptions used in the June 30, 2005 valuation, but reflect methodology changes that the Board approved based on Cheiron's on-going actuarial funding study and recommendations. Details on these methodology changes and their impact on the June 30, 2006 valuation results can be found in the Board Summary section.



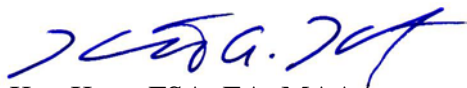
In conclusion, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable actuarial standards set out by the Actuarial Standards Board and Actuarial Standards of Practice (ASOPs) Nos. 4, 27 and 35. As such, it reflects the actuary's responsibility under Section 5.8 of ASOP No. 4 "for assessing the implications of the overall results, in terms of short- and long-range benefit security and expected cost progression." In preparing our report, we relied without audit, on information supplied by SDCERS staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

Finally, in our best professional judgment, the assumptions and methodologies as adopted by the SDCERS Board of Administration are reasonably related to the experience and expectations for the Airport Authority's Retirement Plan. In our opinion, the use of these assumptions and methodologies for the June 30, 2006 actuarial valuation will not, in and of itself, expose SDCERS to unsound financial risk.

Sincerely,
Cheiron



Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary



Ken Kent, FSA, EA, MAAA
Consulting Actuary



Margaret Tempkin, FSA, EA
Actuary

SECTION I BOARD SUMMARY

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 SDCERS-Airport Authority,
- Past and expected trends in the financial condition of SDCERS-Airport Authority,
- The Airport Authority's contribution rates for Fiscal Year 2008, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section we present a summary of the principal valuation results. This includes the basis upon which this year's valuation was completed and an examination of the current financial condition of SDCERS-Airport Authority. In addition, we present a review of the key historical trends followed by the projected financial outlook for SDCERS-Airport Authority.

A. Valuation Basis

This valuation represents Cheiron's second valuation performed for SDCERS. As stated in the Letter of Transmittal, the June 30, 2006 valuation results, while based on the same actuarial assumptions used in the prior valuation, reflect a number of methodology changes that Cheiron recommended and the Board approved. These changes include:

- A move from a "book value based" asset smoothing method to the "expected asset value" smoothing method. For June 30, 2006, the asset value is set to market value as of the same date, with the actual smoothing method commencing on June 30, 2007.
- The asset apportionment method between SDCERS' three plan sponsors, (City of San Diego, Unified Port District, and San Diego County Regional Airport Authority) was changed from an allocation method based on various approximations, to one that will directly reflect as of June 30, 2005 and forward, the actual cash flows attributable to each plan sponsor since June 30, 2005.
- All "contingent" liabilities (13th check) are now reflected in the June 30, 2006 valuation liabilities.
- SDCERS assets and liabilities as of June 30, 2006 now reflect both the future liabilities for DROP retirements and supplemental COLA as well as the asset reserves held for such liabilities. Previously, both amounts were excluded from SDCERS reported assets and liabilities.
- All future benefits payable from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code Section 415.

SECTION I
BOARD SUMMARY

- Minor adjustments in the allocation of liabilities amongst the three plan sponsors were made to ensure that when participants have service with more than one contributing employer the resulting liability allocation is equitably determined.

In Part B of this section, we present the financial impact on the current valuation of each of the changes.

In addition to the above, there will be a change to the actuarial funding method commencing with the June 30, 2007 valuation, from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method based upon the Board's approval of Cheiron's recommendation at its October 2006 meeting. For informational purposes the EAN calculation has been included in Table III-1a.

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BOARD SUMMARY**

B. Current Financial Condition of SDCERS-Airport Authority

On the following pages we summarize the key results of the June 30, 2006 valuation and show how they compare to the results from the June 30, 2005 valuation.

1. Airport Authority Membership:

Table I-2 SDCERS - Airport Authority - Membership Total			
Item	June 30, 2006	June 30, 2005	% Change
Active Counts	295	284	3.9%
Terminated Vesteds	45	26	73.1%
Disabled	-	-	0.0%
Retirees	6	7	-14.3%
Beneficiaries	1	-	0.0%
Total Airport Authority Members	347	317	9.5%
Active Member Payroll	\$ 19,115,804	\$ 17,608,879	8.6%
Average Pay per Active Member	64,799	62,003	4.5%

Total membership in SDCERS-Airport Authority increased from 2005 to 2006 by 9.5%. Total payroll increased by 8.6% due largely to the increase in active membership of 3.9%. Average pay per active member increased by 4.5% which is in line with the salary inflation assumption of 4.25%.

2. Airport Authority Assets and Liabilities:

Table I-3 SDCERS - Airport Authority - Assets & Liabilities			
Item	June 30, 2006	June 30, 2005	% Change
Actives	\$ 32,089,522	\$ 28,731,396	11.7%
Terminated Vesteds	2,032,231	1,158,282	75.5%
Disabled	-	-	0.0%
Retirees	2,479,827	2,713,220	2.6%
Beneficiaries	303,635	-	0.0%
Total Actuarial Liability	36,905,216	32,602,898	13.2%
Market Value Assets	\$ 41,222,279	\$ 30,682,414	34.4%
Actuarial Value Assets	41,222,279	28,551,475	44.4%
Unfunded Actuarial Liability	\$ (4,317,063)	\$ 4,051,423	-206.6%
Funding Ratio-Actuarial Value	111.7%	87.6%	24.1%
Additional Contributions			
June 30, 2005	June 30, 2004	% Change	
Desired Funding Ratio of 90%	\$ -	\$ 791,133	-100.0%
Desired Funding Ratio of 95%	\$ -	\$ 2,421,278	-100.0%
Desired Funding Ratio of 100%	\$ -	\$ 4,051,422	-100.0%

**SDCERS-AIRPORT AUTHORITY
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BOARD SUMMARY**

Table I-3 presented the SDCERS-Airport Authority funding ratio. This is the ratio of assets smoothed (actuarial value of assets) over total actuarial liabilities. This ratio has improved from 87.6% to 111.7%.

Between June 30, 2005 and June 30, 2006, SDCERS-Airport Authority went from having an unfunded actuarial liability of \$4.1 million to being overfunded by \$4.3 million, or a net decrease of \$8.4 million. If all assumptions had been exactly realized, and no changes were made to any actuarial method or procedure, the UAL was expected to decrease by \$0.1 million. The fact that the UAL decreased by \$8.4 million means that there was a net overall positive experience of \$8.3 million.

The specific components of this positive change were as follows:

Table I-4 SDCERS - Airport Authority (In Millions)		
Experience		
1. UAL change due to investment experience	\$	(5.9)
2. UAL change due to purchased service credit		-
3. UAL change due to overall liability gain		(2.9)
Contributions		
4. UAL change due to contributions in excess of expected		(2.4)
Actuarial		
5. UAL change due to marking the smoothing method to market value		2.5
6. UAL change due to reflection of "contingent" liabilities		0.3
7. UAL change due to DROP and supplemental COLA		-
8. UAL change due to removal of liabilities in excess of IRC S. 415 limits		-
9. UAL change due to removal of future disability benefits		-
Total		
10. Total net overall experience: sum 1 through 9	\$	(8.4)
11. Expected change in UAL	\$	(0.1)
12. Total change in UAL: 10 + 11	\$	(8.5)

It is important to note that the current amortization basis used to pay off the UAL is based on increasing payments which are a level percent of expected payroll. This amortization approach is an acceptable and common method used by many large public sector retirement systems, and specifically accepted by GASB in Statement No. 25. This is commonly acceptable for two key reasons: first, the schedule of increasing payments both fully amortize the UAL, and remain level as a percent of payroll, thus resulting in an equal tax burden to all generations of taxpayers; and second, experience gains in any given year are just as likely as experience losses, and level percent of payroll amortization results in a more stable pattern of costs.

****This valuation page being sent on June 26, 2007 is a revision to the report issued on January 12, 2007.***

**SDCERS-AIRPORT AUTHORITY
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**SECTION I
BOARD SUMMARY**

3. Airport Authority Contributions:

Table I-5 SDCERS - Airport Authority - Contributions				
Item	June 30, 2006	June 30, 2005	% Change	
Gross Normal Cost %	22.55%	21.92%	2.9%	
Member Cost %	<u>9.44%</u>	<u>9.46%</u>	-0.2%	
Employer Normal Cost %	13.11%	12.46%	5.2%	
Employer Unfunded Liability Cost %	<u>-1.90%</u>	<u>1.84%</u>	-203.3%	
Total Employer Cost %	11.21%	14.30%	-21.6%	
Employer Cost % Beginning of Year	10.79%	13.76%	-21.6%	
Annual Required Contribution (GASB):				
-if paid at the beginning of the year	\$ 2.2 million	\$ 2.6 million	-14.8%	
-if paid throughout the year	\$ 2.3 million	\$ 2.7 million	-14.9%	

The Airport Authority's fiscal year 2008 contribution rate is 11.21%, which is down by a little over 3% from the 14.30% required contribution for the prior year.

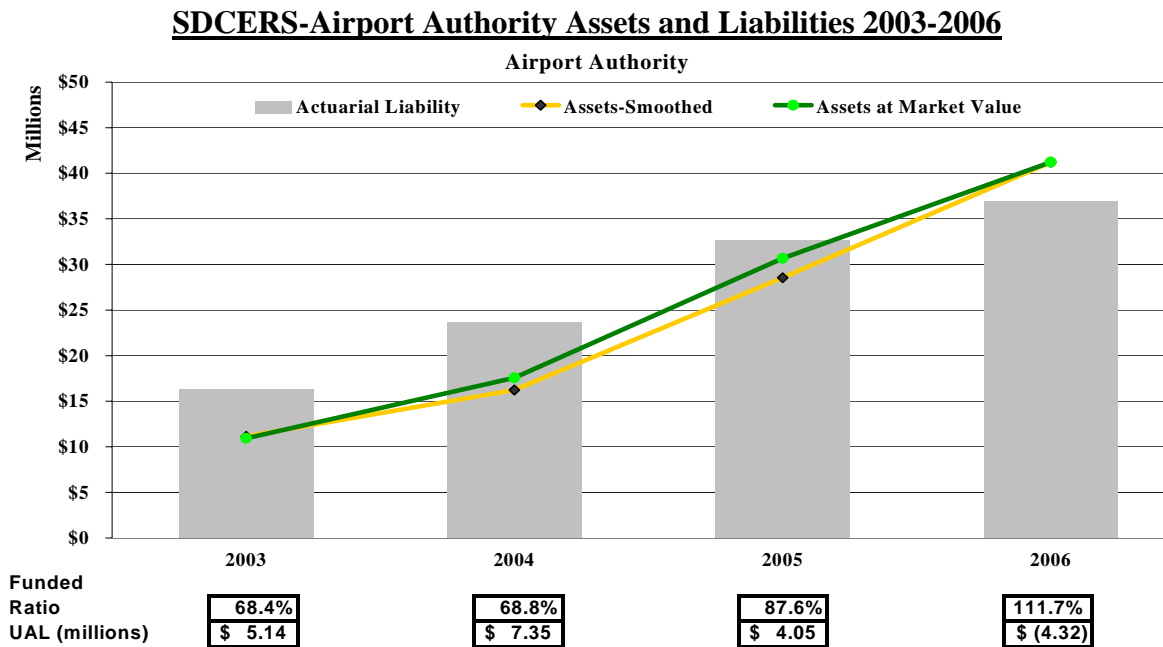
In dollars, the contribution rates shown here translate to a FY 2008 Airport Authority contribution of \$2.2 million, if paid in full as of July 1, 2007. If that amount is paid evenly throughout FY 2008, we would expect a payment of about \$2.3 million, or \$183 thousand per month. In Section IV of this report, we provide more detail on the development of this contribution rate.

SECTION I
 BOARD SUMMARY

C. Historical Trends SDCERS- Airport Authority

Despite the fact that most of the attention given to the valuation results has always been with respect to the most recently computed unfunded actuarial liability, funding ratio, and the Airport Authority’s contribution rate, it is important to remember that each valuation is merely a snapshot in the long-term progress of a pension fund. It is more important to judge a current year’s valuation result relative to historical trends, as well as trends expected into the future.

In the chart below, we present the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also show the progress of SDCERS-Airport Authority funding ratios since 2003.



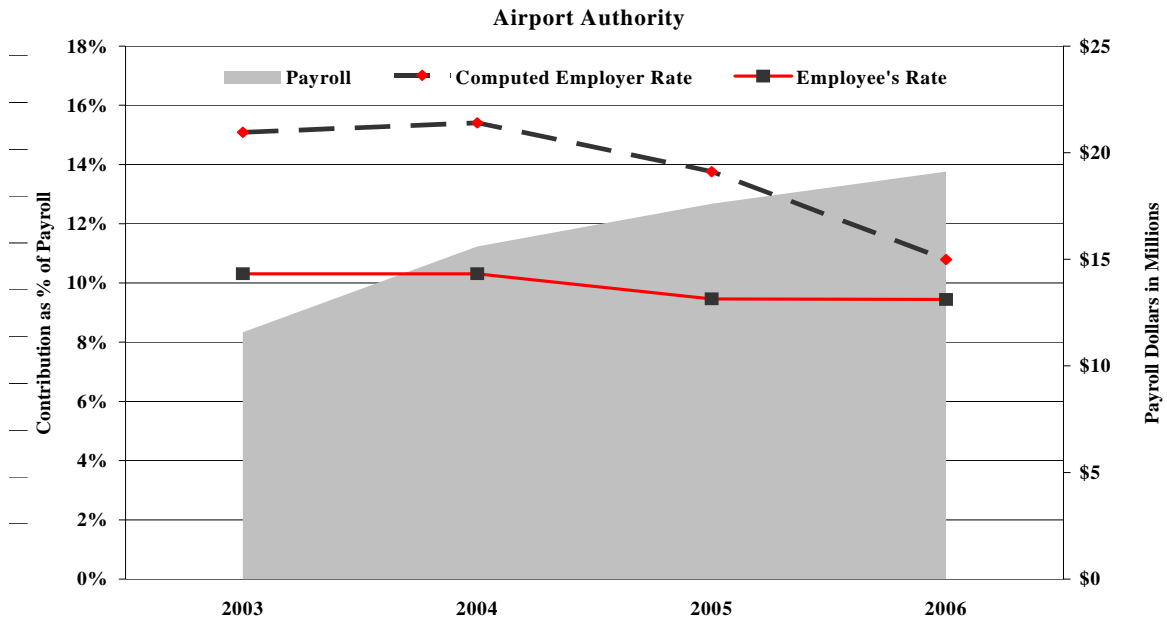
The chart above indicates that in 2003 and 2004, the funding rate was slightly more than 68% of the actuarial value of assets. In 2005 and 2006, the funding ratio significantly increased due to excess contributions and strong asset performance.

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In the chart below, we present the historical trends for the SDCERS-Airport Authority contribution rates and membership payroll since 2003. The chart below does not show the actual contribution rate made by the Airport Authority, but rather the rate calculated in each of the prior valuations.

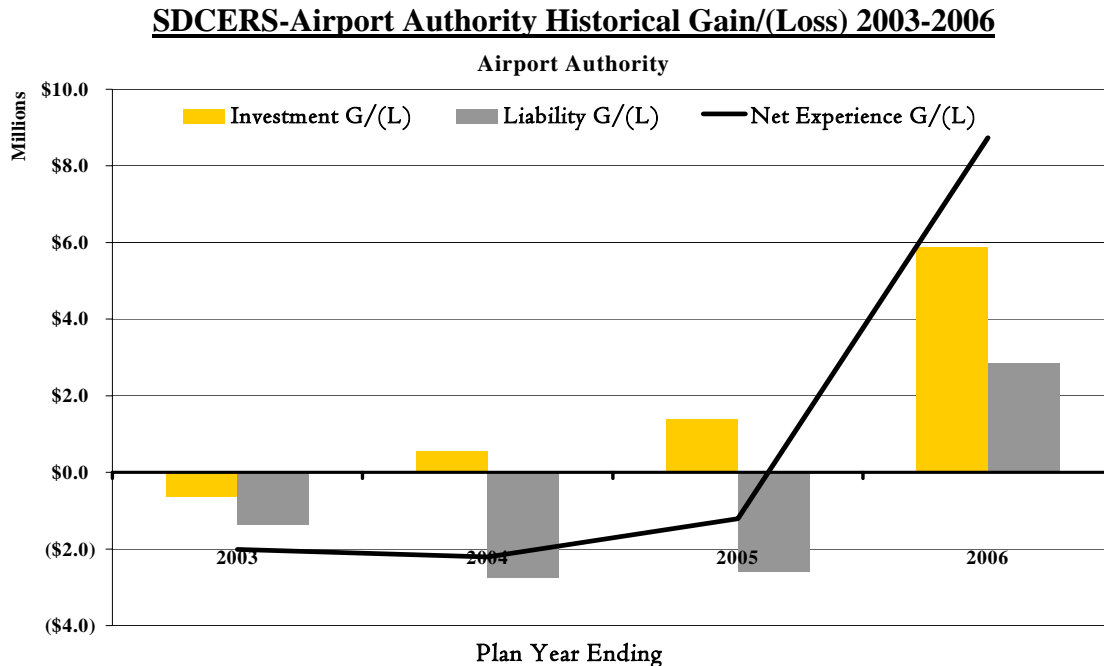
SDCERS-Airport Authority and Member Contribution Rates 2003-2005



The employer contribution rate has steadily declined from 2004. This chart also shows the escalation of the Airport Authority's total payroll from 2003 through 2006. Finally, the chart indicates that the members' rate has steadily declined from 2004.

**SECTION I
BOARD SUMMARY**

The last historical chart for SDCERS-Airport Authority presents the pattern of annual gains and losses, broken into the investment and liability components. The chart does not include any changes in the system's assets and liabilities attributable to changes to methods, procedures or assumptions.



The key insights from this chart are:

- From 2003 through 2005 there were net experience losses, primarily caused by liability losses.
- In 2006, the experience has turned to positive on both the investment and liability sides.

The pattern of steady liability losses is an important concern. In future valuations, we will continue to closely monitor these trends and make recommendations as necessary to ensure that our assumptions conform as closely as possible to the plan's experience. In that connection, following the June 30, 2007 actuarial valuation, Cheiron is scheduled to perform an experience study that is intended to determine what the sources of any experience gains or losses are.

**SECTION I
BOARD SUMMARY**

D. Projected Financial Trends SDCERS- Airport Authority

Our analysis of SDCERS-Airport Authority projected financial trends is perhaps the most important part of this valuation. In this Section we present our assessment of the implications of the June 30, 2005 valuation results on the future outlook of SDCERS-Airport Authority in terms of benefit security (assets over liabilities) and the Airport Authority’s expected cost progression. Given that SDCERS-Airport Authority is fully funded, there are no charts as shown last year on the expected future pay down of the UAL.

Our projections are shown on two different investment return bases, with level returns (as assumed) and volatile returns which average the assumed. We show volatile investment returns which average 8% over the projection period to demonstrate the impact investment risk has on SDCERS financial trends.

In the two sets of charts that follow, we project SDCERS-Airport Authority plan assets and liabilities, and the Airport Authority’s contributions as a percent of payroll. All charts are shown on two different bases:

- 1) Assuming 8% returns each and every year, and the continuation of the amortization payment of the UAL over 15 years as of June 30, 2006, and
- 2) Assuming returns that vary each year but over the projection period equals on average the assumed 8% return, and the continuation of the 15-year UAL amortization payment.

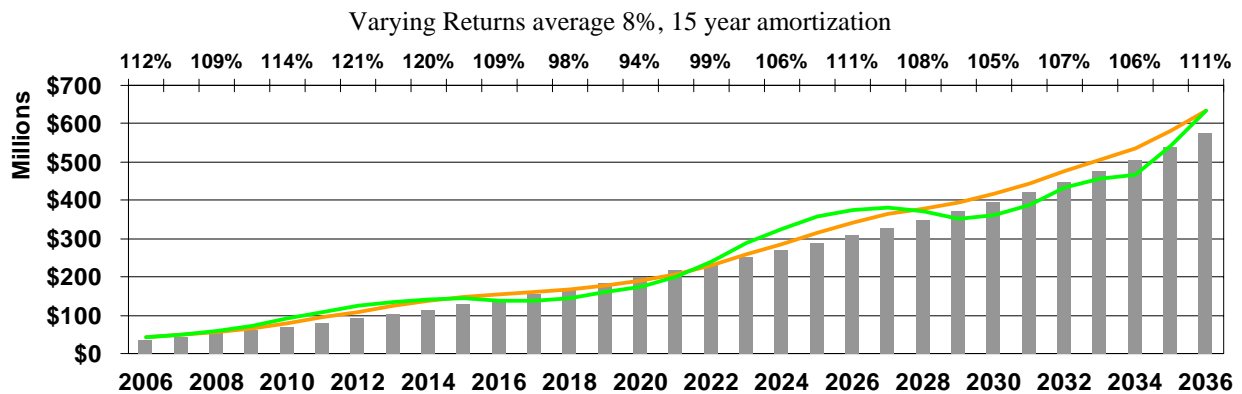
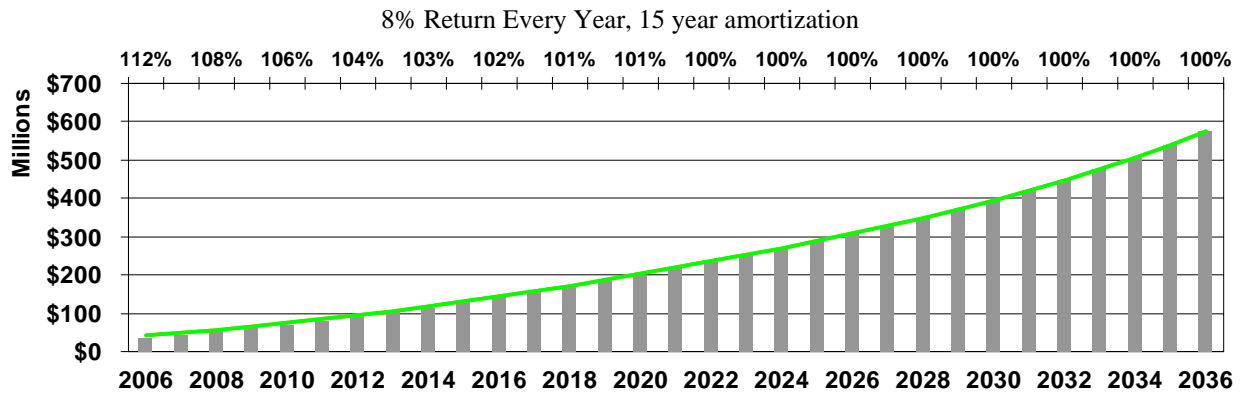
The following table shows the assumed rate of return for each projected valuation year under the varying return exhibits. These rates average 8% over the 30-year period.

Fiscal Year	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Return	8%	12%	16%	20%	16%	12%	8%	4%	0%	-4%
Fiscal Year	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Return	0%	4%	8%	8%	12%	16%	20%	16%	12%	8%
Fiscal Year	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Return	4%	0%	-4%	0%	4%	8%	4%	0%	12%	16%

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Projection Set 1
 Assets and Liabilities – Airport Authority

The charts below show asset measures (green and gold lines) compared to liabilities (grey bars). At the top of each chart is the progression of SDCERS-Airport Authority funding ratios. The most revealing insight from these two charts is how varying investment returns can dramatically impact SDCERS funding ratios.



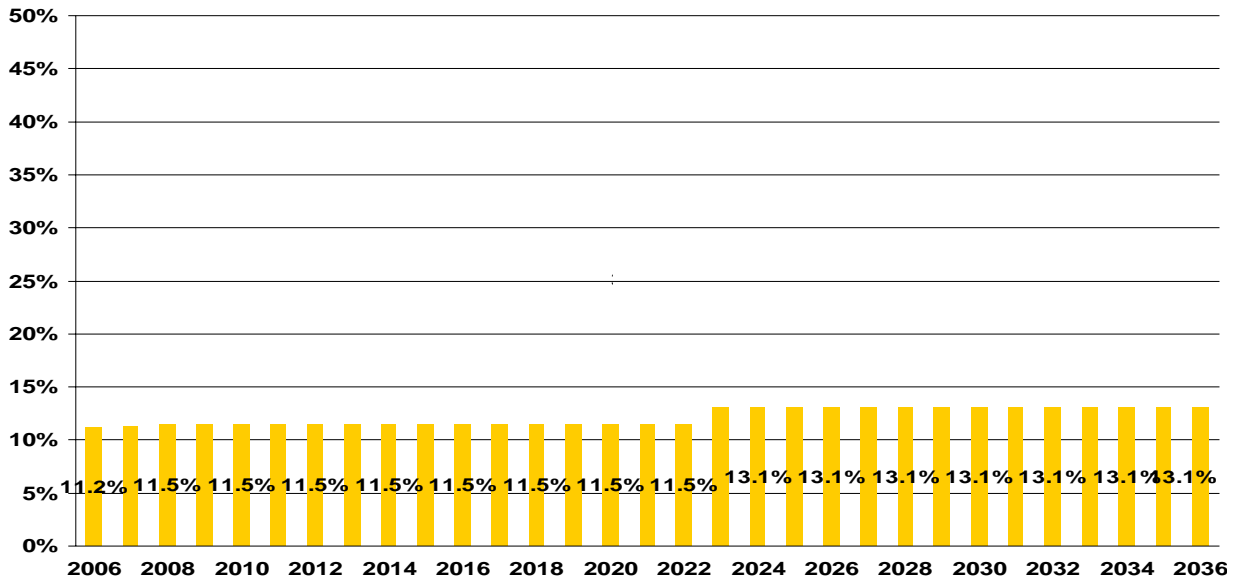
Actuarial Liability Actuarial Value of Assets Market Value of Assets

SECTION I
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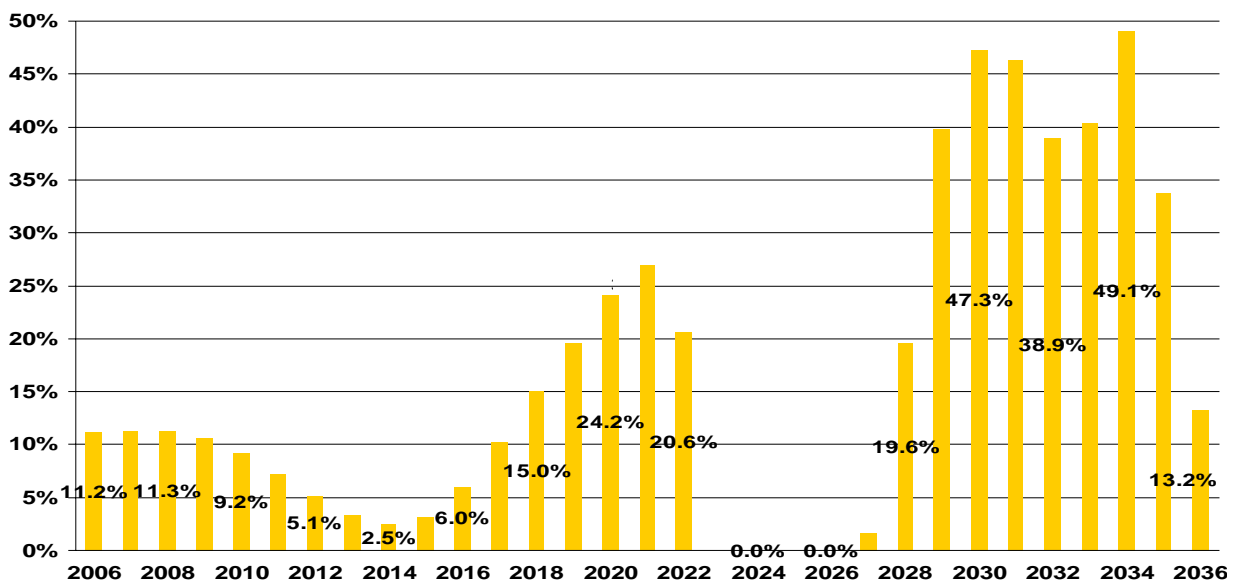
Projection Set 2
 Contribution Rate – Airport Authority

As can be seen in the bottom chart below, varying returns also has a significant impact on the actuarially computed Airport Authority contribution rate.

8% Return Every Year, 15 year amortization



Varying Returns average 8%, 15 year amortization



SECTION II ASSETS

SDCERS has historically used and disclosed three different asset measurements which are presented in this Section of the report: market value, book value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The book value of assets measures assets based on their value when they were first purchased (cost value), plus earnings that have been realized such as interest and dividends and less depreciation for certain fixed assets. The actuarial value of assets is a value that attempts to smooth annual investment return performance and is used in determining SDCERS' contribution rates for the three participating employer plans.

Each employer receives a separate actuarial valuation report and cost determination. However, the assets of all employer plans are pooled for investment purposes. The apportionment of the assets between the employer plans directly impacts each employer's costs. Therefore, in the interest of ensuring transparency, we disclose in this section information on the total assets of SDCERS-All Employers. How those assets are apportioned to the City of San Diego, the Unified Port District, and the San Diego County Regional Airport Authority is explained here.

On the following pages we present detailed information on SDCERS-All Employers assets:

- Disclosure of assets at June 30, 2005 and June 30, 2006,
- Statement of cash flows during the year,
- Development of the actuarial value of assets,
- Apportionment of assets to contributing employers, and member groups within each, and
- Disclosure of investment performance for the year.

**SECTION II
ASSETS**

A. Disclosure

The market value of assets represents a “snap-shot” value as of the last day of the fiscal year that provides the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace. Because these fluctuations would result in volatility in employer contributions an actuarial value of assets is developed. Table II-1 below discloses the market value by asset class of SDCERS– All Employers’ gross assets on June 30, 2006. Table II-2 which follows, discloses the book value of gross assets, by type of book reserve.

Table II-1 SDCERS – All Employers Summary of Reported Market Value of Total Defined Benefit Plan Assets	
Cash	\$ 493,016,555
US Stocks	1,605,508,248
International Stocks	703,112,207
Bonds	940,867,782
Mortgages	5,915
Real Estate	373,123,539
Receivables	91,987,716
Short Term Investments	192,171,460
Fixed Assets	116,125
Miscellaneous	8,955
Accounts Payable	<u>(173,478,701)</u>
Market Value of Assets – June 30, 2006	\$ 4,226,439,801

Table II-2 SDCERS – All Employers Summary of Book Value of Reserves of Total Defined Benefit Plan Assets	
Member Deposit Reserve	\$ 567,766,248
DROP Reserve	225,570,127
Employer Reserve	116,846,660
Retired Members Reserve	2,126,403,964
Undistributed Reserve	619,925,093
Encumbrance Reserve	721,973
Receivables Reserve	20,300,054
Fixed Assets Reserve	116,125
Retiree Health 401(h) Reserve	0
Supplemental COLA Reserve	17,273,016
Employee Contribution Rate Inc. Reserve	0
Other	0
Book Value of Reserves – June 30, 2006	\$ 3,694,923,260
Unrealized Appreciation	531,516,541
Market Value of Assets – June 30, 2006	\$ 4,226,439,801

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**SECTION II
ASSETS**

B. System Cash Flows Year June 30, 2005 through June 30, 2006

Table II-3 SDCERS – All Employers SDCERS Net Monthly Cash Flows				
	City	Unified Port District	Airport Authority	Total SDCERS
Reported Market Value as of June 30, 2005	\$ 3,205,721,975	\$ 175,908,319	\$ 30,682,414	\$ 3,412,312,708
Adjustments due to Methodology Changes ¹	265,881,858	1,133,194	157,277	267,172,329
Adjusted Market Value as of June 30, 2005	\$ 3,471,603,833	\$ 177,041,513	\$ 30,839,691	\$ 3,679,485,037
<u>Monthly Cash Flows</u>				
July 2005	\$ 149,098,642	\$ 7,762,293	\$ 3,282,675	\$ 160,143,610
August 2005	(15,899,980)	(337,811)	75,197	(16,162,595)
September 2005	(322,468)	(31,452)	324,787	(29,133)
October 2005	(9,374,515)	(86,194)	153,786	(9,306,923)
November 2005	(21,151,516)	(363,954)	1,074,703	(20,440,767)
December 2005	(12,190,972)	(232,101)	349,844	(12,073,229)
January 2006	(36,824,678)	(241,603)	165,156	(36,901,125)
February 2006	(11,712,901)	(207,607)	79,663	(11,840,845)
March 2006	(12,096,786)	(243,285)	249,604	(12,090,467)
April 2006	(10,158,304)	(268,228)	43,611	(10,382,921)
May 2006	(9,118,186)	(201,453)	256,214	(9,063,426)
June 2006	100,220,328	43,107	358,277	100,621,712
Total Net Cash Flows²	\$ 110,468,662	\$ 5,591,710	\$ 6,413,517	\$ 122,473,889
Internal Rate of Return	11.28%	11.28%	11.28%	11.28%
Investment Income: (net of expenses)	\$ 399,859,199	\$ 20,652,605	\$ 3,969,071	\$ 424,480,875
Market Value as of June 30, 2006	\$ 3,981,931,694	\$ 203,285,828	\$ 41,222,279	\$ 4,226,439,801

¹ Adjustments due to methodology changes are the reflection of reserves held for DROP contributions, undistributed earnings, employee contribution rate increase and supplemental COLA as of June 30, 2005. Please see page 16 of the June 30, 2005 actuarial report.

² Totals may not sum correctly due to rounding.

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**SECTION II
ASSETS**

B. System Cash Flows Year June 30, 2005 through June 30, 2006 - continued

Table II-4 SDCERS – All Employers SDCERS Cash Flows				
	City	Unified Port District	Airport Authority	Total SDCERS
Adjusted Market Value as of June 30, 2005	\$ 3,471,603,833	\$ 177,041,513	\$ 30,839,691	\$ 3,679,485,037
<u>Additions</u>				
Contributions: Employers'				
Contributions	\$ 271,349,109	\$ 8,121,319	\$ 4,300,000	\$ 283,770,428
DROP Contributions	1,953,165	45,719	6,104	2,004,988
Offset Contributions	<u>19,261,595</u>	<u>2,853,120</u>	<u>1,333,732</u>	<u>23,448,447</u>
Total Employers' Contributions	\$ 292,563,869	\$ 11,020,158	\$ 5,639,836	\$ 309,223,863
Contributions: Employees'				
Members Contributions	\$ 31,426,532	\$ 1,209,380	\$ 575,920	\$ 33,211,832
Members PSC Contributions	8,220,378	769,278	280,570	9,270,226
Members DROP Contributions	2,015,431	45,719	6,104	2,067,254
Members PSC Interest Earned	<u>1,495,502</u>	<u>230,355</u>	<u>100,064</u>	<u>1,825,921</u>
Total Employees' Contributions	\$ 43,157,843	\$ 2,254,732	\$ 962,658	\$ 46,375,233
Contributions: DROP				
Pension Allowances	\$ 48,793,017	\$ 847,117	\$ 98,650	\$ 49,738,784
Supplemental Benefit	<u>715,645</u>	<u>10,307</u>	<u>1,178</u>	<u>727,130</u>
Total DROP Contributions	\$ 49,508,662	\$ 857,424	\$ 99,828	\$ 50,465,914
Total Contributions	\$ 385,230,374	\$ 14,132,315	\$ 6,702,322	\$ 406,065,011
Other Additions – Litigation Settlement	\$ 15,500,000	\$ 0	\$ 0	\$ 15,500,000
Investment Income: (net of expenses)	<u>\$ 399,859,199</u>	<u>\$ 20,652,605</u>	<u>\$ 3,969,071</u>	<u>\$ 424,480,875</u>
Total Additions	\$ 800,589,573	\$ 34,784,921	\$ 10,671,393	\$ 846,045,886

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**SECTION II
ASSETS**

B. System Cash Flows Year June 30, 2005 through June 30, 2006 - continued

Table II-4 (continued)				
SDCERS – All Employers				
SDCERS Cash Flows				
	City	Unified Port District	Airport Authority	Total SDCERS
<u>Deductions</u>				
Monthly Retirement Allowances	\$ (143,515,914)	\$ (7,070,316)	\$ (112,049)	\$ (150,698,278)
Monthly Retirement Allowances – DROP	(48,793,017)	(847,117)	(98,650)	(49,738,784)
Monthly Retirement Allowances – Supp COLA	(3,685,076)	(48,225)	(0)	(3,733,301)
Supplemental Benefit Payments	(4,206,260)	(150,183)	(2,380)	(4,358,823)
Corbett Retro Payment	(5,498,098)	(0)	(0)	(5,498,098)
DROP Payments to Members	(74,911,006)	(287,387)	(32,507)	(75,230,900)
Death Benefit Payments	(387,155)	(0)	(0)	(387,155)
Retiree Death Benefit Payments	(280,255)	(8,000)	(2,000)	(290,255)
Refunds of Member Contributions	(4,449,250)	(129,377)	(41,220)	(4,619,847)
Litigation Settlement Expense	(4,535,682)	(0)	(0)	(4,535,682)
Total Deductions	\$ (290,261,712)	\$ (8,540,605)	\$ (288,805)	\$ (299,091,122)
Total Net Increase (Decrease)	\$ 510,327,861	\$ 26,244,315	\$ 10,382,588	\$ 546,954,764
Market Value as of June 30, 2006	\$ 3,981,931,694	\$ 203,285,828	\$ 41,222,279	\$ 4,226,439,801

SECTION II ASSETS

C. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets which will differ from the market value of assets. The actuarial value of assets typically represents an asset value based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions. Prior to this June 30, 2006 actuarial valuation, the actuarial value of assets used by SDCERS was one which did not effectively achieve the goal of reducing contribution volatility. In addition, the method that had been in place was based on smoothing the “book value” of assets. Using book value in asset smoothing is no longer a commonly accepted method for pension funds, and for good reasons, had been on the decline for many years. Soon after the completion of Cheiron’s June 30, 2005 valuation of SDCERS, Cheiron commenced a study of this smoothing method, and reached the same conclusion that the prior actuary, and actuaries in prior audits of SDCERS reached; a recommendation to discontinue the use of the book value smoothing method.

Cheiron’s specific recommendation, which was adopted by the Board at its September 2006 meeting, was to set the actuarial value of assets equal to the market value of assets as of June 30, 2006. Then, for the 2007 valuation year, the actuarial value will be calculated by accepting 100% of the expected asset value as of June 30, 2007 (assuming 8% earnings for the year) plus 25% of the difference between the actual market value next year and expected asset value.

D. Apportionment of Actuarial Value of Assets

In addition to the change in the asset smoothing method, there has been a change in the method to apportion assets amongst contributing employers. Prior to June 30, 2006, the allocation method had been based on utilizing estimating techniques for allocating undistributed earnings. Cheiron advised the Board at its September 2006 meeting that such estimation techniques were not necessary, as all specific plan sponsor cash flows were identifiable, so that an accurate asset apportionment could be made each year. The Board adopted Cheiron’s recommendation to change the asset apportionment method to reflect the actual cash flows by each plan sponsor, and proportional allocation of investment earnings. On the next page we show the assets now apportioned under this method amongst the three contributing employers, and then amongst the different member groups for SDCERS. For the June 30, 2006 valuation, the market value includes all reserves for contingencies, supplemental COLA and DROP. As explained above, as of June 30, 2006 the actuarial value was set equal to the market value for all employer groups.

SDCERS- AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION II
ASSETS**

**Table II-5
Summary of Actuarial Assets Available for Each Member Group
As of June 30, 2006**

<u>Employer Groups</u>	<u>Reported</u> <u>Market Value</u> <u>Total Net Assets</u> <u>June 30, 2005</u> ¹	<u>Adjusted</u> <u>Market Value</u> <u>Total Assets</u> <u>June 30, 2005</u> ²	<u>Market Value</u> <u>Total Assets</u> <u>June 30, 2006</u>	<u>Actuarial Value</u> <u>Total Assets</u> <u>June 30, 2006</u>
General	\$ 1,655,133,812	\$ 1,730,347,325	\$ 1,977,823,235	\$ 1,977,823,235
Elected Officers	4,419,233	4,462,487	6,846,931	6,846,931
Safety	<u>1,546,168,929</u>	<u>1,715,975,921</u>	<u>1,997,261,528</u>	<u>1,997,261,528</u>
Total City	\$ 3,205,721,975	\$ 3,471,603,833	\$ 3,981,931,694	\$ 3,981,931,694
Unified Port District	175,908,318	177,041,512	203,285,828	203,285,828
Airport Authority	30,682,414	30,839,691	41,222,279	41,222,279
Total-SDCERS	\$ 3,412,312,708	\$ 3,679,485,037	\$ 4,226,439,801	\$ 4,226,439,801

¹ As reflected in the June 30, 2005 report. These numbers do not include reserves for DROP, undistributed earnings, employee contribution rate increase and supplemental COLA.

² Reflects total net assets plus reserves held for DROP contributions, undistributed earnings, employee contribution rate increase and supplemental COLA as of June 30, 2005.

E. Investment Performance

The market value of assets returned 11.28% for the year ending June 30, 2006. This is compared to an assumed return of 8%. The return in FY 2005 was 10.21%.

On an actuarial value of assets basis, the return for FY 2006 was 13.65%. This return produced for SDCERS-All Employers, an overall investment gain of \$185.7 million for the year ending June 30, 2006. (Note this reported gain is different than the investment gain of \$5.9 million reported on page 4 in this report. (The latter is the gain only for the SDCERS – Airport Authority.)

SECTION III LIABILITIES

In this section, we present detailed information on System liabilities for SDCERS-Airport Authority including:

- Disclosure of liabilities at June 30, 2005 and June 30, 2006;
- Statement of changes in the unfunded actuarial liabilities during the year; and
- Disclosure of certain contingent liabilities not reflected in determining costs and liabilities, and how they have been funded.

A. Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of all Future Benefits:** Used for measuring all future SDCERS obligations, represents the amount of money needed today to fully pay off all benefits of SDCERS both earned as of the valuation date and those to be earned in the future by current plan participants, under the current Plan provisions.
- **Actuarial Liability-Projected Unit Credit (PUC):** Used for determining employer contributions and GASB accounting disclosures, this liability is calculated taking the present value of future benefits based on service as of the valuation date, but including future salaries growth.
- **Actuarial Liability-Entry Age Normal (EAN):** Used in this report purely for informational purposes here. This liability is calculated taking the present value of all future benefits and subtracting the present value of future member contributions and future employer normal costs as determined under the EAN actuarial funding method.
- **Present Value of Accrued Benefits:** Disclosed in Section V of this report for accounting statement purposes (FASB 35). This liability represents the present value of future benefits payable to all plan participants if the plan were terminated as of the valuation date, and future accruals and contributions stopped.

Table III-1 on the following page discloses the first three of these liabilities for the current and prior year valuations. With respect to the actuarial liability a subtraction of the actuarial value of assets yields a net surplus or an unfunded actuarial liability (UAL).

SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

Table III-1a		
SDCERS - Airport Authority - Total		
Item	June 30, 2006	June 30, 2005*
Present Value of Future Benefits		
Actives	\$ 82,625,969	\$ 75,706,592
Terminated Vesteds	2,032,231	1,158,282
Disabled	-	-
Retirees	2,479,827	2,713,220
Beneficiaries	303,635	-
Total Airport Authority	\$ 87,441,662	\$ 79,578,094
Actuarial Liability - PUC		
Actives	\$ 32,089,522	\$ 28,731,396
Terminated Vesteds	2,032,231	1,158,282
Disabled	-	-
Retirees	2,479,827	2,713,220
Beneficiaries	303,635	-
Total Airport Authority	\$ 36,905,216	\$ 32,602,898
Market Value of Assets	\$ 41,222,279	\$ 30,682,414
Actuarial Value of Assets	\$ 41,222,279	\$ 28,551,475
Unfunded Actuarial Liability	\$ (4,317,063)	\$ 4,051,423
Actuarial Liability - EAN		
Total Present Value of Benefits	\$ 87,441,662	\$ 79,578,094
Present Value of Future Normal Costs		
Employer Portion	29,610,415	26,922,915
Employee Portion	18,615,747	17,804,606
Actuarial Liability - EAN	\$ 39,215,501	\$ 34,850,573
Actuarial Value of Assets	\$ 41,222,279	\$ 28,551,475
Unfunded EAN Actuarial Liability	\$ (2,006,778)	\$ 6,299,098

* June 30, 2005 results do not reflect the contingent liabilities, DROP reserves, supplemental COLA, nor IRC Section 415 limits.

**SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

During the 2006 valuation review process, the Board adopted the recommendation of the Actuary to reflect the cost associated with the contingent liabilities, DROP reserves, supplemental COLA reserves and reflection of IRC Section 415 limits. In the above Table III-1a, we have reflected these changes in the June 30, 2006 results. In our June 30, 2005 report, the values in Table III-1a did not reflect the additional liabilities associated with the contingent liabilities (13th check), DROP reserves, supplemental COLA reserves, nor did it apply IRC Section 415 limits to expected benefits at retirement. Table III-1b below reflects these additional liabilities for June 30, 2005 on both the present value of future benefits (PVFB) and the actuarial liability on a Projected Unit Credit basis. This table is shown for comparison purposes only and should not be used to determine the solvency of SDCERS.

Table III-1b SDCERS - Airport Authority		
Item	June 30, 2005	June 30, 2005
Additional Liabilities	PVFB	Actuarial Liability - PUC
Reported June 30, 2005	\$ 79,578,094	\$ 32,602,898
13th Check	\$ 563,099	\$ 265,659
Apply IRC Section 415 limits	(185,535)	(103,662)
DROP	157,277	157,277
Supplemental COLA	-	-
Total Additional Liabilities	\$ 534,841	\$ 319,275
Total of Reported and Additional	\$ 80,112,935	\$ 32,922,172

**SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

Table III-2 shows actuarial liability as of June 30, 2006 for general and executive members of SDCERS-Airport Authority.

Table III-2			
SDCERS - Airport Authority - General & Executives			
Item	June 30, 2006		June 30, 2006
Present Value of Future Benefits	Total		General
		General	Executives
Actives	\$ 82,625,969	\$ 77,011,600	\$ 5,614,369
Terminated Vesteds	2,032,231	1,461,874	570,357
Disabled	-	-	-
Retirees	2,479,827	2,088,397	391,430
Beneficiaries	303,635	303,635	-
Total Airport Authority	\$ 87,441,662	\$ 80,865,506	\$ 6,576,156
Actuarial Liability - PUC			
Actives	\$ 32,089,522	\$ 29,259,398	\$ 2,830,124
Terminated Vesteds	2,032,231	1,461,874	570,357
Disabled	-	-	-
Retirees	2,479,827	2,088,397	391,430
Beneficiaries	303,635	303,635	-
Total Airport Authority	\$ 36,905,216	\$ 33,113,305	\$ 3,791,911

SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

B. Changes in Unfunded Actuarial Liabilities

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we will report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Below we present key changes in liabilities since the last valuation.

Table III-3	
Development of 2006 Experience Gain/(Loss) SDCERS - Airport Authority	
1. Unfunded Actuarial Liability at June 30, 2005	\$ 4,051,422
2. Beginning of year accrued liability payment	(352,129)
3. Interest accrued ((1+2) x .08)	<u>295,943</u>
4. Expected Unfunded Actuarial Liability at June 30, 2006 (1+2+3)	3,995,237
5. Actual Unfunded Liability at June 30, 2006	(4,317,063)
6. Difference: (4 - 5)	8,312,300
7. Portion of difference (6) due to experience Gain/(Loss)	8,732,864
8. Portion of difference (6) due to contributions more than expected	2,396,714
9. Portion of difference (6) due to actuarial changes	(2,817,278)
Elements of Experience Gain/(Loss)	
1. G(L) due to investment experience	\$ 5,886,918
2. G(L) due to purchased service credit	(17,608)
3. G/(L) due to demographic and payroll experience	2,863,554
4. Other Gain/(Loss)	<u>\$ -</u>
5. Total Estimated Experience Gain/(Loss): sum 1 through 4	\$ 8,732,864
Elements of Contributions Gain/(Loss)	
1. Total Estimated Contribution Gain/(Loss)	\$ 2,396,714
Elements of Actuarial Changes Gain/(Loss)	
1. G(L) due to smoothing method to market value	\$ (2,537,725)
2. G(L) due to reflection of "contingent" liabilities	(282,665)
3. G/(L) due to IRS Section 415 limits	3,112
4. G/(L) due to removal of future disability benefits	<u>\$ -</u>
5. Total Estimated Actuarial Changes Gain/(Loss): sum 1 through 4	\$ (2,817,278)

Table III-4 shows the history of past experience gains and losses.

Table III-4				
Experience Gain/(Loss) - Historical SDCERS - Airport Authority				
Valuation		Beginning-of-Year		Gain/(Loss)
<u>Date</u>	<u>Gain/(Loss)</u>	<u>Actuarial Liabilities</u>		<u>Percentage</u>
6/30/2003	\$ (2,013,702)	\$ 11,526,293		(17.5%)
6/30/2004	(2,204,850)	16,278,613		(13.5)
6/30/2005	(1,207,448)	23,578,460		(5.1)
6/30/2006	8,732,864	32,602,898		26.8

**This valuation page being sent on June 26, 2007 is a revision to the report issued on January 12, 2007.*

**SECTION IV
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use a funding method that will result in a pattern of contributions that are both stable and predictable.

The funding methodology employed is the Projected Unit Credit Cost Method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost represents for each active participant, the present value as of the valuation date of that portion of the projected benefit assigned to the current year. Subtracting from the normal cost the expected employee contribution for the year yields the employer's normal cost contribution. The difference between the PUC actuarial liability and the actuarial value of assets is the unfunded actuarial liability. The UAL for FY 2008 is to be amortized over 15 years.

Table IV-1 shows the Airport Authority's normal cost rate by decrement for FY 2008. Table IV-1 on the following page shows how the Airport Authority's contribution rate for SDCERS for FY 2008 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

**Table IV-1
SDCERS - Airport Authority
Development of the Airport Authority's Normal Cost
Rate as of June 30, 2006, For (FY 2008)**

	WEIGHTED TOTAL AIRPORT	General	Executives
1. Retirement Normal Cost Rate	18.16%	17.72%	23.38%
2. Termination Normal Cost Rate	1.76%	1.84%	0.81%
3. Death Normal Cost Rate	0.35%	0.34%	0.39%
4. Disability Normal Cost Rate	<u>2.28%</u>	<u>2.32%</u>	<u>1.76%</u>
5. Total Normal Cost Rate (sum 1-4)	22.55%	22.23%	26.33%

SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION IV
CONTRIBUTIONS**

Table IV-2
SDCERS - Airport Authority
Development of the Airport Authority's Contribution
as of June 30, 2006, For (FY 2008)
(dollars in millions)

	WEIGHTED TOTAL AIRPORT	General	Executives
	1. Total Normal Cost Rate	22.55%	22.23%
2. Member Contribution Rate	<u>9.44%</u>	<u>9.39%</u>	<u>10.25%</u>
3. Employer Normal Cost Rate (1-2)	13.11%	12.83%	16.09%
4. June 30, 2006 Payroll	\$ 19.1	\$ 17.6	\$ 1.5
5. Present Value Future Payroll	197.9	187.8	10.1
6. Present Value Future Normal Costs (1 x 5)	44.4	41.7	2.7
7. Actuarial Liability	\$ 36.9	\$ 33.1	\$ 3.8
8. Actuarial Assets ¹	41.1	37.0	4.1
9. Unfunded Actuarial Liability (7-8)	\$ (4.2)	\$ (3.9)	\$ (0.3)
10. Unfunded Actuarial Liability Rate	-1.90%	-1.85%	-2.49%
11. Total Contribution Rate (3+10)	11.21%	10.98%	13.61%
12. Total Contribution Rate Beginning of Year	10.79%	10.56%	13.09%
13. Projected Payroll	\$ 20.3	\$ 18.7	\$ 1.6
14. Beginning of Year FY 2008 Contribution	\$ 2.2	\$ 2.0	\$ 0.2
15. FY 2008 Contribution if Paid During Year	\$ 2.3	\$ 2.1	\$ 0.2

¹ Assets are allocated to subset member groups within Non-Safety and Safety proportionately to each group's liabilities in row 7.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 35 of the Financial Accounting Standards Board (FASB) requires the Plan to disclose certain information regarding its funding status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The FASB-35 disclosures provide a “snap shot” view of how assets compare to liabilities if contributions stopped and accrued benefit claims had to be satisfied.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes, that is, the PUC Actuarial Liability.

Both the present value of accrued benefits (FASB-35) and the actuarial liability (GASB-25) are determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 8% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2005 and June 30, 2006 are exhibited in Table V-1 and Table V-2.

**SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Table V-1 SDCERS - Airport Authority - Total			
Item	June 30, 2006	June 30, 2005	% Change
FASB No. 35 Basis			
1. Present Value of Benefits Accrued and Vested to Date			
a. Members Currently Receiving Payments	\$ 2,783,462	\$ 2,713,220	2.6%
b. Vested Terminated and Inactive Members	2,032,231	1,158,282	75.5%
c. Active Members	19,091,408	17,582,993	8.6%
d. Total PVAB	\$ 23,907,101	\$ 21,454,495	11.4%
2. Assets at Market Value	41,222,279	30,682,414	34.4%
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	\$ -	\$ -	0.0%
4. Ratio of Assets to Value of Benefits (2)/(1)(d)	172.43%	143.01%	29.4%
GASB No. 25 Basis			
1. Actuarial Liabilities			
a. Members Currently Receiving Payments	\$ 2,783,462	\$ 2,713,220	2.6%
b. Vested Terminated and Inactive Members	2,032,231	1,158,282	75.5%
c. Active Members	32,089,522	28,731,396	11.7%
d. Total PVAB	\$ 36,905,216	\$ 32,602,898	13.2%
2. Actuarial Value of Assets	\$ 41,222,279	\$ 28,551,475	44.4%
3. Unfunded Actuarial Liability	\$ (4,317,063)	\$ 4,051,423	-206.6%
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d)	111.70%	87.57%	24.1%

Table V-2 SDCERS - Airport Authority - Total	
Item	Accumulated Benefit Obligation (FASB 35)
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2005	\$ 21,454,495
Increase (Decrease) During Year Attributable to:	
Passage of Time	1,704,807
Benefits Paid	(288,805)
Assumption Change	-
Plan Amendment	-
Additional Net Liabilities not reflected in prior valuation *	524,744
Benefits Accrued, Other Gains/Losses	511,860
Net Increase (Decrease)	\$ 2,452,606

* Apply IRC Section 415 limits, 13th check and DROP reserves.

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Tables V-3 through V-5 are exhibits required for the Airport Authority's Comprehensive Annual Financial Report (CAFR). The GFOA recommends showing at least 6 years of experience in each of these exhibits. Table V-3 shows the Notes to Required Supplementary Information. Table V-4 is a history of gains and losses in actuarial liability, and Table V-5 is the Solvency Test which shows the portion of actuarial liability covered by assets.

**Table V-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2006
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent closed
Remaining amortization period	15 years
Asset valuation method ¹	Expected Value Method
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases due to inflation ²	4.25%
Cost-of-living adjustments	2.0%

The actuarial assumptions used have been recommended by the actuary and adopted by SDCERS Board of Administration based on the review of SDCERS' experience, completed in 2000.

The rate of employer contributions to SDCERS is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

* The asset valuation method was changed to reflect actual cash flows by employer group. This year the actuarial value of assets will be equal to the market value of assets.

** Additional merit salary increases of 0.50% to 4.50% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization of SDCERS' UAL.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-4	
ANALYSIS OF FINANCIAL EXPERIENCE	
Gain and Loss in Actuarial Liability During Years Ended June 30	
Resulting from Differences Between Assumed Experience	
and Actual Experience	
	<i>Gain (or Loss) for Year ending June 30, 2006</i>
Type of Activity	
Investment Income	\$ 5,886,918
Combined Liability Experience	<u>\$ 2,845,946</u>
Gain (or Loss) During Year from Financial Experience	\$ 8,732,864
Non-Recurring Gain (or Loss) Items	<u>NA</u>
Composite Gain (or Loss) During Year	\$ 8,732,864

SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5
GASB SOLVENCY TEST
Actuarial Liabilities For
(\$ in thousands)

Valuation Date June 30,	(A)	(B)	(C)	Reported Assets ¹	Portion of Actuarial Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities		(A)	(B)	(C)
2006 ³	\$ 5,402	\$ 2,783	\$ 28,720	\$ 41,222	100%	100%	115.03%
2005	4,255	2,713	25,635	28,551	100	100	84.19
2004	2,935 ⁴	795	19,848	16,225	100	100	62.95
2003	2,200 ⁴	300	13,779	11,142	100	100	62.72
12/31/2002 ²	1,509	0	10,018	11,028	100	100	95.02

¹ Actuarial Value of Assets

² Interim (mid-year) actuarial valuations performed due to split of San Diego County Regional Airport Authority from Unified Port District

³ Reflects contingent liabilities (13th check), DROP reserves, and IRC Section 415 limits

⁴ Estimated

**SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

	June 30, 2006	June 30, 2005	% Change
Count	295	284	3.9%
Average Current Age	44.9	44.0	2.0%
Average Service	7.2	6.5	10.8%
Average Valuation Pay	\$ 64,799	\$ 62,003	4.5%
Annual Compensation	\$ 19,115,804	\$ 17,608,879	8.6%
Service Without Permissive Service Purchased	6.3	6.1	3.3%
Members with Purchased Service	59	39	51.3%
Amount of Service Purchased	272	101	169.7%

	Count			Average Age		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	% Change
Retired	6	7	-14.3%	65.8	64.9	1.4%
Disabled	-	-		-	-	
Beneficiaries	<u>1</u>	<u>-</u>		<u>54.0</u>	<u>-</u>	
Payee Total	7	7	0.0%	64.1	64.9	-1.2%
DROP Participants	2	3	-33.3%	65.5	64.2	2.0%
Deferred Vested ¹	45	26	73.1%	46.6	47.5	-1.9%
Vested < 5 yrs svc	29	16	81.3%			

¹ Includes all members having a contribution balance still on account with SDCERS.

	Total Annual Benefit			Average Annual Benefit		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	% Change
Retired	\$ 186,077	\$ 220,945	-15.8%	\$ 31,013	\$ 31,564	-1.7%
Disabled	-	-		-	-	
Beneficiaries	<u>21,612</u>	<u>-</u>		<u>21,612</u>	<u>-</u>	
Payee Total	207,688	220,945	-6.0%	29,670	31,564	-6.0%
DROP Participants	82,563	107,304	-23.1%	41,281	35,768	15.4%
Deferred Vested ¹	597,226	243,263	145.5%	13,272	9,356	41.8%

¹ Includes all members having a contribution balance still on account with SDCERS. Annual benefit for deferred vested members is the total contribution balance on account as of valuation date

SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-4
SDCERS - Airport Authority
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
Total Airport Authority**

Age	Years of Service										Total Count	Average Salary
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up		
Under 25	-	2	-	-	-	-	-	-	-	-	2	\$ 36,587
25 to 29	4	14	1	-	-	-	-	-	-	-	19	43,533
30 to 34	3	20	4	-	-	-	-	-	-	-	27	59,517
35 to 39	5	22	15	3	-	1	-	-	-	-	46	61,686
40 to 44	4	17	11	9	6	3	-	-	-	-	50	58,210
45 to 49	2	20	14	8	12	2	1	-	-	-	59	63,101
50 to 54	6	16	9	11	3	3	1	-	-	-	49	71,586
55 to 59	1	12	5	4	4	2	1	-	-	-	29	81,614
60 to 64	2	1	2	1	2	-	-	-	-	-	8	96,327
65 to 69	1	1	1	-	2	-	-	-	-	-	5	68,473
70 and up	-	1	-	-	-	-	-	-	-	-	1	150,028
Tot Count	28	126	62	36	29	11	3	-	-	-	295	
Avg. Salary	\$ 68,029	\$ 63,276	\$ 61,246	\$ 77,770	\$ 55,703	\$ 73,259	\$ 73,326	\$ -	\$ -	\$ -		\$ 64,799

**Table A-5
SDCERS - Airport Authority
Retirees (Includes DROP Participants), Disabled, and Beneficiaries Tabulate by Attained Age/Benefit Effective Date
Total Airport Authority**

Plan Year	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
2002	-	-	-	-	1	-	-	-	-	-	1
2003	-	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	1	1	-	-	-	-	2
2005	-	-	-	3	-	-	-	-	-	-	3
2006	-	1	-	-	-	-	-	-	-	-	1
Total	-	1	-	3	2	1	-	-	-	-	7

Surviving spouses benefit effective date no longer based on member's original date of retirement.

Average Age at Retirement/Disability 62.4
Average Current Age 64.1
Average Annual Pension \$ 29,670

APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Practices

In preparing our data, we relied without audit, on information (some oral and some written) supplied by the SDCERS staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Service used in the valuation is the “Benefit Service” field supplied by the retirement system plus any outstanding active permissible purchased service. We assumed that purchased service that has been paid for is included in the “Benefit Service” field. We assume that all additional purchased service—to be paid in the future—will eventually be added to the “Benefit Service” field in future valuations.
- Salary in the report is based on the “Current Annual Pensionable Salary”. However, when calculating future benefits, the maximum of “Current Annual Pensionable Salary” and annualized “Average Compensation” is used as salary.
- For accounts having duplicate records, we assume that any records with the same Social Security Number, Plan ID, and “Mandatory Employee Contributions” are duplicates and value only one copy.
- For accounts having duplicate records in the Actives and Inactives by Social Security Number, but having different “Mandatory Employee Contribution” amounts, the information from the latest payroll date is regarded as most up-to-date to determine active or inactive status. The other records are assumed to be frozen pieces from other Plan IDs. They are taken into account, but not as something that will change in the future.
- For members in payment having duplicate records, we valued only one copy. With the exception of any retiree who had two records with different benefit start dates, different plans and different benefit amounts, we combined these records to make one copy.
- Records on the provided “Member” file are considered to be Actives if they have no “Date of Death” and no “Date of Separation” and they received pay in the last pay period (Last Pay Period = 27) of the current fiscal year.
- Records on the “Member” file are considered to be Inactives if they do not have a “Date of Death” and do not fit the Active criteria list above.
- Pension Benefit for retirees for each plan was calculated by summing “Monthly Pension”, “Monthly Annuity”, “Cola Annuity”, “Surviving Spouse Annuity”, and “Cola Pension” and subtracting “Non-Cola Adjustments”. “Non-Cola Adjustments” field is mainly for QDRO purposes.
- Unlike the 2005 and preceding valuations, members who retire from multiple Plan IDs (e.g., a City police member who also worked for the airport) are counted towards each of their Plan IDs. The benefits and liabilities of a member correspond to their respective salary and service earned under each Plan ID.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

Actuarial Assumptions

1. Investment Return Rate

SDCERS assets are assumed to earn 8.0% net of expenses

2. Inflation Rate

An inflation assumption of 4.25% compounded annually is used for projecting the total annual payroll growth for amortization of the UAL. It also represents the difference between the investment return rate and the assumed real rate of return.

3. Interest Credited to Member Contributions

8.0%, compounded annually.

4. Salary Increase Rate

Inflation component 4.25%

The additional merit component:

Table B-1	
Years of Service at Valuation Date	General
0	4.50%
1	3.50%
2	2.50%
3	1.50%
4	0.50%

5. Cost-of-Living Increase in Benefits

Assumed to be 2.0% per annum, compounded.

6. COLA Annuity Benefit

For active members, there is a 2.0% load on valued benefits to anticipate the impact of the annuitized employee COLA contributions at retirement.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

7. Member Refunds

All or part of the employee contribution rate is subject to potential “pick up” by the employer. That “pick up” and the related accumulated interest are not to be refunded to employees at termination. The liability for potential refunds is reduced to reflect this.

Rates provided in the census included both the integrated rate and excess rate. The integrated rate was applied to the first \$400 per month of salary and the excess rate was applied to the salary amounts over \$400 per month.

8. Rates of Termination

Table B-2		
SDCERS - Airport Authority		
Rates of Termination at Selected Ages and Service		
Service	Age	General
0	All	5.63%
1	All	5.53
2	All	4.33
3	All	4.33
4	All	4.24
5 & Over	20	4.62
	25	4.62
	30	3.13
	35	2.32
	40	1.65
	45	1.34
	50	1.03
	55	0.77
	60	0.00

20% of terminating employees, with 5+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

**APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS**

9. Rates of Disability

Age	General
20	0.06%
25	0.08
30	0.10
35	0.16
40	0.22
45	0.33
50	0.50
55	0.75
60	0.97

70% of the disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

10. Rates of Mortality for Active Lives

All members follow the Uninsured Pensioner 1994 (UP1994) set back 5 years (male and female). Set back 5 years is when a member currently age 50 uses the age 45 mortality rate.

Age	Male	Female
20	0.04%	0.02%
25	0.05	0.03
30	0.07	0.03
35	0.09	0.04
40	0.09	0.05
45	0.12	0.08
50	0.17	0.10
55	0.28	0.15
60	0.48	0.25
65	0.86	0.48
70	1.56	0.93

All active member deaths are assumed to not be duty-related.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

11. Rates of Mortality for Retired Healthy Lives

All retired healthy members use the Uninsured Pensioner 1994 (UP1994) table set back 2 years (male and female).

Table B-5		
SDCERS - Airport Authority		
Rates of Mortality for Retired Healthy Lives at Selected Ages		
Age	Male	Female
40	0.10%	0.06%
45	0.15	0.09
50	0.23	0.13
55	0.39	0.21
60	0.68	0.36
65	1.23	0.72
70	2.14	1.26
75	3.35	1.97
80	5.40	3.41
85	8.87	5.90
90	13.65	10.09

12. Rates of Mortality for Retired Disabled Lives

Disabled members use Uninsured Pensioner 1994 (UP 1994) male only table set forward five years.

Table B-6		
SDCERS - Airport Authority		
Rates of Mortality for Disabled Lives at Selected Ages		
Age	Male	Female
20	0.07%	0.07%
25	0.09	0.09
30	0.09	0.09
35	0.12	0.12
40	0.17	0.17
45	0.28	0.28
50	0.48	0.48
55	0.86	0.86
60	1.56	1.56
65	2.55	2.55
70	4.00	4.00

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

13. The Rates of Retirement

Age	General
55	20%
56	10
57	10
58	15
59	15
60	20
61	25
62	50
63	40
64	25
65	50
66	40
67	40
68	40
69	40
70	100

For vested deferred members, we assume that retirement will occur provided they have at least 5 years of service (excluding the permissible 5 year purchased service) on the later of attained age or the earlier of age 62 or age 55 and 20+ years of service.

If the inactive member is not vested, the liability is the member's contributions with interest.

14. Family Composite Assumptions

80% of men and 50% of women were assumed married at retirement. Female spouse is assumed to be 4 years younger than the male spouse.

15. Member Contributions for Spousal Continuance

All active members contribute towards a 50% survivor continuance. However, members who are unmarried at retirement may either be refunded that specific part of their contributions, or they may leave such contributions on account and receive an incremental benefit that is the actuarial equivalent of such contributions.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

16. Deferred Member Actuarial Accrued Benefit

For the Deferred Vested and Non-Vested participants, the benefit was estimated based on information provided by SDCERS staff. The data used to value the estimated deferred benefit were date of birth, date of hire, date of termination, and last pay. Based on the data provided, service credit, highest average salary, and deferred retirement age were estimated. The estimates were used to compute the retirement benefit, upon which the liabilities are based. For those members without sufficient data or service, accumulated member contribution balances, with interest, were used as the actuarial accrued liability.

17. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described in the following section.

Actual experience of SDCERS will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary, and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions to reflect experience trends, but not random year-to-year fluctuations.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Funding Method

The Projected Unit Credit Method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

The normal cost is the present value of the amount of benefits allocated to the participant during the year. This amount is the increase in all participants' accumulated plan benefit during the year. For the Airport Authority, the normal cost rate is determined by taking the sum of the normal cost for all participants divided by the total annual payroll and subtracting that expected member contributions.

In addition to contributions required to meet the Plan's normal cost, contributions are required to fund the Airport Authority's unfunded actuarial liability. The actuarial liability is defined as the total of the cumulative benefit allocated to each participant on the date of the valuation. The unfunded actuarial liability is the actuarial liability for all members less the actuarial value of the Plan's assets.

The unfunded actuarial liability is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases 4.25% per year. The UAL measured as of June 30, 2006 is amortized over a 15 year period. A 30 year period was established beginning July 1, 1991, 15 years remain.

2. Asset Valuation Method

For the purposes of determining the Airport Authority'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 use of retirement benefits and expenses.

The actuarial value of assets is a weighted average giving 25% weight to the current market value and 75% weight to the prior year's actuarial value increased by expected interest and contributions and decreased by benefit payments and expenses. This is mathematically equivalent to recognizing 100% of the actuarially assumed interest rate, plus contribution, less payment each year and 25% of the portion of each year's returns that have not already been reflected in asset values. This method will start in the June 30, 2007 valuation. The actuarial value of assets for the June 30, 2006 valuation is determined to be the market value as of June 30, 2006.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

3. Changes Since Last Valuation

As was stated several times throughout this report, there have been a number of changes in actuarial methods and procedures since the last actuarial valuation:

- A move from a “book value based” asset smoothing method to the “expected asset value” smoothing method. For June 30, 2006, the actuarial value of assets was set to market value (see Section II).
- The asset apportionment method between SDCERS’ three plan sponsors, (City of San Diego, Unified Port District, and San Diego County Regional Airport Authority) was changed from an allocation method based on various approximations, to one that will directly reflect as of June 30, 2005 and forward, the actual cash flows attributable to each plan sponsor since June 30, 2005.
- All “contingent” liabilities (13th check) are now reflected in the June 30, 2006 valuation liabilities.
- SDCERS assets and liabilities as of June 30, 2006 now reflect both the future liabilities for DROP retirements and supplemental COLA as well as the asset reserves held for such liabilities. Previously, both amounts were excluded from SDCERS reported assets and liabilities.
- All future benefits payable from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code Section 415.
- Minor adjustments in the allocation of liabilities amongst the three plan sponsors were made to ensure that when participants have service with more than one contributing employer the resulting liability allocation is equitably determined.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

The Airport Authority was spun off from Unified Port District effective 1/1/2003. Existing liabilities and assets were transferred to the new plan based on an interim valuation dated 12/31/2002. The Airport Authority plan is created pursuant to San Diego City Charter section 149, which became effective on April 24, 2002, and San Diego Municipal Code Chapter 2, Article 4, section 24.0912 and Division 18. This Plan is effective on January 1, 2003, and nothing in this Plan should be constructed to affect any rights or benefits Airport Authority employees have earned in this Retirement System as of that date.

1. Membership Requirement

Salaried Employees – immediate eligibility upon employment (compulsory) (§ 0101).

2. Monthly Salary Base for Benefits

Highest one-year average. (§ 0102), subject to a 10% increase if the Member elects such increase in lieu of an increased benefit formula.

3. Service Requirement

Eligibility

Age 62 with 5 years of service, or age 55 with 20 years of service (Excludes 5 year permissible purchased service.) (§ 0300).

Benefit

Member choice of formula in place on December 31, 2001 with 10% increase in Final Average Compensation, “Andrecht” formula effective as of January 1, 2002, or “2.5 % at 55” multiplier with a benefit cap of 90% of Final Average Compensation effective April 1, 2004 for Non-Executive General Members. Executives receive “3% at 55” multiplier without an increase in Final Average Compensation.

For all employees, there is an additional benefit equal to the annuitized member COLA contributions at retirement date. In all cases, there is an integration feature which provides for 2/3 of the formula multiplier on the first \$400 of Final Average Compensation.

APPENDIX C
 SUMMARY OF PLAN PROVISIONS

Member Service Retirement Calculation Factors

Table C-1				
SDCERS - Airport Authority				
Member Service Retirement Calculation Factors				
Age	Pre 12/31/2001	Andrecht	Post 4/1/2004	Executive
55	2.00%	2.25%	2.50%	3.00%
56	2.00%	2.25%	2.60%	3.00%
57	2.00%	2.25%	2.70%	3.00%
58	2.00%	2.25%	2.80%	3.00%
59	2.08%	2.25%	2.90%	3.00%
60	2.16%	2.30%	3.00%	3.00%
61	2.24%	2.35%	3.00%	3.00%
62	2.31%	2.40%	3.00%	3.00%
63	2.39%	2.45%	3.00%	3.00%
64	2.47%	2.50%	3.00%	3.00%
65+	2.55%	2.55%	3.00%	3.00%

Table C-2	
SDCERS – Airport Authority	
For Vested Members who terminated--	--the calculation factors are--
December 31, 2002 - present	Pre 12/31/2001 factors above with 10% increase in Final Average Compensation, Andrecht, Post 4/1/2004 or Executive (if applicable)

Maximum Benefit

Effective April 1, 2004, there is a 90% benefit cap, as a percentage of pay, for non-Executive Members who choose post-4/1/2004 factors. This cap does not apply to the annuitized COLA benefit.

Unmodified Form of Payment

Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death.

Note: Airport Authority employees are in Social Security.

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

4. Non-Industrial Disability

Eligibility

Ten years of service (§ 0502).

Benefit

Greater of 1.5% per year of service, one-third of final compensation (subject to 10% increase), or the earned service retirement benefit (§ 0503).

5. Industrial Disability

Eligibility

No age or service requirement (§ 0500).

Benefit

Greater of one-third of final compensation (subject to 10% increase), or the earned service retirement benefit (§ 0501).

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.

7. Non-Industrial Death After Eligible to Retire for Service

50% of earned benefit payable to surviving eligible spouse.

8. Industrial Death

50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible spouse.

9. Death After Retirement

50% of member's unmodified allowance continued to eligible spouse.
\$2,000 payable in lump sum to the beneficiary or the estate of the retiree.

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

10. Withdrawal Benefits

Less than five years of service

Refund of accumulated employee contributions with interest, or may keep deposits in the System and earn additional interest.

Five or more years of service

If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

11. Post-retirement Cost-of-Living Benefit

Based on changes in Consumer Price Index, to a maximum of 2% per year.

**SDCERS-AIRPORT AUTHORITY
JUNE 30, 2006 ACTUARIAL VALUATION**

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

12. Member Contributions

Vary by age at time of entrance into the system (§ 0200). While a significant portion of these contributions are “picked up”, such pick ups are not directly reflected in either the employee contributions or related refund calculations.

Table C-3		
SDCERS - Airport Authority		
Employee Contribution Rates¹		
Integrated Members²		
Entry Age	First \$400/Mo.	Over \$400/Mo.
20	5.52%	8.28%
21	5.59	8.38
22	5.66	8.49
23	5.73	8.60
24	5.80	8.70
25	5.89	8.83
26	5.97	8.95
27	6.04	9.06
28	6.12	9.18
29	6.20	9.30
30	6.28	9.42
31	6.37	9.55
32	6.45	9.67
33	6.53	9.79
34	6.61	9.91
35	6.70	10.05
36	6.79	10.18
37	6.88	10.32
38	6.97	10.45
39	7.05	10.58
40	7.15	10.72
41	7.24	10.86
42	7.33	10.99
43	7.42	11.13
44	7.52	11.28
45	7.61	11.42
46	7.71	11.56
47	7.81	11.71
48	7.91	11.86
49	8.01	12.01
50	8.10	12.15
51	8.21	12.32
52	8.31	12.47
53	8.42	12.63
54	8.53	12.79
55	8.63	12.95
56	8.74	13.11
57	8.87	13.31

¹Rate = Normal Cost + Cost of Living Rate

²Non-Integrated members will follow the “Over \$400/month” rate

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Interest: 8.00%
Salary: 5.00%
Mortality: 83 Group Annuity Mortality (GAM) male
(Males set back 3 years, Females set back 8 years)

Rates include cost of providing spouse's continuance and cost of funding final one-year average in lieu of final three-year average. Changes to the salary scale and mortality table effective with the June 30, 1994 valuation were applied to the then existing member rates

13. Internal Revenue Code Compliance

Benefits provided by the Plan 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.

Starting with the June 30, 2006 valuation, Section 415 of the Internal Revenue Code will be reflected.

Note: The summary of major plan provision is designed to outline principal plan benefits. If the SDCERS staff should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

**APPENDIX D
GLOSSARY OF TERMS**

1. Actuarial Accrued Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the actuarial value of future normal costs. This is also referred to by some actuaries as “accrued liability” or “actuarial liability”.

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the system which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Cost Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the “actuarial funding method”.

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with lump sum payment.

**APPENDIX D
GLOSSARY OF TERMS**

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SDCERS-Airport Authority's Computed Contribution rate for FY 2007 meets the parameters of GASB 25.

10. Normal Cost.

The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method.

11. Set back/set forward

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for Set forward. A system would use set backs or set forwards to compensate for mortality experience in their work force.

12. Unfunded Actuarial Accrued Liability

The difference between actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded actuarial liability" or "unfunded accrued liability".

Most retirement systems have unfunded actuarial accrued liability. They arise each time new benefits are added and each time an actuarial loss is realized.

The existence of unfunded actuarial accrued liability is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liability does not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount (after due allowance for devaluation of the dollar).