

**San Diego City
Employees' Retirement System**

**June 30, 2007
Actuarial Valuation for the**

City of San Diego

Produced by [Cheiron](#)

February 2008

Table of Contents

| | |
|---|----|
| Letter of Transmittal | i |
| Section I – Board Summary | 1 |
| Section II – Assets | 13 |
| Section III – Liabilities | 18 |
| Section IV – Contributions | 23 |
| Section V – Accounting Statement Information..... | 25 |
| Appendix A – Membership Information..... | 30 |
| Appendix B – Actuarial Assumptions and Methods..... | 43 |
| Appendix C – Summary of Plan Provisions | 51 |
| Appendix D – Glossary of Terms | 58 |

LETTER OF TRANSMITTAL

February 4, 2008

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

Dear Members of the Board:

At your request, we performed the June 30, 2007 actuarial valuation of the San Diego City Employees' Retirement System (SDCERS). The valuation results with respect to the City of San Diego (City) are contained in this report. The table below presents the three key results of the valuation for the City.

- *Unfunded Actuarial Liability (UAL):* The SDCERS' Board approved a change to the System's actuarial funding method from the Projected Unit Credit (PUC) actuarial funding method to the Entry Age Normal (EAN) actuarial funding method. The City's June 30, 2007 valuation is the first year to use the EAN actuarial funding method, and this year's report will present the UAL results using both actuarial funding methods.
- *Funding Ratio:* This is the ratio of system assets to liabilities and will also be presented based on both PUC and EAN actuarial funding methods.
- *City Contribution Rate:* This rate, which is determined under full compliance with the Governmental Accounting Standards Board Statement Number 25, determines the actuarially required contribution for the City for fiscal year July 1, 2008 through June 30, 2009 (FY2009). Besides the change to the EAN actuarial funding method, beginning with FY2009 and going forward, the City's contributions will be based on a 20-year amortization period (reduced from 27 years) plus any amounts needed to avoid negative amortization.

| Table I-1 | | |
|--|------------------|------------------|
| SDCERS - City of San Diego | | |
| Valuation Date | 6/30/2007 | 6/30/2006 |
| New funding method: | | |
| Entry Age Normal UAL (millions) | \$ 1,184.2 | \$ 1,210.0 |
| Entry Age Normal Funding Ratio | 78.8% | 76.7% |
| Prior funding method: | | |
| Projected Unit Credit UAL (millions) | \$ 932.1 | \$ 1,000.8 |
| Projected Unit Credit Funding Ratio | 82.6% | 79.9% |
| Fiscal Year * | 2009 | 2008 |
| City Contribution Rate during year | 30.45% | 24.95% |
| City Contribution Rate start of year | 29.30% | 24.01% |
| Annual Required Contribution (GASB ARC): | | |
| -if paid at the beginning of the year | \$ 161.7 million | \$ 137.7 million |
| -if paid throughout the year | \$ 168.1 million | \$ 143.1 million |

* FY 2009 reflects Entry Age Normal Funding, 20-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 27-year amortization, and allows for negative amortization. i



These results are based on the same actuarial assumptions used in the June 30, 2006 valuation, but reflect the methodology changes described earlier: the change to EAN, a shorter amortization period and no negative amortization. More details on these methodology changes and their impact on the June 30, 2007 valuation results can be found in Section I: Board Summary.

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 City's Defined Benefit Plan. In our opinion, the use of these assumptions and methodologies for the June 30, 2007 actuarial valuation will not, in and of itself, expose SDCERS to unsound financial risk.

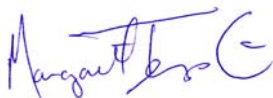
Sincerely,
Cheiron



Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary



Ken Kent, FSA, EA, MAAA
Consulting Actuary



Margaret Tempkin, FSA, EA, MAAA
Actuary

**SECTION I
BOARD SUMMARY**

The primary purpose of the actuarial valuation and this report is to report, as of the valuation date, on the following:

- The financial condition of SDCERS-City of San Diego Defined Benefit Plan,
- Past and expected trends in the financial condition of SDCERS-City of San Diego,
- The City's contribution rates for Fiscal Year 2009, 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 the June 30, 2007 valuation was completed and an examination of the current financial condition of SDCERS-City of San Diego. In addition, we present a review of the key historical trends followed by the projected financial outlook for SDCERS-City of San Diego.

A. Valuation Basis

This valuation represents Cheiron's third valuation performed for SDCERS. As stated in the letter of transmittal, the June 30, 2007 valuation results, while based on the same actuarial assumptions used in the June 30, 2006 valuation, reflect a number of methodology changes that were approved by the SDCERS Board. These changes are as follows:

- The move from Projected Unit Credit (PUC) to Entry Age Normal (EAN) actuarial funding method.
- The amortization of the June 30, 2007 UAL will be over twenty years. The June 30, 2006 UAL was amortized over 27 years.
- To avoid "negative amortization," the minimum contribution will be Normal Cost plus full interest on the UAL.
- The change to a new actuarial value of asset smoothing method. For June 30, 2007 and going forward, the actuarial value of assets will be based on the Expected Value of Assets method.
- Liabilities have been removed for all future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified defined benefit plan under Internal Revenue Service Code (IRC) Section 415. In the June 30, 2006 valuation, only liabilities for the then active members in excess of Section 415 limits had been removed.

Finally, before the completion of the June 30, 2008 valuation, Cheiron will complete an experience study that will encompass a detailed analysis of the demographic and economic assumptions used in the actuarial valuation. We expect that as a result of that study, further changes will be made, and these will be noted in detail in next year's valuation.

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**SECTION I
BOARD SUMMARY**

B. Current Financial Condition of SDCERS-City of San Diego

On the following pages, we summarize the key results of the June 30, 2007 valuation and how they compare to the results from the June 30, 2006 valuation.

1. City Membership:

As shown in Table I-2 below, total membership in SDCERS-City of San Diego slightly increased from 2006 to 2007 by 0.7%. However, active membership decreased by 4.4% which largely contributed to a total payroll decreased of 4.1%. Finally, the average pay per active member increased by 0.4%. This increase is well below the assumed payroll inflation of 4.25%.

| Table I-2 | | | |
|--|----------------------|----------------------|-----------------|
| SDCERS - City of San Diego - Membership Total | | | |
| Item | June 30, 2007 | June 30, 2006 | % Change |
| Active Counts | 8,494 | 8,887 | -4.4% |
| Terminated Vesteds | 2,606 | 2,359 | 10.5% |
| Disabled | 1,245 | 1,237 | 0.6% |
| Retirees | 4,354 | 4,118 | 5.7% |
| Beneficiaries | 1,080 | 1,046 | 3.3% |
| Total City Members | 17,779 | 17,647 | 0.7% |
| Active Member Payroll | \$ 512,440,197 | \$ 534,102,800 | -4.1% |
| Average Pay per Active Member | 60,330 | 60,099 | 0.4% |

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**SECTION I
BOARD SUMMARY**

2. City Assets and Liabilities

Table I-3 presents a comparison between the June 30, 2007 and June 30, 2006 SDCERS-City assets, liabilities, UAL, and funding ratios. As mentioned in the Letter of Transmittal, the June 30, 2007 valuation starts a change in the actuarial funding method from PUC to EAN. As a result, we are showing for this valuation only, results under both actuarial funding methods, so the Board can review the impact of the change.

The key results shown in Table I-3 show that if not for the change to EAN, the UAL would have dropped from \$1,000.8 million to \$932.1 million, and the corresponding funding ratio would have increased from 79.9% to 82.6%. With the change to EAN funding, the UAL is \$1,184.2, and the funding ratio is 78.8%. It is important to note that the change to EAN did not create new obligations for the City, the actuarial funding method change simply allocates more of the unchanged future obligations to past service, and less to future service, and the UAL is an actuarial measurement of the system's past service liability.

| Table I-3 | | | |
|--|----------------------|----------------------|-----------------|
| SDCERS - City of San Diego - Assets & Liabilities | | | |
| EAN – New funding method | June 30, 2007 | June 30, 2006 | % Change |
| Actives | \$ 2,256,487,761 | \$ 2,179,917,661 | 3.5% |
| Terminated Vested | 239,571,040 | 189,840,833 | 26.2% |
| Disabled | 383,228,325 | 371,327,233 | 3.2% |
| Retirees | 2,589,431,710 | 2,335,419,143 | 10.9% |
| Beneficiaries | <u>128,934,025</u> | <u>115,456,455</u> | <u>11.7%</u> |
| Total Actuarial Liability | 5,597,652,861 | 5,191,961,325 | 7.8% |
| Market Value Assets | \$ 4,641,340,923 | \$ 3,981,931,694 | 16.6% |
| Actuarial Value Assets | 4,413,410,812 | 3,981,931,694 | 10.8% |
| Unfunded Actuarial Liability | \$ 1,184,242,049 | \$ 1,210,029,631 | -2.1% |
| Funding Ratio-Actuarial Value | 78.8% | 76.7% | 2.1% |
| PUC-Prior funding method | June 30, 2007 | June 30, 2006 | % Change |
| Actives | \$ 2,004,330,450 | \$ 1,970,655,791 | 1.7% |
| Terminated Vested | 239,571,040 | 189,840,833 | 26.2% |
| Disabled | 383,228,325 | 371,327,233 | 3.2% |
| Retirees | 2,589,431,710 | 2,335,419,143 | 10.9% |
| Beneficiaries | <u>128,934,025</u> | <u>115,456,455</u> | <u>11.7%</u> |
| Total Actuarial Liability | 5,345,495,550 | 4,982,699,455 | 7.3% |
| Market Value Assets | \$ 4,641,340,923 | \$ 3,981,931,694 | 16.6% |
| Actuarial Value Assets | 4,413,410,812 | 3,981,931,694 | 10.8% |
| Unfunded Actuarial Liability | \$ 932,084,738 | \$ 1,000,767,761 | -6.9% |
| Funding Ratio-Actuarial Value | 82.6% | 79.9% | 2.7% |

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

3. Components of UAL Change between June 30, 2006 and June 30, 2007:

The unfunded actuarial liability for SDCERS-City of San Diego increased by \$183.4 million, from \$1,000.8 million (based on PUC funding), to \$1,184.2 million (based on EAN funding). Table I-4 below presents the specific components of this change in the UAL.

The key findings in Table I-4 are that the largest change component was the \$252.2 million attributable to the change in the actuarial funding method from PUC to EAN. Also, despite moving to an asset smoothing method that only reflected one-fourth of investment gains over the assumed 8%, the City portion of SDCERS' Trust Fund experienced a \$74.9 million investment gain. Partially offsetting that gain was a liability experience loss of \$38.2 million. The reasons for the liability loss will become more evident when we conduct the upcoming experience study.

| Table I-4 | | |
|---|--|-----------|
| SDCERS - City of San Diego-Change in UAL | | |
| (In Millions) | | |
| UAL change due to experience factors | | |
| 1. | Investment experience | \$ (74.9) |
| 2. | Purchased service credits paid for during the year* | 1.5 |
| 3. | Liability experience | 38.2 |
| UAL change due to contribution factors | | |
| 4. | Contributions paid in excess of expected | (20.4) |
| UAL change due to actuarial method changes | | |
| 5. | Removal of liabilities in excess of IRC S. 415 limits - Non Drop members | (3.7) |
| 6. | Removal of liabilities in excess of IRC S. 415 limits - DROP members | (2.7) |
| 7. | Change in actuarial funding method to EAN | 252.2 |
| Total | | |
| 8. | Total net overall gain or loss: (sum 1 through 7) | 190.2 |
| 9. | Expected change in UAL | (6.7) |
| 10. | Total actual change in UAL: 8 + 9 | \$ 183.5 |

* *Attributable to members who have purchased and paid for purchase service during the valuation year. Most members were still purchasing credits under installment contracts primarily entered into before November 1, 2003. This is the difference between the liability of the additional service purchased and the amount paid during the year.*

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**SECTION I
BOARD SUMMARY**

4. City Contributions:

The City's contribution for FY 2009 measured as of the beginning of the fiscal year increased by 5.29% of membership payroll, from 24.01% to 29.30%. In dollar terms, the required beginning of year contribution increased by \$24.0 million, from \$137.7 million to \$161.7 million.

The entire contribution increase was attributable to the: (1) change to EAN funding, (2) shortening of the UAL amortization period from 27 to 20 years, and (3) establishment of a minimum contribution to avoid negative amortization.

In Section IV of this report, we provide more detail on the development of this contribution rate.

| Table I-5 SDCERS – City of San Diego – Contributions | | | |
|---|----------------------|----------------------|-----------------|
| EAN – New funding method | June 30, 2007 | June 30, 2006 | % Change |
| Gross Normal Cost % | 23.89% | 23.39% | 2.2% |
| Member Cost % | <u>10.97%</u> | <u>10.54%</u> | <u>4.0%</u> |
| Employer Normal Cost % | 12.92% | 12.85% | 0.6% |
| Employer Unfunded Liability Cost % | 15.78% | 12.75% | 23.8% |
| Negative Amortization Adjustment Cost % | <u>1.75%</u> | <u>N/A</u> | <u>N/A</u> |
| Total Employer Cost % | 30.45% | 25.60% | 18.9% |
| Employer Cost % Beginning of Year | 29.30% | 24.63% | 18.9% |
| Annual Required Contribution (GASB): | | | |
| -if paid at the beginning of the year | \$ 161.7 million | \$ 141.5 million | 14.3% |
| -if paid throughout the year | \$ 168.1 million | \$ 147.0 million | 14.3% |
| PUC – Prior funding method | June 30, 2007 | June 30, 2006 | % Change |
| Gross Normal Cost % | 25.56% | 24.94% | 2.5% |
| Member Cost % | <u>10.97%</u> | <u>10.54%</u> | <u>4.0%</u> |
| Employer Normal Cost % | 14.59% | 14.40% | 1.3% |
| Employer Unfunded Liability Cost % | <u>12.42%</u> | <u>10.55%</u> | <u>17.7%</u> |
| Total Employer Cost % | 27.01% | 24.95% | 8.3% |
| Employer Cost % Beginning of Year | 25.99% | 24.01% | 8.3% |
| Annual Required Contribution (GASB): | | | |
| -if paid at the beginning of the year | \$ 143.1 million | \$ 137.7 million | 3.9% |
| -if paid throughout the year | \$ 148.8 million | \$ 143.1 million | 3.9% |

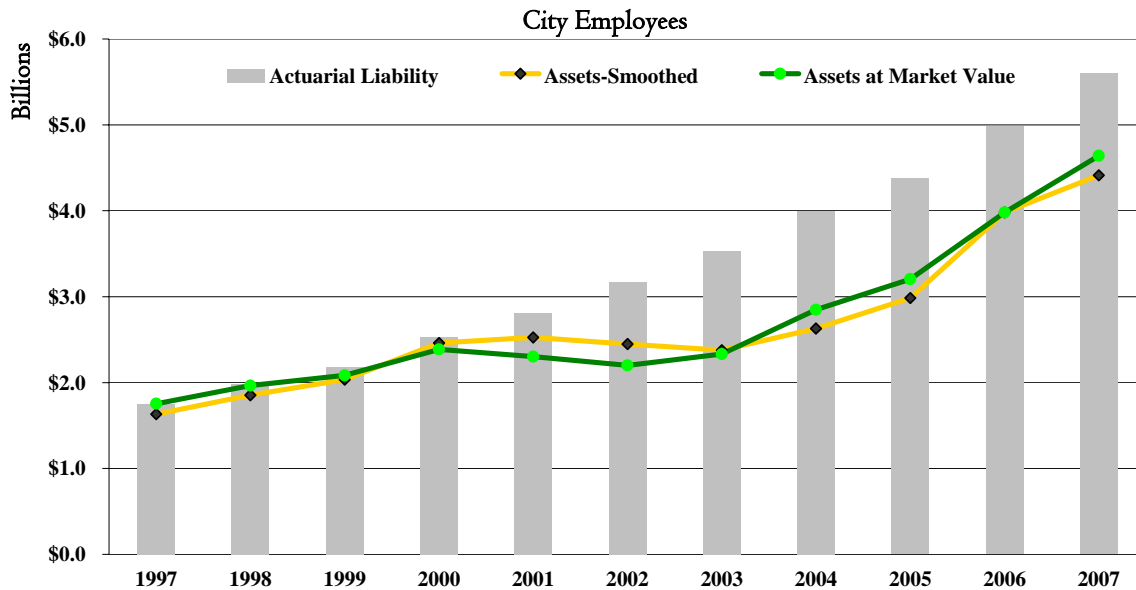
SECTION I
 BOARD SUMMARY

C. Historical Trends SDCERS-City of San Diego

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and the City’s contribution rate, it is important to remember that each valuation is merely a snapshot of 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 trends.

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-City of San Diego funding ratios since 1997.

SDCERS-City of San Diego Assets and Liabilities 1997-2007



| Funded Ratio | 93.3% | 93.6% | 93.2% | 97.3% | 89.9% | 77.3% | 67.2% | 65.8% | 68.2% | 79.9% | 78.8% |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| UAL | \$ 0.12 | \$ 0.13 | \$ 0.15 | \$ 0.07 | \$ 0.28 | \$ 0.72 | \$ 1.16 | \$ 1.37 | \$ 1.39 | \$ 1.00 | \$ 1.18 * |

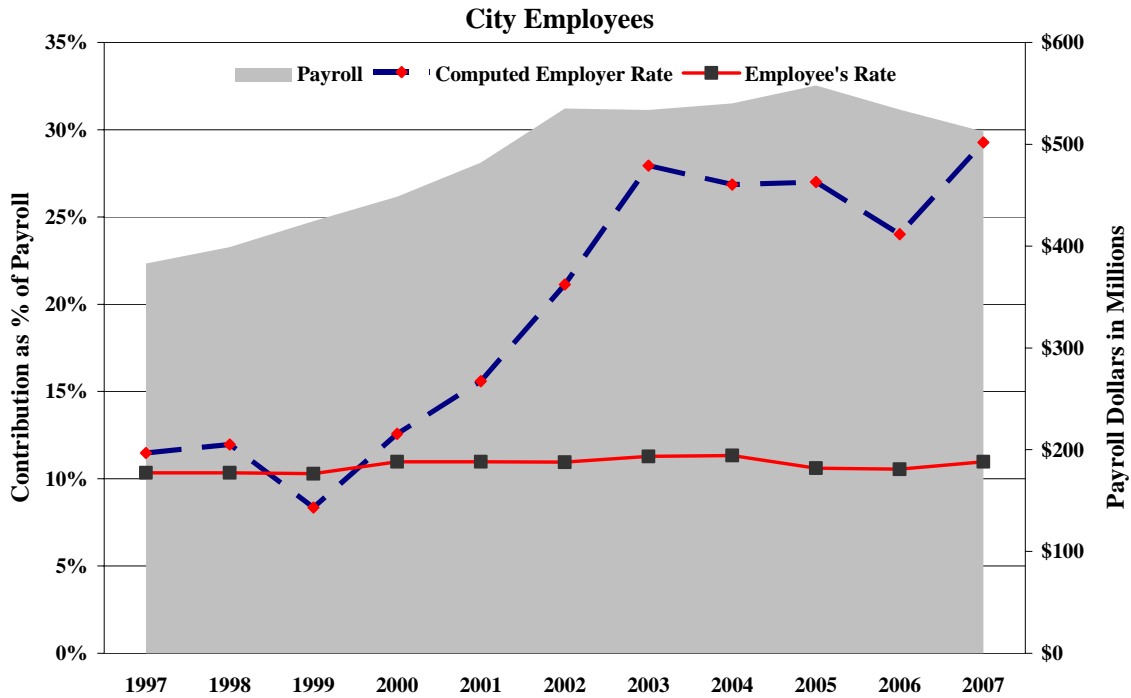
* The UAL for 2007 is calculated using EAN, prior years are calculated using PUC.

The chart above indicates that from 1997 to 2000, SDCERS maintained a strong and improving funding ratio. Then from 2000 to 2004, the funding ratio declined significantly with the low point being in 2004 at 65.8%. Since 2004, the ratio has improved significantly, primarily due to strong asset performance.

**SECTION I
 BOARD SUMMARY**

In the chart below, we present the historical trends for the SDCERS-City of San Diego contribution rates and membership payroll since 1997. The chart does not show the actual contribution rate made by the City, but rather the rate calculated in each of the valuations.

SDCERS-City of San Diego City and Member Contribution Rates 1997-2007

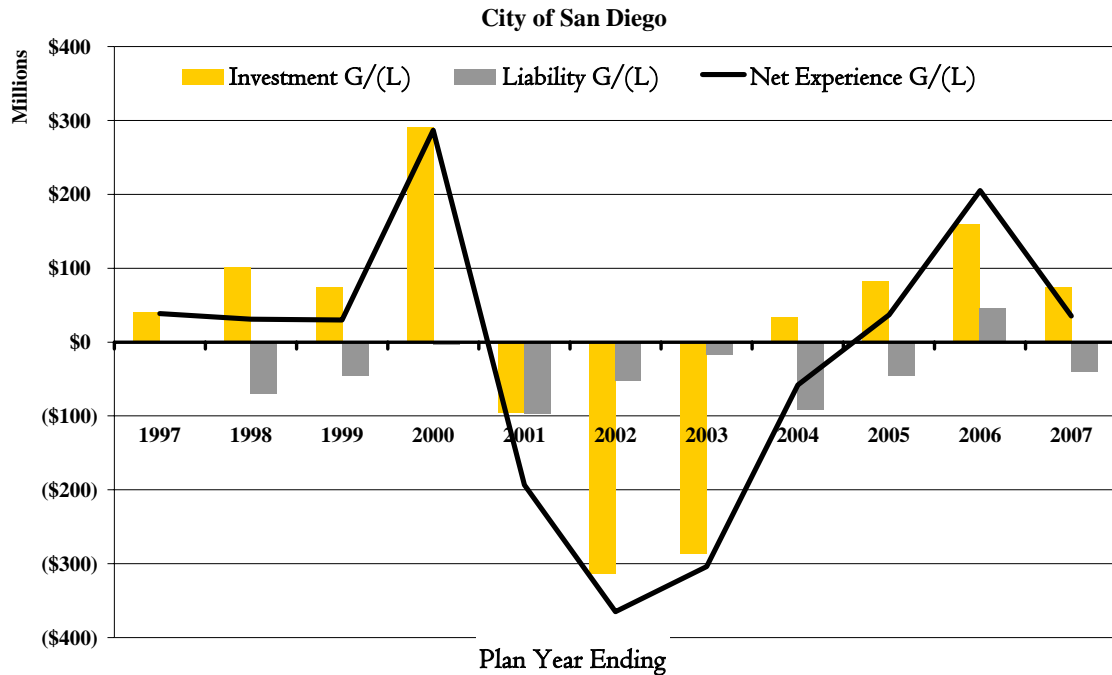


The key information in this chart is the escalation in the computed employer contribution rate between 1999 and the year 2003. Since then the rate has stabilized with a slight drop in 2006, and then increased in 2007 due to the combined impact of EAN funding, the shorter amortization period, and the minimum contribution to avoid negative amortization. In addition to the contribution information, this chart also shows the escalation of the City's total payroll from 1997 through 2002, and the stabilization of payroll growth after 2002, with a decline starting in the plan year ending June 30, 2005. Finally, the chart indicates that the member's rate has remained relatively stable throughout the period 1997 through 2007.

**SECTION I
 BOARD SUMMARY**

The chart below for SDCERS-City of San Diego 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. Experience shown prior to 1999 is for SDCERS-All Employers.

SDCERS-City of San Diego Historical Gain/(Loss) 1997-2007



The key insights from this chart are:

- Investment gains (gold bars) from 1997 through 2000 were significantly offset by investment losses from 2001 through 2003. However, since 2003, positive investment trends have returned.
- On the liability side, except for 1997, 2000, and 2006 there has been a pattern of liability losses. However, the net liability experience for the last two years has been almost exactly as assumed. The results of our upcoming experience study will provide more insight into the source of these gains and losses.

**SECTION I
BOARD SUMMARY**

D. Projected Financial Trends

Our analysis of SDCERS-City of San Diego projected financial trends is an important part of this valuation. In this Section, we present our assessment of the implications of the June 30, 2007 valuation results on the future outlook of SDCERS-City of San Diego in terms of benefit security (assets over liabilities) and the City’s expected cost progression. In addition, given the concern regarding unfunded liabilities, we also show their expected future pay down of unfunded liabilities.

In the charts that follow, we project the SDCERS-City of San Diego assets and liabilities, the pay down of UAL, and the City’s contributions as a percent of payroll on two different bases:

- 1) Assuming 8% returns each and every year, and
- 2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equals on average the assumed 8% return. We do this because SDCERS returns will never be level each and every year.

| | | | | | | | | | | |
|-------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fiscal Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Return | 8.0% | 12.0% | 16.0% | 20.0% | 16.0% | 12.0% | 8.0% | 4.0% | 0.0% | -4.0% |
| Fiscal Year | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Return | 0.0% | 4.0% | 8.0% | 8.0% | 12.0% | 16.0% | 20.0% | 16.0% | 12.0% | 8.0% |
| Fiscal Year | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 |
| Return | 4.0% | 0.0% | -4.0% | 0.0% | 4.0% | 8.0% | 4.0% | 0.0% | 12.0% | 16.0% |

SECTION I
 BOARD SUMMARY

Projection Set 1: Assets and Liabilities - City of San Diego

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

Chart 1: Projection of Assets and Liabilities, 8% return each year

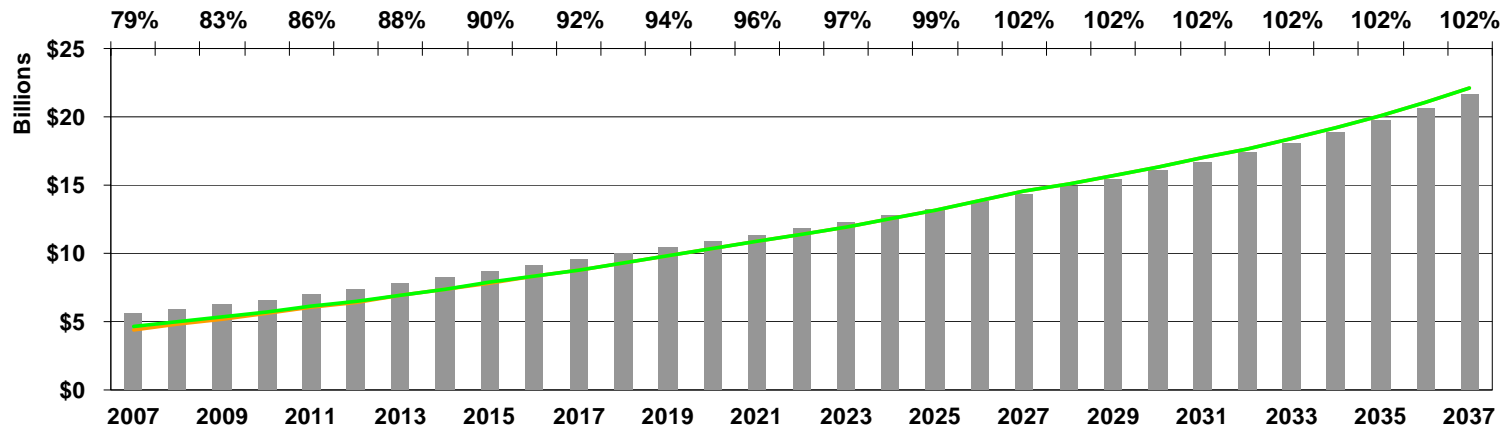
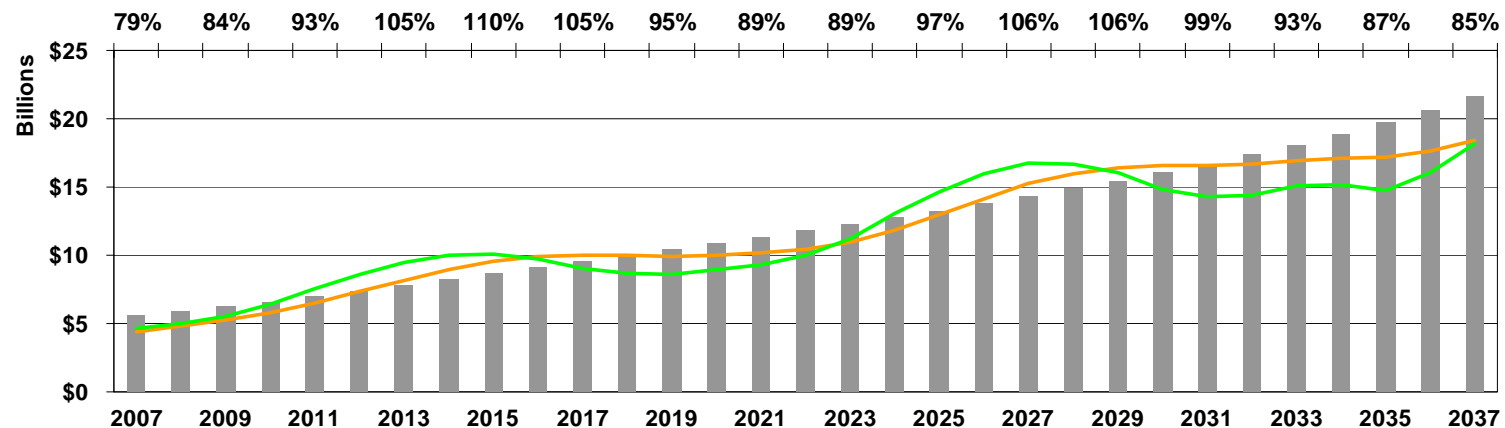


Chart 2: Projection of Assets and Liabilities, varying returns averaging 8%



Actuarial Liability Actuarial Value of Assets Market Value of Assets

SECTION I
BOARD SUMMARY

Projection Set 2: Pay down of the Unfunded Actuarial Liability (UAL) – City of San Diego

Choice of an amortization period is significant when viewing the projected pay down of the UAL, especially when one is assuming level returns. The chart to the right below demonstrates that varying returns (which always happens) will have a dramatic impact on the annually computed UAL.

Chart 1: 8% return each year

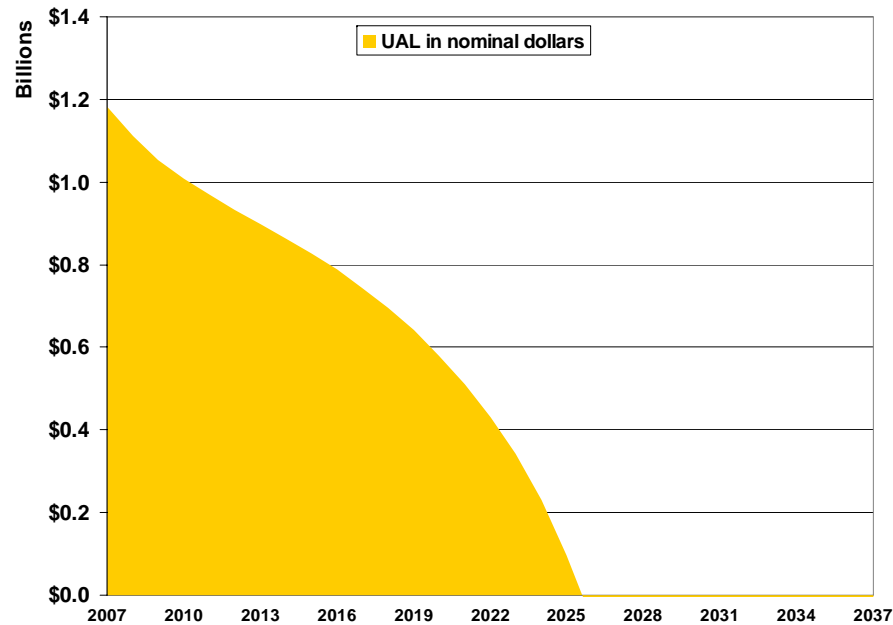
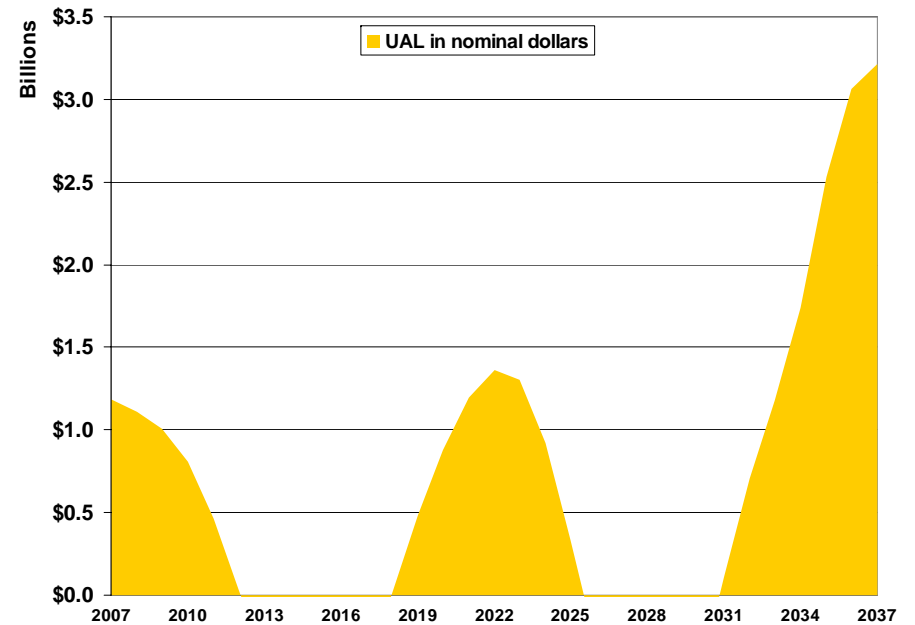


Chart 2: varying returns averaging 8%



SECTION I
 BOARD SUMMARY

Projection Set 3: Projected City Contribution Rate

As seen on the chart to the right below, varying returns will also have a significant impact on the actuarially computed City contribution rate.

Chart 1: 8% return each year

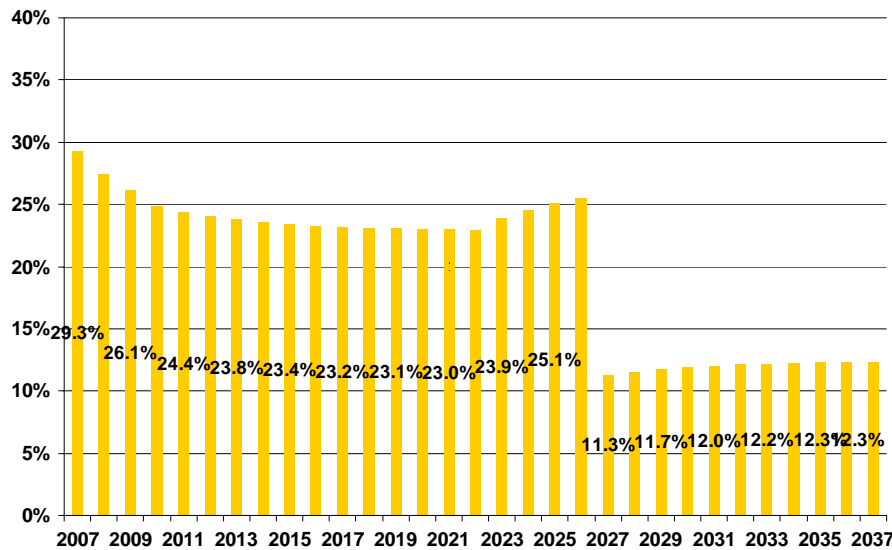
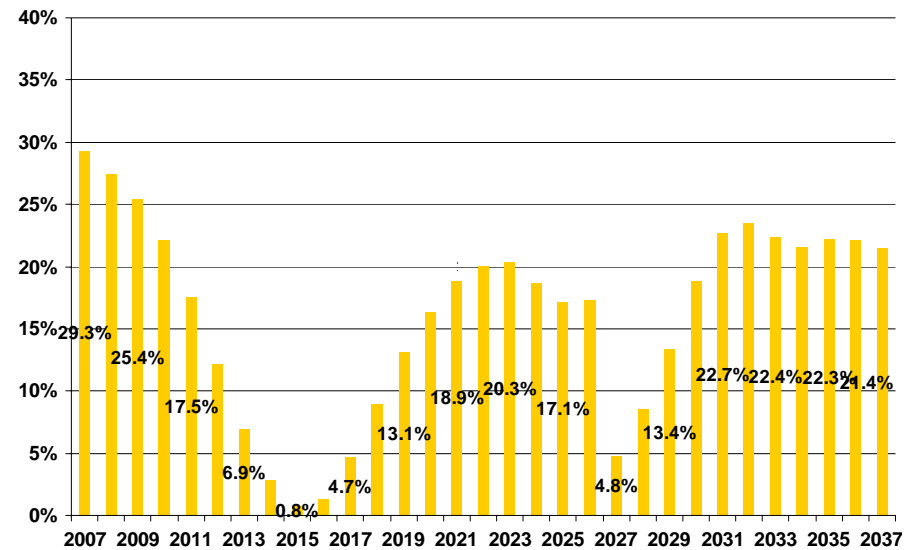


Chart 2: varying returns averaging 8%



SECTION II ASSETS

SDCERS uses and discloses two different asset measurements which are presented in this Section of the report: market 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 actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce annual investment volatility, 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 among 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, 2006 and June 30, 2007,
- 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 cause 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, 2007. Table II-2 which follows, discloses the net cash flows for each employer. The cash flows develop the actual return on assets that is applied to each employer’s assets to develop the market value of assets as of June 30, 2007.

| | |
|---|-------------------------|
| Cash | \$ 528,283,084 |
| US Stocks | 2,021,799,800 |
| International Stocks | 900,229,222 |
| Bonds | 986,942,520 |
| Mortgages | 2,674 |
| Real Estate | 425,326,111 |
| Receivables | 118,813,365 |
| Short Term Investments | 52,998,771 |
| Fixed Assets | 201,470 |
| Miscellaneous | 62,918 |
| Accounts Payable | <u>(97,610,318)</u> |
| Market Value of Assets – June 30, 2007 | \$ 4,937,049,617 |

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

**SECTION II
ASSETS**

B. System Cash Flows for the Year June 30, 2006 through June 30, 2007

| Table II-2 SDCERS – All Employers SDCERS Net Monthly Cash Flows | | | | |
|--|------------------------|----------------------------------|------------------------------|-------------------------|
| | City | Unified Port District | Airport Authority | Total SDCERS |
| Reported Market Value as of June 30, 2006 | \$3,981,931,694 | \$203,285,828 | \$41,222,279 | \$4,226,439,801 |
| Adjustments due to Audited Statements | 12,201,150 | 632,898 | 121,184 | 12,955,232 |
| Other Adjustments¹ | (961,219) | 888,527 | 72,692 | 0 |
| Adjusted Market Value as of June 30, 2006 | \$3,993,171,626 | \$204,807,252 | \$41,416,155 | \$4,239,395,033 |
| <u>Monthly Cash Flows</u> | | | | |
| July 2006 | \$ 146,609,090 | \$ 7,842,293 | \$ 2,769,501 | \$ 157,220,884 |
| August 2006 | (10,541,610) | (356,015) | 255,417 | (10,642,207) |
| September 2006 | (11,777,898) | (416,144) | 133,449 | (12,060,593) |
| October 2006 | (10,082,642) | 840,594 | 78,013 | (9,164,034) |
| November 2006 | (19,584,701) | (420,683) | 283,374 | (19,722,010) |
| December 2006 | (7,976,957) | (206,116) | 174,494 | (8,008,579) |
| January 2007 | (10,268,949) | 33,721 | 181,106 | (10,054,123) |
| February 2007 | (9,461,277) | (410,109) | 196,574 | (9,674,812) |
| March 2007 | (13,931,767) | (273,948) | 271,692 | (13,934,024) |
| April 2007 | (11,029,990) | (394,512) | 172,294 | (11,252,207) |
| May 2007 | (10,942,743) | (63,277) | 214,535 | (10,791,485) |
| June 2007 | 463,966 | (560,045) | 380,872 | 284,793 |
| Total Net Cash Flows² | \$31,474,522 | \$5,615,761 | \$5,111,321 | \$42,201,603 |
| Internal Rate of Return | 15.13% | 15.13% | 15.13% | 15.13% |
| Investment Income: (net of expenses) | <u>616,694,775</u> | <u>31,980,206</u> | <u>6,778,000</u> | <u>655,452,981</u> |
| Market Value as of June 30, 2007 | \$4,641,340,923 | \$242,403,219 | \$53,305,476 | \$4,937,049,617 |

1 Adjustment to correct the June 30, 2005 unallocated reserves (i.e. contingent benefit reserves and COLA reserves).

2 Totals may not add due to rounding.

**SECTION II
ASSETS**

C. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets that differs from the market value of assets. The actuarial value of assets represents an asset value based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions.

As adopted by the Board at its September 2006 meeting, the actuarial value is 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. (See Appendix B.2 for further explanation of the asset valuation method).

| Table II-3 SDCERS - City of San Diego Development of Actuarial Value of Assets at June 30, 2007 Expected Value of Assets Method | | |
|--|---|----------------------|
| 1. | Actuarial Value of Assets at June 30, 2006 | \$ 3,981,931,694 |
| 2. | Adjustments to June 30, 2006 Actuarial Value of Assets* | (961,219) |
| 3. | Amount in (1 and 2) with interest to June 30, 2007 | 4,299,448,113 |
| 4. | Employer, and member contributions for the Plan Year ended June 30, 2007 | 293,622,830 |
| 5. | Disbursements from Trust excluding investment expenses, June 30, 2006 through June 30, 2007 | 262,148,308 |
| 6. | Interest on cash flows to June 30, 2007 at 8.00% per year | <u>6,511,473</u> |
| 7. | Expected Actuarial Value of Assets at June 30, 2007 = (3) + (4) – (5) + (6) | 4,337,434,108 |
| 8. | Actual Market Value of Assets at June 30, 2007 | <u>4,641,340,923</u> |
| 9. | Excess of (8) over (7) | 303,906,815 |
| 10. | Actuarial Value of Assets at June 30, 2007= (7) + 25% of (9) | \$ 4,413,410,812 |

* Adjustment to correct the June 30, 2005 unallocated reserves (i.e. contingent benefit reserves and COLA reserves).

**SECTION II
 ASSETS**

D. Apportionment of Actuarial Value of Assets

The asset apportionment reflects the actual cash flows by each plan sponsor, and proportional allocation of investment earnings. Table II-4 below presents system assets apportioned between the three contributing employers, and then by member group for the City. The process for determining the actuarial value of assets is explained in Section II.C above.

**Table II-4
 Summary of Actuarial Assets Available for Each Employer Group
 as of June 30, 2007**

| <u>Employer Groups</u> | <u>Reported</u> | <u>Adjusted</u> | <u>Market Value</u> <u>Total Assets</u> <u>June 30, 2007</u> | <u>Actuarial Value</u> <u>Total Assets</u> <u>June 30, 2007</u> |
|------------------------|--|--|--|---|
| | <u>Market Value</u> <u>Total Net Assets</u> <u>June 30, 2006¹</u> | <u>Market Value</u> <u>Total Assets</u> <u>June 30, 2006²</u> | | |
| General | \$1,977,823,235 | \$1,983,406,102 | \$2,362,704,620 | \$2,246,675,323 |
| Elected Officers | 6,846,932 | 6,866,259 | 7,416,754 | 7,052,527 |
| Safety | <u>1,997,261,528</u> | <u>2,002,899,265</u> | <u>2,271,219,549</u> | <u>2,159,682,962</u> |
| Total City | \$3,981,931,694 | \$3,993,171,626 | \$4,641,340,923 | \$4,413,410,812 |
| Unified Port District | 203,285,828 | 204,807,252 | 242,403,219 | 230,584,904 |
| Airport Authority | <u>41,222,279</u> | <u>41,416,155</u> | <u>53,305,476</u> | <u>50,812,142</u> |
| Total-SDCERS | \$4,226,439,801 | \$4,239,395,033 | \$4,937,049,617 | \$4,694,807,858 |

1 As reflected in the June 30, 2006 actuarial valuation.

2 Reflects adjustments due to audited financial statements for June 30, 2006.

E. Investment Performance

The market value of assets internal rate of return was 15.13% for the year ending June 30, 2007. This is compared to an assumed return of 8%. The return in FY 2006 was 11.28%.

On an actuarial value of assets basis, the return for FY 2007 was 9.78%. This return produced for SDCERS-All Employers, an overall investment gain of \$80.7 million for the year ending June 30, 2007. (Note this reported gain is different than the investment gain of \$74.9 million reported on page 4 in this report. The latter is the gain only for the City of San Diego.)

SECTION III LIABILITIES

In this section, we present detailed information on liabilities for SDCERS-City of San Diego, including:

- Disclosure of liabilities at June 30, 2006 and June 30, 2007, and
- Statement of changes in the unfunded actuarial liabilities during the year.

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 showing how liabilities were calculated in prior years, 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 for determining employer contributions and GASB accounting disclosures. 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. Subtracting the actuarial value of assets from the actuarial liability results in a net surplus or an unfunded actuarial liability (UAL).

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

| Table III-1 SDCERS - City of San Diego - Total | | |
|---|-------------------------|-------------------------|
| Item | June 30, 2007 | June 30, 2006 |
| Present Value of Future Benefits | | |
| Actives | \$ 3,503,065,097 | \$ 3,463,425,413 |
| Terminated Vesteds | 239,571,040 | 189,840,833 |
| Disabled | 383,228,325 | 371,327,233 |
| Retirees | 2,589,431,710 | 2,335,419,143 |
| Beneficiaries | <u>128,934,025</u> | <u>115,456,455</u> |
| Total City | \$ 6,844,230,197 | \$ 6,475,469,077 |
| Actuarial Liability – EAN (new funding method) | | |
| Total Present Value of Benefits | \$ 6,844,230,197 | \$ 6,475,469,077 |
| Present Value of Future Normal Costs | | |
| Employer Portion | 673,965,513 | 705,063,847 |
| Employee Portion | <u>572,611,823</u> | <u>578,443,905</u> |
| Actuarial Liability – EAN | \$ 5,597,652,861 | \$ 5,191,961,325 |
| Actuarial Value of Assets | \$ 4,413,410,812 | \$ 3,981,931,694 |
| Unfunded EAN Actuarial Liability | \$ 1,184,242,049 | \$ 1,210,029,631 |
| Actuarial Liability – PUC (prior funding method) | | |
| Actives | \$ 2,004,330,450 | \$ 1,970,655,791 |
| Terminated Vesteds | 239,571,040 | 189,840,833 |
| Disabled | 383,228,325 | 371,327,233 |
| Retirees | 2,589,431,710 | 2,335,419,143 |
| Beneficiaries | <u>128,934,025</u> | <u>115,456,455</u> |
| Total City | \$ 5,345,495,550 | \$ 4,982,699,455 |
| Actuarial Value of Assets | \$ 4,413,410,812 | \$ 3,981,931,694 |
| Unfunded PUC Actuarial Liability | \$ 932,084,738 | \$ 1,000,767,761 |

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

Table III-2 shows actuarial liability as of June 30, 2007 for general and elected members of SDCERS-City of San Diego.

| Table III-2 SDCERS - City of San Diego - General & Elected | | | |
|---|-------------------------|-------------------------|----------------------|
| Item | June 30, 2007 | June 30, 2007 | June 30, 2007 |
| Present Value of Future Benefits | Total | General | Elected |
| Actives | \$ 1,956,987,576 | \$ 1,953,620,131 | \$ 3,367,445 |
| Terminated Vesteds | 184,761,881 | 184,112,782 | 649,099 |
| Disabled | 72,823,377 | 72,823,377 | - |
| Retirees | 1,268,603,610 | 1,262,337,703 | 6,265,907 |
| Beneficiaries | <u>58,736,811</u> | <u>58,425,960</u> | <u>310,851</u> |
| Total City General & Elected | \$ 3,541,913,255 | \$ 3,531,319,953 | \$ 10,593,302 |
| Actuarial Liability - EAN | | | |
| Actives | \$ 1,273,540,637 | \$ 1,271,821,576 | \$ 1,719,061 |
| Terminated Vesteds | 184,761,881 | 184,112,782 | 649,099 |
| Disabled | 72,823,377 | 72,823,377 | - |
| Retirees | 1,268,603,610 | 1,262,337,703 | 6,265,907 |
| Beneficiaries | <u>58,736,811</u> | <u>58,425,960</u> | <u>310,851</u> |
| Total City General & Elected | \$ 2,858,466,316 | \$ 2,849,521,398 | \$ 8,944,918 |

Table III-3 shows actuarial liability as of June 30, 2007 for safety members of SDCERS-City of San Diego.

| Table III-3 SDCERS - City of San Diego – Safety | | | | |
|--|-------------------------|-------------------------|-----------------------|----------------------|
| Item | June 30, 2007 | June 30, 2007 | June 30, 2007 | June 30, 2007 |
| Present Value of Benefits | Total | Police | Fire | Lifeguard |
| Actives | \$ 1,546,077,521 | \$ 1,066,052,663 | \$ 437,664,105 | \$ 42,360,753 |
| Terminated Vesteds | 54,809,159 | 52,727,575 | 1,336,863 | 744,721 |
| Disabled | 310,404,948 | 202,477,649 | 98,545,991 | 9,381,308 |
| Retirees | 1,320,828,101 | 759,469,718 | 536,376,705 | 24,981,678 |
| Beneficiaries | <u>70,197,214</u> | <u>41,827,292</u> | <u>28,140,777</u> | <u>229,145</u> |
| Total City Safety | \$ 3,302,316,943 | \$ 2,122,554,897 | 1,102,064,441 | \$ 77,697,605 |
| Actuarial Liability - EAN | | | | |
| Actives | \$ 982,947,123 | \$ 692,467,797 | \$ 266,517,753 | \$ 23,961,574 |
| Terminated Vesteds | 54,809,159 | 52,727,575 | 1,336,863 | 744,721 |
| Disabled | 310,404,948 | 202,477,649 | 98,545,991 | 9,381,308 |
| Retirees | 1,320,828,100 | 759,469,718 | 536,376,705 | 24,981,678 |
| Beneficiaries | <u>70,197,214</u> | <u>41,827,292</u> | <u>28,140,777</u> | <u>229,145</u> |
| Total City Safety | 2,739,186,544 | \$ 1,748,970,030 | \$ 930,918,089 | \$ 59,298,426 |

**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-4 | |
|--|--|
| Development of 2007 Experience Gain/(Loss) SDCERS - City of San Diego | |
| 1. | Unfunded Actuarial Liability at June 30, 2006 (under PUC method) \$1,000,767,761 |
| 2. | Beginning of year accrued liability payment (80,320,428) |
| 3. | Interest accrued $((1+2) \times .08)$ <u>73,635,787</u> |
| 4. | Expected Unfunded Actuarial Liability at June 30, 2007 (1+2+3) 994,083,120 |
| 5. | Actual Unfunded Liability at June 30, 2007 (under EAN method) <u>1,184,242,050</u> |
| 6. | Difference: (4 - 5) (190,158,930) |
| 7. | Portion of difference (6) due to experience Gain/(Loss) 35,189,811 |
| 8. | Portion of difference (6) due to contributions more than expected 20,399,003 |
| 9. | Portion of difference (6) due to actuarial changes (245,747,744) |
| Elements of Experience Gain/(Loss) | |
| 1. | G(L) due to investment experience \$74,938,588 |
| 2. | G(L) due to purchased service credit (1,518,363) |
| 3. | G/(L) due to demographic and payroll experience (38,230,414) |
| 4. | Other Gain/(Loss) <u>-</u> |
| 5. | Total Estimated Experience Gain/(Loss): sum 1 through 4 \$35,189,811 |
| Elements of Contributions Gain/(Loss) | |
| 1. | Total Estimated Contribution Gain/(Loss) \$20,399,003 |
| Elements of Actuarial Changes Gain/(Loss) | |
| 1. | G/(L) due to IRS Section 415 limits Non DROP members 3,744,977 |
| 2. | G/(L) due to IRS Section 415 limits DROP members 2,664,590 |
| 3. | G/(L) due to change in funding method to EAN <u>\$(252,157,311)</u> |
| 4. | Total Estimated Actuarial Changes Gain/(Loss): sum 1 through 3 \$(245,747,744) |

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

Table III-5 shows the history of past experience gains and losses.

| Valuation Date | Gain/(Loss) | Beginning-of-Year Actuarial Liabilities | Gain/(Loss) % of Liability |
|---------------------------|--------------------|--|---------------------------------------|
| 6/30/1992 | \$57,952,320 | \$1,006,299,729 | 5.8% |
| 6/30/1993 | (42,605,778) | 1,057,238,917 | (4.0) |
| 6/30/1994 | (6,744,850) | 1,220,830,059 | (0.6) |
| 6/30/1995 | (11,370,990) | 1,338,279,541 | (0.8) |
| 6/30/1996 | 59,592,960 | 1,476,710,662 | 4.0 |
| 6/30/1997 | 38,473,993 | 1,682,604,532 | 2.3 |
| 6/30/1998 | 31,086,010 | 1,822,432,018 | 1.7 |
| 6/30/1999 * | 29,750,299 | 1,979,668,038 | 1.5 |
| 6/30/2000 | 286,639,160 | 2,181,547,453 | 13.1 |
| 6/30/2001 | (193,168,984) | 2,528,773,900 | (7.6) |
| 6/30/2002 | (364,815,155) | 2,809,537,745 | (13.0) |
| 6/30/2003 | (303,699,305) | 3,168,921,175 | (9.6) |
| 6/30/2004 | (58,123,874) | 3,532,625,521 | (1.6) |
| 6/30/2005 | 36,775,882 | 3,997,328,084 | 0.9 |
| 6/30/2006 | 205,249,486 | 4,377,092,948 | 4.7 |
| 6/30/2007 | 35,189,811 | 4,982,699,455 | 0.7 |

* Beginning with the June 30, 1999 valuation, experience is City only. The prior years include all employers.

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 an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

The actuarial funding methodology for the June 30, 2007 actuarial valuation and going forward is the Entry Age Normal actuarial funding method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability. Per the Board's decision in May 2007, the UAL for FY 2009 is to be amortized over 20 years, with no negative amortization.

Table IV-1 on the following page shows how the City's contribution rate for SDCERS for FY 2009 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).

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

Table IV-1
SDCERS - City of San Diego
Development of the City's Contribution as of June 30, 2007, For (FY 2009)
(dollars in millions)

| | WEIGHTED TOTAL CITY | Non-Safety | | | Safety | | | |
|--|---------------------------|-------------------|------------|---------|-------------------|----------|----------|-----------|
| | | Weighted Total | General | Elected | Weighted Total | Police | Fire | Lifeguard |
| 1. Total Normal Cost Rate | 23.89% | 19.95% | 19.94% | 29.07% | 31.10% | 31.10% | 30.90% | 33.05% |
| 2. Member Contribution Rate | 10.97% | 10.06% | 10.07% | 8.43% | 12.69% | 12.51% | 13.07% | 12.66% |
| 3. Employer Normal Cost Rate (1-2) | 12.92% | 9.89% | 9.87% | 20.64% | 18.41% | 18.59% | 17.83% | 20.39% |
| 4. June 30, 2007 Payroll | \$ 512.4 | \$ 331.3 | \$ 330.8 | \$ 0.5 | \$ 181.1 | \$ 121.6 | \$ 54.3 | \$ 5.2 |
| 5. Present Value Future Payroll | 5,235.6 | 3,425.0 | 3,419.4 | 5.7 | 1,810.5 | 1,201.0 | 553.8 | 55.7 |
| 6. Present Value Future Normal Costs (1 x 5) | 1,246.1 | 683.0 | 681.8 | 1.2 | 563.1 | 373.6 | 171.1 | 18.4 |
| 7. Actuarial Liability | \$ 5,597.7 | \$ 2,858.5 | \$ 2,849.5 | \$ 8.9 | \$ 2,739.2 | 1,749.0 | \$ 930.9 | \$ 59.3 |
| 8. Actuarial Assets ¹ | 4,413.4 | 2,253.7 | 2,246.7 | 7.1 | 2,159.7 | 1,379.0 | 734.0 | 46.8 |
| 9. Unfunded Actuarial Liability (7-8) | \$ 1,184.2 | \$ 604.7 | \$ 602.8 | \$ 1.9 | \$ 579.5 | \$ 370.0 | \$ 196.9 | \$ 12.5 |
| 10. Unfunded Actuarial Liability Rate | 15.78% | 12.47% | 12.45% | 24.49% | 21.85% | 20.78% | 24.77% | 16.39% |
| 11. Negative Amortization Adjustment Rate | 1.75% | 1.39% | 1.39% | 2.61% | 2.38% | 2.29% | 2.64% | 1.82% |
| 12. Total Liability Rate (10+11) | 17.53% | 13.86% | 13.84% | 27.10% | 24.23% | 23.07% | 27.41% | 18.21% |
| 13. Total Contribution Rate (3+12) | 30.45% | 23.75% | 23.71% | 47.74% | 42.64% | 41.66% | 45.24% | 38.60% |
| 14. Total Contribution Rate Beginning of Year | 29.30% | 22.85% | 22.81% | 45.94% | 41.03% | 40.08% | 43.54% | 37.14% |
| 15. Projected Payroll | \$ 552.1 | \$ 357.0 | \$ 356.4 | \$ 0.6 | \$ 195.1 | \$ 130.9 | \$ 58.6 | \$ 5.6 |
| 16. Beginning of Year FY 2009 Total Contribution | \$ 161.7 | \$ 81.6 | \$ 81.3 | \$ 0.3 | \$ 80.1 | \$ 52.5 | \$ 25.5 | \$ 2.1 |
| 17. FY 2009 Contribution if Paid During Year | \$ 168.1 | \$ 84.8 | \$ 84.5 | \$ 0.3 | \$ 83.2 | \$ 54.5 | \$ 26.5 | \$ 2.2 |

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

The FASB No. 35 Basis disclosure provides a “snap shot” view of how system assets at market value compare to liabilities if contributions stopped and accrued benefit claims had to be satisfied.

The GASB No. 25 Basis disclosure presents the actuarial liability computed for funding purposes to the actuarial value of assets to determine a funded ratio (i.e. the EAN liability).

Both the present value of accrued benefits (FASB No. 35 Basis) and the actuarial liability (GASB No. 25 Basis) are determined assuming that 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 to the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2006 and June 30, 2007 are presented in Table V-1 and Table V-2.

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

| Table V-1 | | | |
|--|----------------------|----------------------|--------------|
| SDCERS - City of San Diego – Total | | | |
| Item | June 30, 2007 | June 30, 2006 | % Change |
| FASB No. 35 Basis | | | |
| 1. Present Value of Benefits Accrued and Vested to Date | | | |
| a. Members Currently Receiving Payments | \$3,101,594,060 | \$2,822,202,831 | 9.9% |
| b. Vested Terminated and Inactive Members | 239,571,040 | 189,840,833 | 26.2% |
| c. Active Members | <u>997,117,270</u> | <u>1,015,204,203</u> | <u>-1.8%</u> |
| d. Total PVAB | \$4,338,282,370 | \$4,027,247,867 | 7.7% |
| 2. Assets at Market Value | 4,641,340,923 | 3,981,931,694 | 16.6% |
| 3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero | \$ - | \$ 45,316,173 | |
| 4. Ratio of Assets to Value of Benefits (2)/(1)(d) | 106.99% | 98.87% | 8.1% |
| GASB No. 25 Basis | | | |
| | (EAN method) | (PUC method) | |
| 1. Actuarial Liabilities * | | | |
| a. Members Currently Receiving Payments | \$3,101,594,060 | \$2,822,202,831 | 9.9% |
| b. Vested Terminated and Inactive Members | 239,571,040 | 189,840,833 | 26.2% |
| c. Active Members | <u>2,256,487,761</u> | <u>1,970,655,791</u> | <u>14.5%</u> |
| d. Total PVAB | \$5,597,652,861 | \$4,982,699,455 | 12.3% |
| 2. Actuarial Value of Assets | \$4,413,410,812 | \$3,981,931,694 | 10.8% |
| 3. Unfunded Actuarial Liability | \$1,184,242,049 | \$1,000,767,761 | 18.3% |
| 4. Ratio of Actuarial Value of Assets To Actuarial Liability (2)/(1)(d) | 78.84% | 79.92% | -1.1% |

* June 30, 2007 GASB 25 liabilities are based on the EAN Method. The prior year is based on PUC.

| Table V-2 | |
|---|---|
| SDCERS - City of San Diego – Total | |
| Item | Accumulated Benefits Obligation (FASB 35) |
| Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2006 | \$4,027,247,867 |
| Increase (Decrease) During Year Attributable to: | |
| Passage of Time | 311,693,897 |
| Benefits Paid | (262,148,308) |
| Assumption Change | - |
| Plan Amendment | - |
| Benefits Accrued, Other Gains/Losses | <u>261,488,914</u> |
| Net Increase (Decrease) | \$311,034,503 |
| Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2007 | \$4,338,282,370 |

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Tables V-3 through V-5 are exhibits required for the City’s Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (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 presents an analysis of financial experience for the valuation year, and Table V-5 presents the Solvency Test which shows the portion of actuarial liability covered by assets.

**Table V-3
SDCERS - City of San Diego
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, 2007 |
| Actuarial funding method | Entry Age Normal |
| Amortization method | Level percent closed |
| Remaining amortization period | 20 years |
| Asset valuation method | Expected Value Method |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases due to inflation ¹ | 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 most recent 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.

¹ 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
SDCERS - City of San Diego
ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Actuarial Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience
and Actual Experience

*Gain (or Loss) for
Year ending
June 30, 2007*

Type of Activity

| | |
|--|---------------------|
| Investment Income | \$ 74,938,588 |
| Combined Liability Experience | <u>(39,748,777)</u> |
| Gain (or Loss) During Year from Financial Experience | \$ 35,189,811 |
| Non-Recurring Gain (or Loss) Items | (225,348,741) |
| Composite Gain (or Loss) During Year | \$ (190,158,930) |

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5
SDCERS - City of San Diego
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) |
| 2007 ⁶ | \$ 482,526 | \$ 3,101,594 | \$ 2,013,532 | \$ 4,413,411 | 100% | 100% | 41.19% |
| 2006 ⁴ | 456,562 | 2,822,203 | 1,703,935 | 3,981,932 | 100 | 100 | 41.27 |
| 2005 | 457,550 | 2,183,263 | 1,736,279 | 2,983,080 | 100 | 100 | 19.71 |
| 2004 | 414,986 ⁵ | 1,946,660 | 1,635,681 | 2,628,680 | 100 | 100 | 16.33 |
| 2003 | 375,000 ⁵ | 1,741,490 | 1,416,126 | 2,375,431 | 100 | 100 | 18.28 |
| 2002 | 353,686 | 1,440,392 | 1,374,742 | 2,448,208 | 100 | 100 | 47.58 |
| 2001 | 296,851 | 1,337,799 | 1,174,888 | 2,525,646 | 100 | 100 | 75.84 |
| 2000 ³ | 276,352 | 1,170,075 | 1,082,347 | 2,459,815 | 100 | 100 | 93.63 |
| 1999 | 238,278 | 1,026,395 | 916,874 | 2,033,153 | 100 | 100 | 83.82 |
| 1998 ² | 220,415 | 885,586 | 873,667 | 1,852,151 | 100 | 100 | 85.40 |

1 Actuarial Value of Assets

2 Reflects revised actuarial and economic assumptions

3 Reflects non-contingent Corbett benefit increases

4 Reflects contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits

5 Estimated

6 The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method.

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-1 | | | |
|--|----------------------|----------------------|-----------------|
| SDCERS - City of San Diego | | | |
| Active Member Data | | | |
| | June 30, 2007 | June 30, 2006 | % Change |
| <u>Total</u> | | | |
| Count | 8,494 | 8,887 | -4.4% |
| Average Current Age | 43.6 | 43.3 | 0.5% |
| Average Service | 13.3 | 13.1 | 1.6% |
| Average Pensionable Earnings | \$ 60,330 | \$ 60,099 | 0.4% |
| Annual Pensionable Earnings | \$ 512,440,197 | \$ 534,102,801 | -4.1% |
| Average Valuation Compensation ¹ | \$ 60,324 | \$ 60,099 | 0.4% |
| Annual Valuation Compensation ¹ | \$ 512,393,206 | \$ 534,102,801 | -4.1% |
| Service Without Permissive Service Purchased | 11.6 | 11.3 | 2.7% |
| Members with Paid Purchased Service | 2,800 | 3,075 | -8.9% |
| Members with Any Purchased Service | 2,974 | 3,281 | -9.4% |
| Amount of Paid Purchased Service | 12,199 | 13,387 | -8.9% |
| Amount of Total Purchased Service | 14,294 | 15,844 | -9.8% |
| <u>General</u> | | | |
| Count | 6,072 | 6,409 | -5.3% |
| Average Current Age | 45.0 | 44.6 | 0.9% |
| Average Service | 13.2 | 13.0 | 1.5% |
| Average Pensionable Earnings | \$ 54,563 | \$ 54,314 | 0.5% |
| Annual Pensionable Earnings | \$ 331,307,649 | \$ 348,098,006 | -4.8% |
| Average Valuation Compensation ¹ | \$ 54,555 | \$ 54,314 | 0.4% |
| Annual Valuation Compensation ¹ | \$ 331,260,658 | \$ 348,098,006 | -4.8% |
| Service Without Permissive Service Purchased | 11.3 | 10.9 | 3.7% |
| Members with Paid Purchased Service | 2,241 | 2,470 | -9.3% |
| Members with Any Purchased Service | 2,322 | 2,574 | -9.8% |
| Amount of Paid Purchased Service | 10,821 | 11,943 | -9.4% |
| Amount of Total Purchased Service | 12,023 | 13,417 | -10.4% |
| <u>Safety</u> | | | |
| Count | 2,422 | 2,478 | -2.3% |
| Average Current Age | 40.0 | 40.0 | 0.0% |
| Average Service | 13.3 | 13.3 | 0.0% |
| Average Pensionable Earnings | \$ 74,786 | \$ 75,062 | -0.4% |
| Annual Pensionable Earnings | \$ 181,132,548 | \$ 186,004,794 | -2.6% |
| Average Valuation Compensation ¹ | \$ 74,786 | \$ 75,062 | -0.4% |
| Annual Valuation Compensation ¹ | \$ 181,132,548 | \$ 186,004,794 | -2.6% |
| Service Without Permissive Service Purchased | 12.4 | 12.3 | 0.8% |
| Members with Paid Purchased Service | 559 | 605 | -7.6% |
| Members with Any Purchased Service | 652 | 707 | -7.8% |
| Amount of Paid Purchased Service | 1,378 | 1,443 | -4.5% |
| Amount of Total Purchased Service | 2,271 | 2,427 | -6.4% |

1 Valuation compensation differs from pensionable earnings due to IRS 401(a).

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

| Table A-2 SDCERS - City of San Diego Non-Active Member Data | | | | | | |
|--|----------------------|----------------------|-----------------|----------------------|----------------------|-----------------|
| | Count | | | Average Age | | |
| | June 30, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change |
| <u>Total</u> | | | | | | |
| Retired | 4,354 | 4,118 | 5.7% | 65.8 | 66.1 | -0.4% |
| Disabled | 1,245 | 1,237 | 0.6% | 61.7 | 61.2 | 0.8% |
| Beneficiaries | <u>1,080</u> | <u>1,046</u> | 3.3% | <u>74.9</u> | <u>75.0</u> | -0.2% |
| Payee Total | 6,679 | 6,401 | 4.3% | 66.5 | 66.6 | -0.1% |
| DROP Participants | 1,045 | 959 | 9.0% | 57.5 | 57.3 | 0.5% |
| Deferred Vested ¹ | 2,606 | 2,359 | 10.5% | 43.8 | 43.6 | 0.6% |
| Vested < 10 yrs svc | 1,763 | 1,630 | 8.2% | | | |
| <u>General</u> | | | | | | |
| Retired | 2,886 | 2,707 | 6.6% | 67.8 | 68.3 | -0.7% |
| Disabled | 430 | 427 | 0.7% | 60.6 | 60.4 | 0.3% |
| Beneficiaries | <u>688</u> | <u>666</u> | 3.3% | <u>77.2</u> | <u>77.3</u> | -0.1% |
| Payee Total | 4,004 | 3,800 | 5.4% | 68.7 | 69.0 | -0.4% |
| DROP Participants | 602 | 530 | 13.6% | 59.5 | 59.5 | 0.0% |
| Deferred Vested ¹ | 2,157 | 1,983 | 8.8% | 44.8 | 44.4 | 0.9% |
| Vested < 10 yrs svc | 1,475 | 1,392 | 6.0% | | | |
| <u>Safety</u> | | | | | | |
| Retired | 1,468 | 1,411 | 4.0% | 61.9 | 61.8 | 0.2% |
| Disabled | 815 | 810 | 0.6% | 62.3 | 61.6 | 1.1% |
| Beneficiaries | <u>392</u> | <u>380</u> | 3.2% | <u>70.9</u> | <u>71.1</u> | -0.3% |
| Payee Total | 2,675 | 2,601 | 2.8% | 63.3 | 63.1 | 0.3% |
| DROP Participants | 443 | 429 | 3.3% | 54.8 | 54.5 | 0.6% |
| Deferred Vested ¹ | 449 | 376 | 19.4% | 39.0 | 39.1 | -0.3% |
| Vested < 10 yrs svc | 288 | 238 | 21.0% | | | |

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

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

| Table A-3 SDCERS - City of San Diego Non-Active Member Data | | | | | | |
|--|-----------------------------|----------------------|-----------------|-------------------------------|----------------------|-----------------|
| | Total Annual Benefit | | | Average Annual Benefit | | |
| | June 30, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change |
| <u>Total</u> | | | | | | |
| Retired | \$ 187,827,706 | \$ 170,186,825 | 10.4% | \$ 43,139 | \$ 41,328 | 4.4% |
| Disabled | 33,422,130 | 31,992,059 | 4.5% | 26,845 | 25,863 | 3.8% |
| Beneficiaries | <u>12,912,306</u> | <u>11,568,435</u> | 11.6% | <u>11,956</u> | <u>11,060</u> | 8.1% |
| Payee Total | \$ 234,162,141 | \$ 213,747,320 | 9.6% | \$ 35,059 | \$ 33,393 | 5.0% |
| DROP Participants | \$ 56,380,016 | \$ 51,221,178 | 10.1% | \$ 53,952 | \$ 53,411 | 1.0% |
| Deferred Vested ¹ | \$ 90,347,344 | \$ 71,328,108 | 26.7% | \$ 34,669 | \$ 30,237 | 14.7% |
| <u>General</u> | | | | | | |
| Retired | \$ 99,071,458 | \$ 88,006,870 | 12.6% | \$ 34,328 | \$ 32,511 | 5.6% |
| Disabled | 6,507,778 | 6,268,393 | 3.8% | 15,134 | 14,680 | 3.1% |
| Beneficiaries | <u>6,432,225</u> | <u>5,788,134</u> | 11.1% | <u>9,349</u> | <u>8,691</u> | 7.6% |
| Payee Total | \$ 112,011,462 | \$ 100,063,396 | 11.9% | \$ 27,975 | \$ 26,332 | 6.2% |
| DROP Participants | \$ 25,407,946 | \$ 22,263,866 | 14.1% | \$ 42,206 | \$ 42,007 | 0.5% |
| Deferred Vested ¹ | \$ 72,844,083 | \$ 57,398,343 | 26.9% | \$ 33,771 | \$ 28,945 | 16.7% |
| <u>Safety</u> | | | | | | |
| Retired | \$ 88,756,247 | \$ 82,179,956 | 8.0% | \$ 60,461 | \$ 58,242 | 3.8% |
| Disabled | 26,914,351 | 25,723,667 | 4.6% | 33,024 | 31,758 | 4.0% |
| Beneficiaries | <u>6,480,081</u> | <u>5,780,301</u> | 12.1% | <u>16,531</u> | <u>15,211</u> | 8.7% |
| Payee Total | \$ 122,150,680 | \$ 113,683,924 | 7.4% | \$ 45,664 | \$ 43,708 | 4.5% |
| DROP Participants | \$ 30,972,070 | \$ 28,957,312 | 7.0% | \$ 69,914 | \$ 67,500 | 3.6% |
| Deferred Vested ¹ | \$ 17,503,261 | \$ 13,929,765 | 25.7% | \$ 38,983 | \$ 37,047 | 5.2% |

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 June 30, 2007.

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-4
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2007
Total City**

| Age | Years of Service ¹ | | | | | | | | | | Total | |
|--------------------|-------------------------------|--------|--------|----------|----------|----------|----------|----------|----------|-----------|-------|-------|
| | 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 | 88 | 70 | 2 | - | - | - | - | - | - | - | - | 160 |
| 25 to 29 | 103 | 292 | 154 | 3 | - | - | - | - | - | - | - | 552 |
| 30 to 34 | 65 | 247 | 419 | 108 | 6 | - | - | - | - | - | - | 845 |
| 35 to 39 | 42 | 169 | 470 | 369 | 164 | 19 | - | - | - | - | - | 1,233 |
| 40 to 44 | 35 | 133 | 295 | 385 | 534 | 324 | 22 | 3 | - | - | - | 1,731 |
| 45 to 49 | 27 | 92 | 245 | 293 | 405 | 512 | 301 | 25 | 3 | - | - | 1,903 |
| 50 to 54 | 14 | 79 | 151 | 197 | 241 | 310 | 238 | 126 | 34 | 8 | - | 1,398 |
| 55 to 59 | 18 | 53 | 86 | 113 | 101 | 55 | 24 | 12 | 5 | 2 | - | 469 |
| 60 to 64 | 3 | 22 | 35 | 38 | 42 | 14 | 6 | 4 | 3 | 1 | - | 168 |
| 65 to 69 | 2 | 5 | 10 | 3 | 4 | - | - | - | - | - | - | 24 |
| 70 and up | - | 1 | 2 | 2 | 2 | 1 | - | 2 | 1 | - | - | 11 |
| Total Count | 397 | 1,163 | 1,869 | 1,511 | 1,499 | 1,235 | 591 | 172 | 46 | 11 | - | 8,494 |

**Table A-5
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2007
Total City**

| Age | Average Salary Years of Service ¹ | | | | | | | | | | Total | |
|--------------------|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|-----------|
| | 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 | \$ 38,307 | \$ 42,481 | \$ 56,222 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 40,357 |
| 25 to 29 | 41,123 | 51,846 | 55,895 | 43,026 | - | - | - | - | - | - | - | 50,927 |
| 30 to 34 | 44,162 | 53,714 | 60,146 | 61,522 | 59,093 | - | - | - | - | - | - | 57,205 |
| 35 to 39 | 48,008 | 51,084 | 59,863 | 65,607 | 62,933 | 59,920 | - | - | - | - | - | 60,384 |
| 40 to 44 | 53,504 | 53,017 | 54,350 | 62,658 | 67,949 | 73,602 | 57,360 | 78,998 | - | - | - | 63,958 |
| 45 to 49 | 48,875 | 53,540 | 52,132 | 56,540 | 63,435 | 70,795 | 73,256 | 58,309 | 69,410 | - | - | 63,709 |
| 50 to 54 | 80,383 | 56,513 | 51,788 | 56,367 | 57,131 | 63,395 | 67,758 | 63,212 | 63,410 | 77,740 | - | 60,661 |
| 55 to 59 | 62,344 | 70,699 | 50,783 | 55,314 | 56,547 | 61,363 | 65,526 | 55,422 | 61,898 | 43,204 | - | 58,010 |
| 60 to 64 | 47,434 | 61,465 | 52,551 | 55,679 | 56,574 | 63,405 | 67,751 | 58,746 | 60,215 | 37,343 | - | 56,981 |
| 65 to 69 | 24,119 | 77,941 | 40,189 | 47,370 | 54,371 | - | - | - | - | - | - | 49,976 |
| 70 and up | - | 18,676 | 15,161 | 41,026 | 25,669 | 35,634 | - | 46,334 | 35,634 | - | - | 31,484 |
| Avg. Salary | \$ 45,652 | \$ 53,278 | \$ 56,352 | \$ 60,468 | \$ 63,226 | \$ 68,974 | \$ 70,080 | \$ 61,931 | \$ 62,824 | \$ 67,788 | - | \$ 60,330 |

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-6
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2007
General**

| Age | Years of Service ¹ | | | | | | | | | | Total | |
|--------------------|-------------------------------|--------|--------|----------|----------|----------|----------|----------|----------|-----------|-------|-------|
| | 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 | 42 | 46 | 1 | - | - | - | - | - | - | - | - | 89 |
| 25 to 29 | 51 | 164 | 81 | 3 | - | - | - | - | - | - | - | 299 |
| 30 to 34 | 43 | 157 | 242 | 63 | 6 | - | - | - | - | - | - | 511 |
| 35 to 39 | 35 | 133 | 319 | 200 | 109 | 18 | - | - | - | - | - | 814 |
| 40 to 44 | 31 | 112 | 239 | 255 | 281 | 164 | 20 | 3 | - | - | - | 1,105 |
| 45 to 49 | 26 | 88 | 224 | 251 | 267 | 309 | 154 | 23 | 3 | - | - | 1,345 |
| 50 to 54 | 13 | 78 | 139 | 184 | 216 | 258 | 194 | 122 | 34 | 8 | - | 1,246 |
| 55 to 59 | 18 | 53 | 85 | 112 | 101 | 53 | 22 | 12 | 5 | 2 | - | 463 |
| 60 to 64 | 3 | 21 | 35 | 37 | 41 | 14 | 6 | 4 | 3 | 1 | - | 165 |
| 65 to 69 | 2 | 5 | 10 | 3 | 4 | - | - | - | - | - | - | 24 |
| 70 and up | - | 1 | 2 | 2 | 2 | 1 | - | 2 | 1 | - | - | 11 |
| Total Count | 264 | 858 | 1,377 | 1,110 | 1,027 | 817 | 396 | 166 | 46 | 11 | - | 6,072 |

**Table A-7
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2007
General**

| Age | Average Salary Years of Service ¹ | | | | | | | | | | Total | |
|--------------------|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|-----------|
| | 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 | \$ 31,440 | \$ 35,721 | \$ 36,429 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 33,709 |
| 25 to 29 | 37,452 | 46,803 | 43,450 | 43,026 | - | - | - | - | - | - | - | 44,262 |
| 30 to 34 | 43,264 | 50,541 | 51,034 | 51,782 | 59,093 | - | - | - | - | - | - | 50,416 |
| 35 to 39 | 48,130 | 46,962 | 53,585 | 55,695 | 53,011 | 58,976 | - | - | - | - | - | 52,829 |
| 40 to 44 | 54,727 | 51,419 | 50,010 | 55,503 | 57,511 | 63,552 | 55,704 | 78,998 | - | - | - | 55,652 |
| 45 to 49 | 49,112 | 52,396 | 50,156 | 53,190 | 54,909 | 62,131 | 59,542 | 55,164 | 69,410 | - | - | 55,747 |
| 50 to 54 | 82,622 | 56,270 | 50,004 | 54,993 | 54,802 | 59,387 | 63,227 | 62,271 | 63,410 | 77,740 | - | 58,052 |
| 55 to 59 | 62,344 | 70,699 | 50,415 | 55,146 | 56,547 | 60,421 | 64,389 | 55,422 | 61,898 | 43,204 | - | 57,715 |
| 60 to 64 | 47,434 | 55,359 | 52,551 | 55,135 | 56,129 | 63,405 | 67,751 | 58,746 | 60,215 | 37,343 | - | 55,955 |
| 65 to 69 | 24,119 | 77,941 | 40,189 | 47,370 | 54,371 | - | - | - | - | - | - | 49,976 |
| 70 and up | - | 18,676 | 15,161 | 41,026 | 25,669 | 35,634 | - | 46,334 | 35,634 | - | - | 31,484 |
| Avg. Salary | \$ 45,969 | \$ 50,789 | \$ 50,613 | \$ 54,589 | \$ 55,572 | \$ 61,359 | \$ 61,547 | \$ 60,817 | \$ 62,824 | \$ 67,788 | - | \$ 54,563 |

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-8
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2007
Safety**

| Age | Years of Service ¹ | | | | | | | | | | Total | |
|--------------------|-------------------------------|--------|--------|----------|----------|----------|----------|----------|----------|-----------|-------|-------|
| | 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 | 46 | 24 | 1 | - | - | - | - | - | - | - | - | 71 |
| 25 to 29 | 52 | 128 | 73 | - | - | - | - | - | - | - | - | 253 |
| 30 to 34 | 22 | 90 | 177 | 45 | - | - | - | - | - | - | - | 334 |
| 35 to 39 | 7 | 36 | 151 | 169 | 55 | 1 | - | - | - | - | - | 419 |
| 40 to 44 | 4 | 21 | 56 | 130 | 253 | 160 | 2 | - | - | - | - | 626 |
| 45 to 49 | 1 | 4 | 21 | 42 | 138 | 203 | 147 | 2 | - | - | - | 558 |
| 50 to 54 | 1 | 1 | 12 | 13 | 25 | 52 | 44 | 4 | - | - | - | 152 |
| 55 to 59 | - | - | 1 | 1 | - | 2 | 2 | - | - | - | - | 6 |
| 60 to 64 | - | 1 | - | 1 | 1 | - | - | - | - | - | - | 3 |
| 65 to 69 | - | - | - | - | - | - | - | - | - | - | - | - |
| 70 and up | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Count | 133 | 305 | 492 | 401 | 472 | 418 | 195 | 6 | - | - | - | 2,422 |

**Table A-9
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2007
Safety**

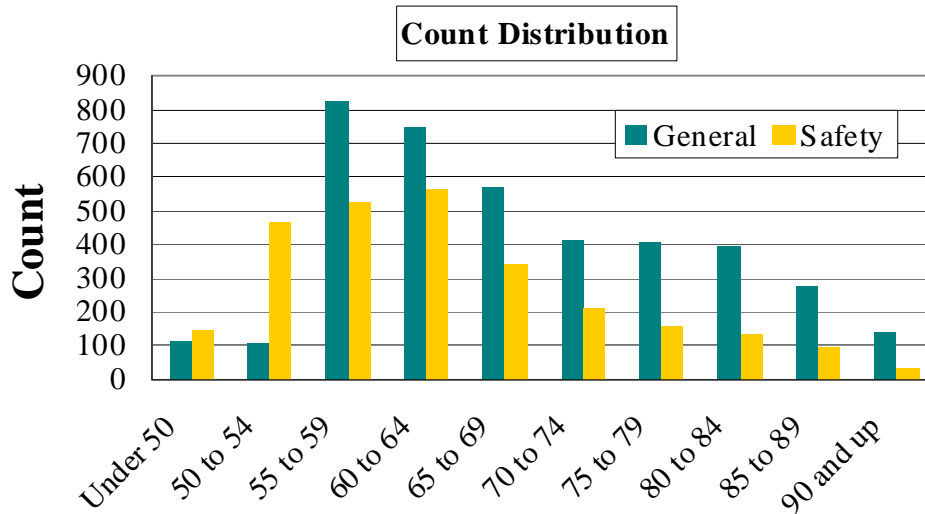
| Age | Average Salary Years of Service ¹ | | | | | | | | | | Total | |
|--------------------|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-------|-----------|
| | Under 1 | 1 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 to 39 | 40 and up | | |
| Under 25 | \$ 44,577 | \$ 55,439 | \$ 76,014 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 48,691 |
| 25 to 29 | 44,724 | 58,308 | 69,704 | - | - | - | - | - | - | - | - | 58,804 |
| 30 to 34 | 45,917 | 59,249 | 72,604 | 75,158 | - | - | - | - | - | - | - | 67,592 |
| 35 to 39 | 47,399 | 66,309 | 73,125 | 77,337 | 82,596 | 76,912 | - | - | - | - | - | 75,061 |
| 40 to 44 | 44,028 | 61,542 | 72,871 | 76,692 | 79,543 | 83,903 | 73,925 | - | - | - | - | 78,620 |
| 45 to 49 | 42,723 | 78,703 | 73,204 | 76,561 | 79,931 | 83,984 | 87,623 | 94,476 | - | - | - | 82,902 |
| 50 to 54 | 51,272 | 75,473 | 72,455 | 75,812 | 77,256 | 83,280 | 87,735 | 91,897 | - | - | - | 82,050 |
| 55 to 59 | - | - | 82,046 | 74,127 | - | 86,335 | 78,031 | - | - | - | - | 80,818 |
| 60 to 64 | - | 189,692 | - | 75,806 | 74,799 | - | - | - | - | - | - | 113,432 |
| 65 to 69 | - | - | - | - | - | - | - | - | - | - | - | - |
| 70 and up | - | - | - | - | - | - | - | - | - | - | - | - |
| Avg. Salary | \$ 45,025 | \$ 60,281 | \$ 72,412 | \$ 76,741 | \$ 79,881 | \$ 83,860 | \$ 87,409 | \$ 92,757 | \$ - | \$ - | \$ - | \$ 74,786 |

APPENDIX A
 MEMBERSHIP INFORMATION

Table A-13
SDCERS - City of San Diego
Distribution of Retirees, Disabled Members,
Beneficiaries and Survivors
as of June 30, 2007

| Age | Count | | Total |
|-----------|---------|--------|-------|
| | General | Safety | |
| Under 50 | 110 | 147 | 257 |
| 50 to 54 | 109 | 464 | 573 |
| 55 to 59 | 826 | 528 | 1,354 |
| 60 to 64 | 751 | 563 | 1,314 |
| 65 to 69 | 570 | 342 | 912 |
| 70 to 74 | 413 | 209 | 622 |
| 75 to 79 | 408 | 158 | 566 |
| 80 to 84 | 398 | 134 | 532 |
| 85 to 89 | 277 | 97 | 374 |
| 90 and up | 142 | 33 | 175 |
| Total | 4,004 | 2,675 | 6,679 |

Chart A-1

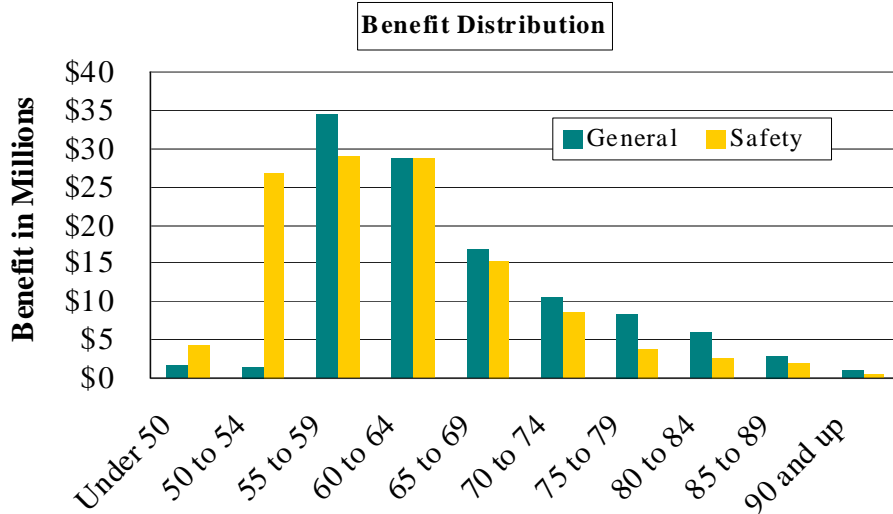


APPENDIX A
 MEMBERSHIP INFORMATION

Table A-14
SDCERS - City of San Diego
Distribution of Retirees, Disabled Members,
Beneficiaries and Survivors
as of June 30, 2007

| Age | Annual Benefit | | |
|--------------|-----------------------|----------------------|-----------------------|
| | General | Safety | Total |
| Under 50 | \$ 1,686,779 | \$ 4,366,138 | \$ 6,052,917 |
| 50 to 54 | 1,437,141 | 26,885,587 | 28,322,728 |
| 55 to 59 | 34,404,298 | 29,030,194 | 63,434,492 |
| 60 to 64 | 28,852,412 | 28,820,143 | 57,672,555 |
| 65 to 69 | 16,847,468 | 15,301,630 | 32,149,098 |
| 70 to 74 | 10,686,789 | 8,577,639 | 19,264,428 |
| 75 to 79 | 8,351,572 | 3,941,723 | 12,293,295 |
| 80 to 84 | 5,920,038 | 2,774,677 | 8,694,715 |
| 85 to 89 | 2,864,646 | 1,864,961 | 4,729,607 |
| 90 and up | 960,318 | 587,988 | 1,548,307 |
| Total | \$ 112,011,462 | \$122,150,680 | \$ 234,162,141 |

Chart A-2



APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Practices

In preparing our data, we relied without audit on information 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 for Actives and Inactives was calculated using Benefit Service. An adjusted date of hire is retroactively calculated from the valuation date. Purchased Service that has been paid for is included in the Benefit Service field. Purchased Service that has been applied for, but not paid as of the valuation date will be assumed to be paid in full and this service will be reflected in the projected benefit.
- Valuation Salary will be the maximum of “Current Annual Pensionable Salary” and annualized “Average Compensation.”
- For accounts having duplicate records in the Actives and Inactives by Social Security Number the information from the latest payroll date is regarded as most up to date. The other record is treated as out of date and invalid.
- There is one duplicate record (based on SSN and Benefit Type) in the payee file. The two records are from the same plan and same benefit type, but different benefit amounts. We have added those amounts together.
- Records on the provided “Member” file are considered to be Active if they have no “Date of Death”, no “Date of Separation”, do not have a retiree record and they received pay in the last pay period (Last Pay Period = 26) of the current FY.
- Records on the “Member” file are considered to be Inactive if they do not have a “Date of Death”, do not have a retiree record and either have a “Date of Separation” or have a “Last Pay Period” earlier than the last pay period of the current FY.
- Records on the “Payee” file are considered in pay status if their benefit is not suspended.
- 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 Qualified Domestic Relations Order purposes. The “Supplement Amt” field is added as an annual benefit (i.e. 13th check) and the “Corbett Supplemental Payment” is annualized for new members in the City only. It is assumed the payment is annual for members already in pay status prior to this valuation.
- Members retiring since 11/1/2006 and not having a “Supplement Amt” (13th check) will have their projected “Supplement Amt” (13th check) calculated assuming \$30 multiplied by the “Total Service Credit.”

APPENDIX A
MEMBERSHIP INFORMATION

- Members may retire and receive benefits from multiple Plan IDs (e.g. - a City police officer could have also worked for the Airport Authority); we will value each members' blended benefit individually. This will result in the counts being slightly higher than actual counts due to people having more than one benefit payable from multiple plans.
- We assume any member found in last year's "Payee" file and not in this year's file has died without a beneficiary and should be removed from the valuation data.
- We assume all deceased members with payments continuing to a beneficiary have already been accounted for in the "Payee" file.
- We exclude any payee receiving \$0.00 from a blended benefit plan.
- We assume that any active member found in the inactive data last year has returned to work and should be valued as active.
- The VCP filing procedure was used to calculate the present value of member's benefit over their Internal Revenue Service Code Section 415 Benefit Limits.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

A. Actuarial Assumptions

1. Investment Return Assumption

SDCERS' assets are assumed to earn 8% 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:

| Years of Service at Valuation Date | General | Safety |
|---|----------------|---------------|
| 0 | 4.50% | 7.50% |
| 1 | 3.50% | 6.50% |
| 2 | 2.50% | 5.50% |
| 3 | 1.50% | 3.00% |
| 4 | 0.50% | 1.50% |
| 5+ | 0.50% | 0.50% |

**APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS**

5. Cost-of-Living Increase in Benefits

Assumed to be 2% per annum, compounded annually.

There is a closed group of 81 Special Safety Officers for whom we assume an annual adjustment equal to inflation (4.25% per year.)

6. COLA Annuity Benefit

For active members, there is a 2.5% load on valued benefits to anticipate the impact of the annuitized employee COLA contributions at retirement.

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.

8. Rates of Termination

| Service | Age | General | Safety |
|----------------|------------|----------------|---------------|
| 0 | All | 5.63% | 2.20% |
| 1 | All | 5.53 | 2.20 |
| 2 | All | 4.33 | 2.15 |
| 3 | All | 4.33 | 2.05 |
| 4 | All | 4.24 | 2.00 |
| 5 & Over | 20 | 4.62 | 2.12 |
| | 25 | 4.62 | 2.12 |
| | 30 | 3.13 | 1.48 |
| | 35 | 2.32 | 0.93 |
| | 40 | 1.60 | 0.39 |
| | 45 | 1.34 | 0.20 |
| | 50 | 1.03 | 0.07 |
| | 55 | 0.77 | 0.03 |
| | 60 | 0.00 | 0.00 |

20% of terminating employees, with 10+ 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 | Safety |
|------------|----------------|---------------|
| 20 | 0.06% | 0.54% |
| 25 | 0.08 | 0.60 |
| 30 | 0.10 | 0.65 |
| 35 | 0.16 | 0.71 |
| 40 | 0.22 | 0.90 |
| 45 | 0.33 | 1.15 |
| 50 | 0.50 | 1.25 |
| 55 | 0.75 | 1.50 |
| 60 | 0.97 | -- |

70% of the general disabilities and 85% of the safety 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

General members follow the Uninsured Pensioner 1994 (UP1994) set back 5 years (male and female). Set back 5 years means that when a member is currently age 50 the actuary uses the age 45 mortality rate. Safety members follow the Male UP 1994 set back 5 years.

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

All active member deaths are assumed to be duty-related for safety members and not duty-related for other members.

**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 - City of San Diego | | |
| 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 General members use Uninsured Pensioner 1994 (UP1994) male only table set forward five years. Disabled Safety members use Uninsured Pensioner 1994 (UP1994) male only table set forward two years.

| Table B-6 | | |
|---|----------------|---------------|
| SDCERS - City of San Diego | | |
| Rates of Mortality for Disabled Lives at Selected Ages | | |
| Age | General | Safety |
| 20 | 0.07% | 0.06% |
| 25 | 0.09 | 0.08 |
| 30 | 0.09 | 0.09 |
| 35 | 0.12 | 0.10 |
| 40 | 0.17 | 0.13 |
| 45 | 0.28 | 0.20 |
| 50 | 0.48 | 0.35 |
| 55 | 0.86 | 0.60 |
| 60 | 1.56 | 1.09 |
| 65 | 2.55 | 1.94 |
| 70 | 4.00 | 3.06 |

**APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS**

13. Rates of Retirement

| Age | General | Elected Officials | Safety |
|------------|----------------|---|---------------|
| 50 | -- | -- | 10% |
| 51 | -- | -- | 10 |
| 52 | -- | -- | 10 |
| 53 | -- | 15% | 10 |
| 54 | -- | 1 | 20 |
| 55 | 20% | 5 | 40 |
| 56 | 10 | 3 | 40 |
| 57 | 10 | 4 | 40 |
| 58 | 15 | 5 | 50 |
| 59 | 15 | 6 | 80 |
| 60 | 20 | 60 | 85 |
| 61 | 25 | 25 | 90 |
| 62 | 50 | 37 | 100 |
| 63 | 40 | 23 | 100 |
| 64 | 25 | 34 | 100 |
| 65 | 50 | 68 | 100 |
| 66 | 40 | 69 | 100 |
| 67 | 40 | 74 | 100 |
| 68 | 40 | 80 | 100 |
| 69 | 40 | 90 | 100 |
| 70 | 100 | 100 | 100 |

In addition, if a Safety member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service (4 years for Elected Officers) on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20+ years of service.

Elected Officers: Earlier of age 55 or age 53 and 8+ years of service.

Safety Members: Earlier of age 55 or age 50 and 20+ years of service.

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

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

14. Family Composite Assumptions

80% of men and 50% of women were assumed married at retirement. A female spouse is assumed to be 4 years younger than her 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.

16. Deferred Member Benefit

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, using the actuarial funding 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 or 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. Actuarial Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of 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. Due to a change accepted by the Board, the June 30, 2007 UAL will be amortized over 20 years. In addition to the 20 year amortization, the UAL payment shall not produce negative amortization on the UAL. A separate line item has been shown for this amount.

2. Asset Valuation Method

For the purposes of determining the City of San Diego'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 provision 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 was initiated 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 in this Report, there have been a few changes in actuarial methods and procedures since the June 30, 2006 actuarial valuation:

- Funding for the plan is based on the Entry Age Normal actuarial funding method rather than the Projected Unit Credit actuarial funding method.
- The June 30, 2007 UAL will be amortized over 20 years and:
 - Future Gains/(Losses) amortized over 15 years.
 - Future Benefit Changes amortized over 5 years.
 - Future Changes in methods or assumptions amortized over 30 years.
- There is no negative amortization on the unfunded liability payments.
- All future benefits payable for inactives from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code (IRC) Section 415. (Active participants benefits were capped under Section 415 as of the June 30, 2006 valuation.)
- Eligibility for the 13th check for active members applies to members hired before February 16, 2007. It was formerly members hired before July 1, 2005.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Salaried Employees – immediate eligibility upon employment (compulsory) (§ 24.0104). *

2. Monthly Salary Base for Benefits

Highest consecutive 12 month average in any employment with a California governmental jurisdiction (§ 24.0103), subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.

3. Service Retirement

Eligibility

General members:

Age 62 with 10 years of service, or age 55 with 20 years of service (§ 141 of City Charter).

Safety members:

Age 55 with 10 years of service, or age 50 with 20 years of service (§ 141 of City Charter).

Elected Officers:

Age 55 with 4 years of service. Reduced retirement with 8 years of service regardless of age (§ 24.0545).

Benefit

General and Safety members:

Member choice of formula in place on June 30, 2000 or Corbett formula effective as of July 1, 2000 or for General Members “Option 3” with a benefit cap of 90% of Final Average Compensation (§ 24.0402). See Appendix D.

Elected Officers:

(Formerly designated as legislative) 3.5% (§ 24.0546). A 2% annual reduction factor applies to benefits for members retiring prior to age 55.

For all employees, there is an additional amount equal to the annuitized member COLA contributions at retirement date.

* All “§” references are to the City of San Diego Municipal Code.

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

Member Service Retirement Accrual Factors

| Table C-1 | | | | | | |
|--|-----------------|-----------------|-----------------|--------------------------|------------------|-----------------|
| SDCERS - City of San Diego | | | | | | |
| Member Service Retirement Accrual Factors | | | | | | |
| Retirement | General | | | Police & Fire | Lifeguard | Safety |
| Age | Option 1 | Option 2 | Option 3 | Option 1 | | Option 2 |
| 50 | -- | -- | -- | 2.50% | 2.20% | 3.00% |
| 51 | -- | -- | -- | 2.60% | 2.32% | 3.00% |
| 52 | -- | -- | -- | 2.70% | 2.44% | 3.00% |
| 53 | -- | -- | -- | 2.80% | 2.57% | 3.00% |
| 54 | -- | -- | -- | 2.90% | 2.72% | 3.00% |
| 55 | 2.00% | 2.25% | 2.50% | 2.99% | 2.77% | 3.00% |
| 56 | 2.00% | 2.25% | 2.50% | 2.99% | 2.77% | 3.00% |
| 57 | 2.00% | 2.25% | 2.50% | 2.99% | 2.77% | 3.00% |
| 58 | 2.00% | 2.25% | 2.50% | 2.99% | 2.77% | 3.00% |
| 59 | 2.08% | 2.25% | 2.50% | 2.99% | 2.77% | 3.00% |
| 60 | 2.16% | 2.30% | 2.55% | 2.99% | 2.77% | 3.00% |
| 61 | 2.24% | 2.35% | 2.60% | 2.99% | 2.77% | 3.00% |
| 62 | 2.31% | 2.40% | 2.65% | 2.99% | 2.77% | 3.00% |
| 63 | 2.39% | 2.45% | 2.70% | 2.99% | 2.77% | 3.00% |
| 64 | 2.47% | 2.50% | 2.75% | 2.99% | 2.77% | 3.00% |
| 65 and up | 2.55% | 2.55% | 2.80% | 2.99% | 2.77% | 3.00% |

GENERAL:

| Table C-2 | |
|--|---|
| SDCERS – City of San Diego | |
| For Vested Members who terminated-- | --the accrual factors are-- |
| Prior to January 1, 1997 | See Pre-1997 Factors on next page |
| January 1, 1997 - June 30, 2000 | Option 1 without 10% increase in Final Average Compensation |
| July 1, 2000 - June 30, 2002 | Option 1 with 10% increase in Final Average Compensation; or Option 2 |
| July 1, 2002 – Present | Option 3 |

SAFETY:

| Table C-3 | |
|--|---|
| SDCERS – City of San Diego | |
| For Vested Members who terminated-- | --the accrual factors are-- |
| Prior to January 1, 1997 | See Pre-1997 Factors on next page |
| January 1, 1997 - June 30, 2000 | Option 1 without 10% increase in Final Average Compensation |
| July 1, 2000 – Present | Option 1 with 10% increase in Final Average Compensation; or Option 2 |

APPENDIX C
 SUMMARY OF PLAN PROVISIONS

| Age | General | Police | Safety Fire | Lifeguard |
|-----------|---------|--------|----------------|-----------|
| 50 | -- | 2.50% | 2.20% | 2.00% |
| 51 | -- | 2.54% | 2.32% | 2.10% |
| 52 | -- | 2.58% | 2.44% | 2.22% |
| 53 | -- | 2.62% | 2.57% | 2.34% |
| 54 | -- | 2.66% | 2.72% | 2.47% |
| 55 | 1.48% | 2.70% | 2.77% | 2.62% |
| 56 | 1.55% | 2.77% | 2.77% | 2.62% |
| 57 | 1.63% | 2.77% | 2.77% | 2.62% |
| 58 | 1.72% | 2.77% | 2.77% | 2.62% |
| 59 | 1.81% | 2.77% | 2.77% | 2.62% |
| 60 | 1.92% | 2.77% | 2.77% | 2.62% |
| 61 | 1.99% | 2.77% | 2.77% | 2.62% |
| 62 | 2.09% | 2.77% | 2.77% | 2.62% |
| 63 | 2.20% | 2.77% | 2.77% | 2.62% |
| 64 | 2.31% | 2.77% | 2.77% | 2.62% |
| 65 and up | 2.43% | 2.77% | 2.77% | 2.62% |

Maximum Benefit

Safety Members: 90% of Final Average Compensation (subject to 10% increase).

General: 90% of Final Average compensation if Option 3 is chosen.

Elected Officers: None.

Unmodified Form of Payment

Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death (§ 24.0521).

Note: City employees withdrew from Social Security January 1, 1982 (§ 24.0104). We are assuming that all future benefits for active members will be determined on a non-integrated basis.

Note: Effective July 1, 1991, credited service earned under the 1981 Pension System will be considered equivalent to SDCERS service for the purpose of benefit calculations (i.e., the above formulas will apply to 1981 Pension System service).

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

4. Non-Industrial Disability

Eligibility

Ten years of service (§ 24.0501).

Benefit

General Members:

Greater of 1.5% per year of service, one-third of final compensation*, or the earned service retirement benefit (§24.0502, §34.0505.1).

Safety Members:

Greater of 1.8% per year of service, one-third of final compensation*, or the earned service retirement benefit (§24.0502, §24.0503.1).

* Per Board decision, the 10% increase on final average compensation has been removed.

5. Industrial Disability

Eligibility

No age or service requirement (§24.0501).

Benefit

General Members:

Greater of one-half of final compensation*, or the earned service retirement benefit (§24.0502, §24.0504.1).

Safety Members:

Greater of one-half of final compensation*, or the earned service retirement benefit (§24.0502, §24.0503).

* Per Board decision, the 10% increase on final average compensation has been removed.

Elected Officers:

Earned service retirement benefit (§24.0547).

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 (§24.0703).

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

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

50% of earned benefit payable to surviving eligible spouse (§24.0704.2).

8. Industrial Death

50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible spouse (§24.0710.2, §24.0706).

9. Death After Retirement

50% of member's unmodified allowance continued to eligible spouse (§24.0521).
\$2,000 payable in lump sum to the beneficiary or the estate of the retiree.

10. Withdrawal Benefits (§24.0206, §24.0503.1)

Pre-12/8/76 Hires

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

Post-12/7/76 Hires

Less than ten years of service:

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

Ten 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

General and Safety Members:

Based on changes in Consumer Price Index, to a maximum of 2% per year (§24.0531).

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2007 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS

12. Member Contributions

Member contribution vary by age at time of entrance into SDCERS. (§24.0201, §24.0301). 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. These are the rates in effect for the June 30, 2007 valuation.

| Table C-5 | | | | |
|--|----------------|---------------|-------------|------------------|
| SDCERS - City of San Diego | | | | |
| Employee Contribution Rates¹ | | | | |
| Entry Age | General | Police | Fire | Lifeguard |
| 20 | 9.18% | 11.86% | 11.55% | 11.20% |
| 21 | 9.28 | 12.02 | 11.71 | 11.36 |
| 22 | 9.39 | 12.16 | 11.85 | 11.50 |
| 23 | 9.50 | 12.32 | 12.01 | 11.66 |
| 24 | 9.60 | 12.47 | 12.16 | 11.81 |
| 25 | 9.73 | 12.64 | 12.33 | 11.98 |
| 26 | 9.85 | 12.79 | 12.48 | 12.13 |
| 27 | 9.96 | 12.96 | 12.65 | 12.30 |
| 28 | 10.08 | 13.12 | 12.81 | 12.46 |
| 29 | 10.20 | 13.29 | 12.98 | 12.63 |
| 30 | 10.32 | 13.45 | 13.14 | 12.79 |
| 31 | 10.45 | 13.62 | 13.31 | 12.96 |
| 32 | 10.57 | 13.78 | 13.47 | 13.12 |
| 33 | 10.69 | 13.95 | 13.64 | 13.29 |
| 34 | 10.81 | 14.13 | 13.82 | 13.47 |
| 35 | 10.95 | 14.31 | 14.00 | 13.65 |
| 36 | 11.08 | 14.48 | 14.17 | 13.82 |
| 37 | 11.22 | 14.66 | 14.35 | 14.00 |
| 38 | 11.35 | 14.85 | 14.54 | 14.19 |
| 39 | 11.48 | 15.03 | 14.72 | 14.37 |
| 40 | 11.62 | 15.22 | 14.91 | 14.56 |
| 41 | 11.76 | 15.41 | 15.10 | 14.75 |
| 42 | 11.89 | 15.59 | 15.28 | 14.93 |
| 43 | 12.03 | 15.79 | 15.48 | 15.13 |
| 44 | 12.18 | 15.99 | 15.68 | 15.33 |
| 45 | 12.32 | 16.17 | 15.86 | 15.51 |
| 46 | 12.46 | 16.40 | 16.07 | 15.72 |
| 47 | 12.61 | 16.58 | 16.27 | 15.92 |
| 48 | 12.76 | 16.77 | 16.46 | 16.11 |
| 49 | 12.91 | 16.97 | 16.66 | 16.31 |
| 50 | 13.05 | | | |
| 51 | 13.22 | | | |
| 52 | 13.37 | | | |
| 53 | 13.53 | | | |
| 54 | 13.69 | | | |
| 55 | 13.85 | | | |
| 56 | 14.01 | | | |
| 57 | 14.21 | | | |

¹ Contribution Rate = Normal Cost + Cost-of-Living Rate

APPENDIX C
SUMMARY OF PLAN PROVISIONS

| | |
|------------|---|
| Interest: | 8.00% |
| Salary: | 5.00% |
| Mortality: | 83 Group Annuity Mortality (GAM) male (Males set back 2 years, Females set back 8 years) |

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

Elected Officers (General) contribute 9.05% of total salary, regardless of entry age.

13. Internal Revenue Code Limitation

Benefits provided by SDCERS' Trust Fund are subject to the limitations set forth in Section 415 of the Internal Revenue Code in accordance with the "grandfather" election in Section 415(b)(10) of the Code.

As of the June 30, 2006 valuation, active participants benefit payments were limited by Section 415 of the Internal Revenue Code. As of the June 30, 2007, all benefit payments were limited by Section 415 of the Internal Revenue Code.

Note: The summary of major plan provisions 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 Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the “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 Funding Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a 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 a 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-City of San Diego'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 funding 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 Liability (UAL)

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

Most retirement systems have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial accrued liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).