Summary and Answers to Frequently Asked Questions about the June 30, 2011 Actuarial Valuation for the San Diego County Regional Airport Authority

SUMMARY

The June 30, 2011 Actuarial Valuation (the "2011 Valuation") for the San Diego County Regional Airport Authority ("Airport") incorporates the same actuarial methods used in the Airport's June 30, 2010 Actuarial Valuation. The 2011 Valuation also incorporates a number of new actuarial assumptions approved by the SDCERS Board of Administration in September 2011 that were based on an experience study completed by Cheiron in July 2011. The new assumptions include the following:

1. The investment return assumption was lowered from 7.75% to 7.50%;
2. The wage inflation assumption was lowered from 4.00% to 3.75% (following a two-year freeze assumption);
3. Rates of termination were increased, and changed to be based on service as opposed to the age of a member;
4. Disability rates were decreased;
5. Mortality rates were decreased for active lives, and increased for retired disabled lives;
6. Rates of retirement were decreased and changed to be based on age and service as opposed to just the service of a member;
7. The percent married assumption was increased; and
8. For the Cost-of-Living (COL) Annuity, the valuation was changed from load factors to a direct valuation of existing member accounts and load factors only for prospective contributions.

SDCERS uses the most widely accepted, industry-standard actuarial methods followed by public pension plans. *[See the Valuation beginning at page 42 for more details on assumptions and methods.]*

FREQUENTLY ASKED QUESTIONS

1. Based on the June 30, 2011 Actuarial Valuation for the San Diego County Regional Airport Authority, what is the Airport's 2011 Unfunded Actuarial Liability (UAL)?

Using the Entry Age Normal ("EAN") funding method, the Airport's UAL as of June 30, 2011 was ($2.3) million (a surplus). *[See the 2011 Valuation Letter of Transmittal.]*

2. How does the 2011 UAL compare to the 2010 UAL?

It is $5.3 million lower, and now at a surplus. The primary cause of the increase was due better than expected investment experience and liability experience. *[See the 2011 Valuation Letter of Transmittal and the 2011 Valuation at page 5.]*

3. What is the Airport's 2011 funding ratio?

As of June 30, 2011, the Airport's funding ratio, which is the ratio of the actuarial value of assets (after smoothing) over total actuarial liabilities, was 102.7%. Had the funding ratio been measured on a market value of assets basis, the ratio would be at 103.4% as of June 30, 2011. *[See the 2011 Valuation Letter of Transmittal and the 2011 Valuation at page 4.]*

4. How does this compare to the Airport's 2010 funding ratio?

It is 6.7% higher. As of June 30, 2010, the Airport's funding ratio was 96.0%. *[See the 2011 Valuation Letter of Transmittal and the 2011 Valuation at page 4.]*

5. What is the Airport's Annual Required Contribution (ARC) for FY 2013? (The ARC is the amount the Airport will have to contribute to SDCERS on or after July 1, 2012.)

If paid in full in July 2012 as expected, the Airport's ARC for FY 2013 will be $2.6 million (approximately 10.3% of payroll). If the Airport pays the ARC evenly throughout FY 2013, the contribution will be $2.7 million (approximately 10.9% of payroll). *[See the 2011 Valuation Letter of Transmittal]*

6. What was the Airport's ARC payment for FY 2012?

The Airport's FY 2012 ARC was $3.8 million. *[See the 2011 Valuation Letter of Transmittal and the 2011 Valuation at page 6.]*

7. How is the Airport's FY 2013 ARC calculated?

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

Normal Cost represents, for each active Airport employee, the present value (as of June 30, 2011) of the portion of the employee's projected retirement benefit assigned to FY 2013. By paying the Normal Cost, the Airport 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 2013, the Airport's Normal Cost is $3.0 million (approximately 11.9% of payroll).

The UAL portion of the employer contribution is an amount the Airport pays each year to pay down unfunded liabilities accrued over past years. The UAL is paid off ("amortized") over a period of years. The Airport's total June 30, 2011 UAL of ($2.3) million is split into several tiers, each using a different amortization period. These tiers are comprised of:

1. The negative $2.4 million remaining balance of the Airport's June 30, 2007 UAL, now amortized over 10 years (negative $0.3 million of the FY 2013 ARC);

2. The $3.1 million UAL due to the impact of 2008 changes in actuarial assumptions that is amortized over 27 years ($0.2 million of the FY 2013 ARC);

3. The negative $1.4 million UAL due to the FY 2008 experience gain that is amortized over 12 years (negative $0.1 million of the FY 2013 ARC);

4. The $10.5 million UAL due to the FY 2009 experience loss that is amortized over 13 years ($1.0 million of the FY 2013 ARC);

5. The negative $5.4 million UAL due to the FY 2010 experience gain that is amortized over 14 years (negative $0.5 million of the FY 2013 ARC);

6. The $1.75 million reduction in the UAL due to the FY 2010 experience gain from the PSC correction adjustment that is amortized over 14 years (negative $0.2 million of the FY 2013 ARC);

7. The negative $4.2 million UAL due to the FY 2011 experience gain that is amortized over 15 years (negative $0.4 million of the FY 2013 ARC); and

8. The negative $0.6 million UAL due to the impact of 2011 changes in actuarial assumptions that is amortized over 30 years (negative $0.03 million of the FY 2013 ARC).

Adding the amortization amounts of each tier together results in a FY 2013 UAL amortization payment of negative $0.3 million (approximately -1.2% of payroll). *[See the 2011 Valuation at page 24.]*

8. What was the market value of SDCERS' Trust Fund on June 30, 2011, and what was the Airport's portion of this amount?

The market value of the assets in SDCERS' Trust Fund on June 30, 2011 was $5.204 billion. The Airport's portion of this amount was $86.9 million. *[See the 2011 Valuation at page 15.]*

9. How does this compare to the June 30, 2010 market values?

The June 30, 2011 values are 34.1% higher. The June 30, 2010 market value for the SDCERS Trust Fund was $4.177 billion, and the Airport's portion of the Trust Fund was $64.8 million ($22.1 million less than at June 30, 2011). This increase is largely due to an increase in the market value of investments plus investment income, and reflects an investment return of 24.2% for the year. *[See the 2011 Valuation at pages 15 and 17.]*

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

For the 2011 Valuation, SDCERS' actuary assumed a long-term average investment return of 7.50% for Trust Fund assets. *[See the 2011 Valuation at page 34.]*

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, 2011, as reported by Hewitt EnnisKnupp, SDCERS' Investment Consultant, were 24.2%, 4.4%, 4.8% and 6.9%, respectively. Annualized investment returns are different from the actuarial rate of return calculated by the actuary (e.g., 8.8% for the year ending June 30, 2011) because the actuary computes the actuarial return using the Expected Value of Assets smoothing method. *[See the 2011 Valuation at pages 16 and 17.]*

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, 2011 valuation, as the Airport's actuarial value of assets of $86.3 million billion was 99% of the Airport's market value of assets of $86.9 million. *[See the 2011 Valuation at page 16.]*

13. How did the actuary handle the June 7, 2011 court case ruling on underpriced Purchase Service Credits?

In the June 30, 2010 Actuarial Valuation, the UAL was reduced by $1.75 million, an estimate based on pure actuarial judgment with no specific data or information on the elections made by plan members. For the 2011 Valuation, the actuary had specific data for the majority of the members affected by the PSC correction and the actuary revised the financial impact reflecting members' actual elections. The revised financial impact decreased the previously estimated UAL reduction from $1.75 million to $1.33 million. The associated UAL savings are being amortized over a 15 year period and reduce the ARC accordingly. The FY 2013 ARC was reduced by $0.1 million. *[See the 2011 valuation at pages 6 and 24.]*