



## Summary and Frequently Asked Questions about the June 30, 2010 Actuarial Valuation for the City of San Diego

### SUMMARY

The June 30, 2010 Actuarial Valuation for the City of San Diego (the “2010 Valuation”) incorporates the same actuarial methods used in the City’s June 30, 2009 actuarial valuation. With the actuarial method and assumption changes that were implemented in prior valuations, SDCERS has completed the transition to using the most widely accepted, industry-standard actuarial methods used by public pension plans.

### FREQUENTLY ASKED QUESTIONS

- 1. Based on the June 30, 2010 Actuarial Valuation for the City of San Diego (the “2010 Valuation”) what is the City’s 2010 Unfunded Actuarial Liability (UAL)?**  
Using the Entry Age Normal (“EAN”) funding method, the City’s UAL as of June 30, 2010 was \$2.145 billion. *[See the 2010 Valuation Letter of Transmittal.]*
- 2. How does the 2010 UAL compare to the 2009 UAL?**  
It is \$38.8 million, or 1.8%, higher. The primary cause of the increase was that the actuarial smoothing method continued to phase-in the significant investment loss experienced during FY 2009. However, the increase was less than expected as liabilities grew less than expected, contributions paid were greater than expected, and due to the correction of the underpriced purchased service credits contracts (see question #14). *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 5.]*
- 3. What is the City’s 2010 funding ratio?**  
As of June 30, 2010, the City’s funding ratio, which is the ratio of the actuarial value of assets (after smoothing) over total actuarial liabilities, was 67.1%. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 4.]*
- 4. How does this compare to the City’s 2009 funding ratio?**  
It is 0.6% higher. As of June 30, 2009, the City’s funding ratio was 66.5%. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 4.]*
- 5. What is the City’s Annual Required Contribution (ARC) for FY 2012? (The ARC is the amount the City will have to contribute to SDCERS on or after July 1, 2011.)**  
If paid in full in July 2011 as expected, the City’s ARC for FY 2012 will be \$231.2 million (approximately 41.1% of payroll). If the City pays the ARC evenly throughout FY 2012, the contribution will be \$240.0 million (approximately 42.7% of payroll). *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 6.]*

**6. What was the City's ARC payment for FY 2011?**

The City's FY 2011 ARC was \$229.1 million. Of this, \$225.1 million was paid on July 1, 2010 and \$4.0 million was paid on November 11, 2010. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 6.]*

**7. How is the City's FY 2012 ARC calculated?**

The City's employer contributions are comprised of two components: the Normal Cost contribution and the UAL contribution.

Normal Cost represents, for each active City employee, the present value (as of June 30, 2010) of the portion of the employee's projected retirement benefit assigned to FY 2012. By paying the Normal Cost, the City pays a fixed percentage of salary to fund SDCERS for the value of benefits over each participant's career. If paid at the beginning of FY 2012, the City's Normal Cost is \$63.2 million.

The UAL portion of the employer contribution is an amount the City pays each year to pay down unfunded liabilities accrued over past years. The UAL is paid off ("amortized") over a period of years. The City's total June 30, 2010 UAL of \$2.145 billion is split into several tiers, each using a different amortization period. These tiers are comprised of:

1. the \$1.189 billion remaining balance of the City's June 30, 2007 UAL, now amortized over 17 years (\$91.3 million of the FY 2012 ARC);
2. the \$92.1 million UAL due to the impact of 2008 changes in actuarial assumptions that is amortized over 28 years (\$5.2 million of the FY 2012 ARC);
3. the \$14.4 million UAL due to the FY 2008 experience loss that is amortized over 13 years (\$1.3 million of the FY 2012 ARC);
4. the \$873.5 million UAL due to the FY 2009 experience loss that is amortized over 14 years (\$76.7 million of the FY 2012 ARC);
5. the \$25.9 million UAL due to the FY 2010 experience loss that is amortized over 15 years (\$2.3 million of the FY 2012 ARC); and
6. the \$50.0 million reduction in the UAL due to the FY 2010 experience gain from the PSC correction adjustment that is amortized over 14 years (negative \$8.8 million of the FY 2012 ARC).

Adding the amortization amounts of each tier together results in a FY 2012 UAL amortization payment of \$168.0 million. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at pages 6 and 26.]*

**8. What was the market value of SDCERS' Trust Fund on June 30, 2010, and what was the City's portion of this amount?**

The market value of the assets in SDCERS' Trust Fund on June 30, 2010 was \$4.177 billion. The City's portion of this amount was \$3.901 billion. *[See the 2010 Valuation at page 16.]*

**9. How does this compare to the June 30, 2009 market values?**

The June 30, 2010 values are 12% higher. The June 30, 2009 market value for the SDCERS Trust Fund was \$3.715 billion, and the City's portion of the Trust Fund was \$3.479 billion (\$422 million less than at June 30, 2010). This increase is almost entirely due to an increase in the market value of investments, plus investment income, of \$460 million. This reflects an investment return of 13.4% for the year. *[See the 2010 Valuation at page 16.]*

**10. What is the actuary's assumed investment return for the SDCERS Trust Fund?**

For the 2010 Valuation, SDCERS' actuary assumes a long-term average investment return of 7.75% for Trust Fund assets. *[See the 2010 Valuation at page 45.]*

**11. What were the annualized investment returns of Trust Fund assets?**

SDCERS' annualized investment returns at market value for the one, three, five and ten-year periods ended June 30, 2010, as reported by Hewitt EnnisKnupp, SDCERS' investment consultant, were 13.4%, -4.4%, 2.8% and 4.5%, respectively. Annualized investment returns are different from the actuarial rate of return calculated by the actuary (e.g., 4.47% for the year ending June 30, 2010) because the actuary computes the actuarial return using the Expected Value of Assets smoothing method. *[See the 2010 Valuation at page 18.]*

**12. How does the Expected Value of Assets smoothing method work?**

The Expected Value of Assets smoothing method dampens the volatility in asset values that can occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

The actuarial value of assets each year is equal to 100% of the expected actuarial value of assets plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. In no event will the actuarial value of assets ever be less than 80% of the market value of assets nor greater than 120% of the market value of assets. This asset smoothing corridor did not apply in the June 30, 2010 valuation, as the City's actuarial value of assets of \$4.382 billion was 112% of the City's market value of assets of \$3.901 billion. *[See the 2010 Valuation at page 17.]*

**13. Are the City's retiree health care expenses included in the 2010 Valuation?**

No. Health care expenses are a separate obligation of the City and they are not paid from retirement assets in the SDCERS Trust Fund.

**14. How did the actuary handle the June 7, 2010 court case ruling on underpriced Purchase Service Credits?**

The UAL was reduced by \$50.0 million, which anticipates approximately 50% of the total potential cost savings to the City if all contracts were corrected. Not all of the potential savings were included, as the City has not yet made its final decision as to whether all contracts affected by the court ruling will be corrected or not. The associated UAL savings will be amortized over 14 years and reduce the ARC accordingly. The FY 2012 ARC was reduced by \$8.8 million. *[See the 2010 valuation at page 1.]*