San Diego City Employees' Retirement System

Actuarial Valuation as of June 30, 2012 for the San Diego County Regional Airport Authority

Produced by Cheiron

January 2013

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LETTER OF TRANSMITTAL

January 4, 2013

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

Re: San Diego County Regional Airport Authority June 30, 2012 Actuarial Valuation

Dear Members of the Board:

At your request, we performed the June 30, 2012 Actuarial Valuation of the San Diego City Employees' Retirement System (SDCERS). The valuation results with respect to the San Diego County Regional Airport Authority are contained in this valuation report. The table below presents the key results of the valuation for the Airport Authority.

Table I-1
SDCERS - Airport Authority

Valuation Date	**6/30/2012**	**6/30/2011**
Unfunded Actuarial Liability (in millions)	$ 1.4	$ (2.3)
Funding Ratio	98.5%	102.7%
Airport Contribution Rate	11.90%	10.91%
Fiscal Year	**2014**	**2013**
Annual Required Contribution (GASB):		
-if paid at the beginning of the year	$ 2.9 million	$ 2.6 million
-if paid throughout the year	$ 3.0 million	$ 2.7 million

- *Unfunded Actuarial Liability (UAL):* The Airport Authority's UAL has increased by $3.7 million. The primary causes of this increase were investment returns less than expected ($1.3 million) and a change in the methodology ($1.4 million) used to allocate total benefit liabilities between the actuarial (i.e., past service) liabilities, and future normal costs (i.e., future service liabilities). The change in method did not impact the value of total benefit liabilities. More details on the method change can be found in Appendix B.

- *Funding Ratio:* This is the ratio of the system's actuarial value of assets to actuarial liabilities, which decreased by 4.2%.

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- *Contributions (GASB ARC):* Airport Authority contributions were determined under full compliance with the Governmental Accounting Standards Board (GASB) Statement Number 25, defining the annual required contribution (ARC) for the Airport Authority for fiscal year July 1, 2013 through June 30, 2014 (FY 2014). The results of this valuation produced an increase in the Airport Authority's ARC of $0.3 million. When measured as a percent of membership payroll, the ARC increased by 0.99%.

More details on plan experience for the past year can be found in the valuation report. Furthermore, it is important to note that this valuation was prepared using the census data and financial information as of the valuation date, June 30, 2012. Changes in membership and investment experience following that date are not reflected in this report. The next valuation will reflect all membership and investment experience changes through June 30, 2013.

In preparing our report, we relied on information (some oral and some written) supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

To the best of our knowledge, this report and its contents have 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 of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Finally, this report was prepared exclusively for the San Diego City Employees' Retirement System for the purpose described herein and for the use by the plan auditor in completing an audit related to the matters herein. This report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron

Gene Kalwarski, FSA, EA, MAAA	David Holland, ASA, EA, MAAA
Principal Consulting Actuary	Associate Actuary

cc: Alice Alsberghe

SECTION I
BOARD SUMMARY

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

- The financial condition of the SDCERS-Airport Authority Defined Benefit Plan,
- Past and expected trends in the financial condition of SDCERS-Airport Authority,
- The Airport Authority's contribution rates for Fiscal Year 2014, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section, we present a summary of the principal valuation results. This summary includes the basis upon which the June 30, 2012 valuation was completed and an examination of the current financial condition of SDCERS-Airport Authority. In addition, we present a review of the key historical trends followed by the projected financial outlook for SDCERS-Airport Authority.

A. Valuation Basis

Effective January 1, 2013, new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. There are less significant changes for current employees and retirees.

There are no New Members in the current valuation. However, in calculating the FY14 ARC, the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2013 and subsequent valuations, the actual cost implications will vary and further study may be required.

In FY 2014 GASB 67, which applies to pension plans, will replace the current GASB 25, and in FY 2015 GASB 68, which applies to plan sponsors, will replace the current GASB 27. GASB 67 and GASB 68 will require additional disclosures, which will be implemented in future valuations. Also, GASB 67 and 68 do not include the concept of an ARC, which in recent years has been the basis for determining SDCERS' recommended plan sponsor contribution. Before the June 30, 2013 valuation begins, the SDCERS funding policy will need to be reviewed by the Board in light of the new GASB statements effective for the 2013 valuation to determine the basis for recommended contributions in FY 2015 and beyond.

In this year's valuation there was a change in the methodology used to allocate total benefit liabilities between the actuarial (i.e., past service) liabilities, and future normal costs (i.e. future service liabilities). The change in method did not impact the value of total benefit liabilities. There have been no significant changes to the actuarial assumptions. More details on the assumptions and methods can be found in Appendix B.

B. Current Financial Condition of SDCERS-Airport Authority

The following discussion summarizes the key results of the June 30, 2012 valuation and shows how they compare to the results from the June 30, 2011 valuation.

1. Airport Authority Membership

   Table I-2 shows that total membership in SDCERS-Airport Authority increased by 1.3% from 2011 to 2012. The increase was attributable to the growth in inactive membership (terminated vested, disabled, retirees and beneficiaries), as the active membership count actually declined by 0.9%. Active Member payroll decreased by 1.7%, for an average decrease of 0.8%.

Table I-2
SDCERS - Airport Authority - Membership Total

Item	June 30, 2012	June 30, 2011	% Change
Active Counts	341	344	-0.9%
Terminated Vested	76	75	1.3%
Disabled	1	1	0.0%
Retirees	41	33	24.2%
Beneficiaries	4	4	0.0%
Total Airport Authority Members	463	457	1.3%
Active Member Payroll	$ 24,726,028	$ 25,148,490	-1.7%
Average Pay per Active Member	$ 72,510	$ 73,106	-0.8%

SECTION I
BOARD SUMMARY

2. Airport Authority Assets and Liabilities

Table I-3 presents a comparison between the June 30, 2012 and June 30, 2011 SDCERS-Airport Authority assets, liabilities, unfunded actuarial liability, and funding ratios.

The key results shown in Table I-3 indicate that due to the total actuarial liability increase of 15.7% and the actuarial value of assets increase of 11.0%, the funding ratio decreased from 102.7% as of June 30, 2011 to 98.5% as of June 30, 2012. SDCERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets increased by 11.0% even though the market value only increased by 5.9%. Had the funding ratio been measured on a market value of assets basis, the ratio would be at 94.6% as of June 30, 2012.

Section II-C provides additional information explaining the development of the actuarial value of assets.

Table I-3
SDCERS - Airport Authority - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2012	June 30, 2011	% Change
Actives	$ 70,540,876	$ 63,899,462	10.4%
Terminated Vested	4,246,096	4,010,179	5.9%
Disabled	228,252	226,161	0.9%
Retirees	21,356,642	15,054,748	41.9%
Beneficiaries	852,988	851,875	0.1%
Total Actuarial (EAN) Liability	$ 97,224,854	$ 84,042,425	15.7%
Market Value Assets	$ 91,997,000	$ 86,907,895	5.9%
Actuarial Value Assets	$ 95,792,613	$ 86,309,270	11.0%
Unfunded Actuarial Liability	$ 1,432,241	$ (2,266,845)	-163.2%
Funding Ratio-Actuarial Value	98.5%	102.7%	-4.2%

SECTION I
BOARD SUMMARY

3. Components of UAL Change between June 30, 2011 and June 30, 2012

The unfunded actuarial liability (UAL) for SDCERS-Airport Authority increased by $3.7 million, from a surplus of $2.3 million to deficit of $1.4 million. Table I-4 below presents the specific components of this change in the UAL.

Investment experience less than projected increased the UAL by $1.4 million. The change in methodology used to compute the actuarial liability under the Entry Age Normal (EAN) funding method increased the UAL by $1.4 million. The change in method did not impact the value of total benefit liabilities. More details on the method change can be found in Appendix B.

Table I-4
SDCERS - Airport Authority-Change in UAL
(In Millions)

1.	**UAL at June 30, 2011**	**$**	**(2.3)**
2.	Expected change in UAL*		(0.4)
3.	Investment experience less than projected		1.4
4.	Liability experience loss		0.5
5.	Liability loss due to method change		1.4
6.	Employee contributions paid less than expected		0.7
7.	Total change in UAL: sum of 2 through 6		3.7
8.	**UAL at June 30, 2012: 1 + 7**	**$**	**1.4**

** Includes projected phase-in of investment gains or losses.*

SECTION I
BOARD SUMMARY

4. Airport Authority Contributions

The Airport Authority's contribution for FY 2014 measured as a percent of membership payroll increased from 10.91% to 11.90%. In dollars, the required beginning of year contribution increased by $0.3 million, from $2.6 million to $2.9 million. This increase in the ARC was $0.2 million more than the expected increase of $0.1 million, assuming continued phase-in of investment experience from prior years.

The change in method noted earlier in the report caused a $0.1 million reduction in the ARC, since the reduction in the normal cost more than offset the increase in the UAL payment. More details on the method change can be found in Appendix B.

Table I-5 below presents the specific components of the change in the ARC. In Section IV we provide more detail on the development of this contribution rate.

Table I-5
SDCERS - Airport Authority-Change in ARC
(In Millions)

1.	**ARC at June 30, 2011**	**$**	**2.6**
2.	Expected change in ARC*		0.1
3.	Investment experience less than projected		0.1
4.	Reduction due to method change		(0.1)
5.	Employee contributions paid less than expected		0.1
6.	Increase in negative amortization cost component		0.1
7.	Other misc changes		-
8.	Total change in ARC: sum of 2 through 7		0.3
9.	**ARC at June 30, 2012: 1 + 8**	**$**	**2.9**

** Includes projected phase-in of investment gains or losses.*

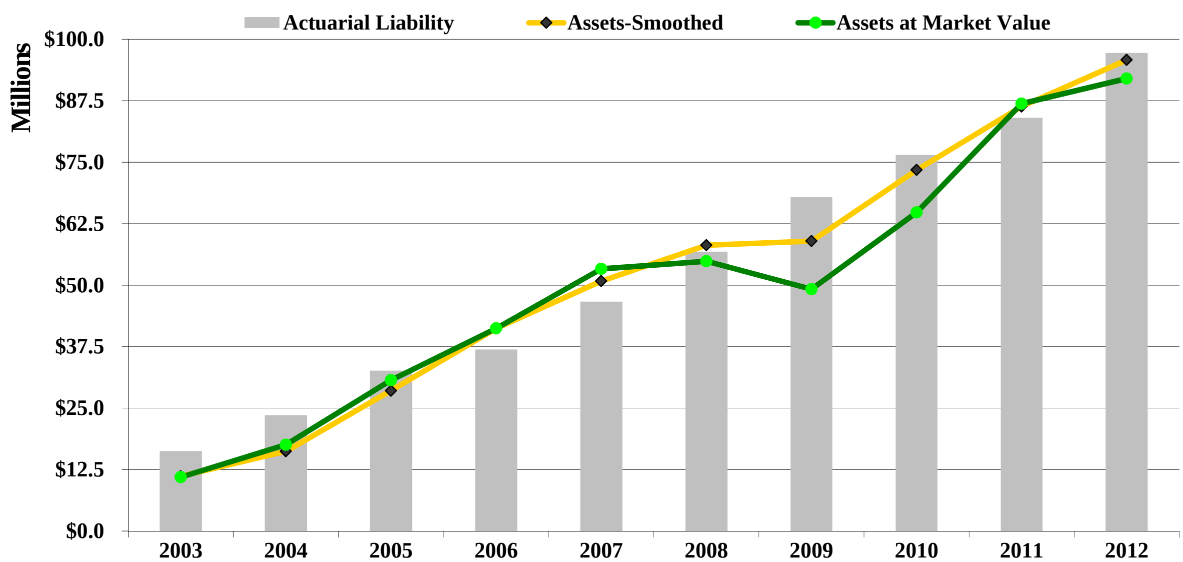
SECTION I
BOARD SUMMARY

C. Historical Trends SDCERS-Airport Authority

Despite the fact that most of the attention given to the valuation focuses on the most recently computed unfunded actuarial liability (UAL), funding ratio, and the Airport Authority'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, and trends expected into the future.

In the chart below, we present the historical trends for both the market value and smoothed assets compared to actuarial liabilities, and SDCERS-Airport Authority funding ratios since 2003.

SDCERS-Airport Authority Assets and Liabilities 2003-2012



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Funding Ratio	68.4%	68.8%	87.6%	111.7%	109.0%	102.3%	86.9%	96.0%	102.7%	98.5%
UAL (millions)	$ 5.1	$ 7.4	$ 4.1	$ (4.3)	$ (4.2)	$ (1.3)	$ 8.9	$ 3.0	$ (2.3)	$ 1.4

* The UAL for 2007 and after is calculated using the Entry Age Normal method; 2006 and prior years are calculated using the Projected Unit Credit method.

The chart indicates that in 2003 and 2004, the funding ratio was slightly more than 68% of the actuarial value of assets. In 2005 through 2006, the funding ratio significantly increased due to excess contributions and strong investment performance. In 2009 the funding ratio declined significantly due to investment losses. It has been near 100% for the last three years.

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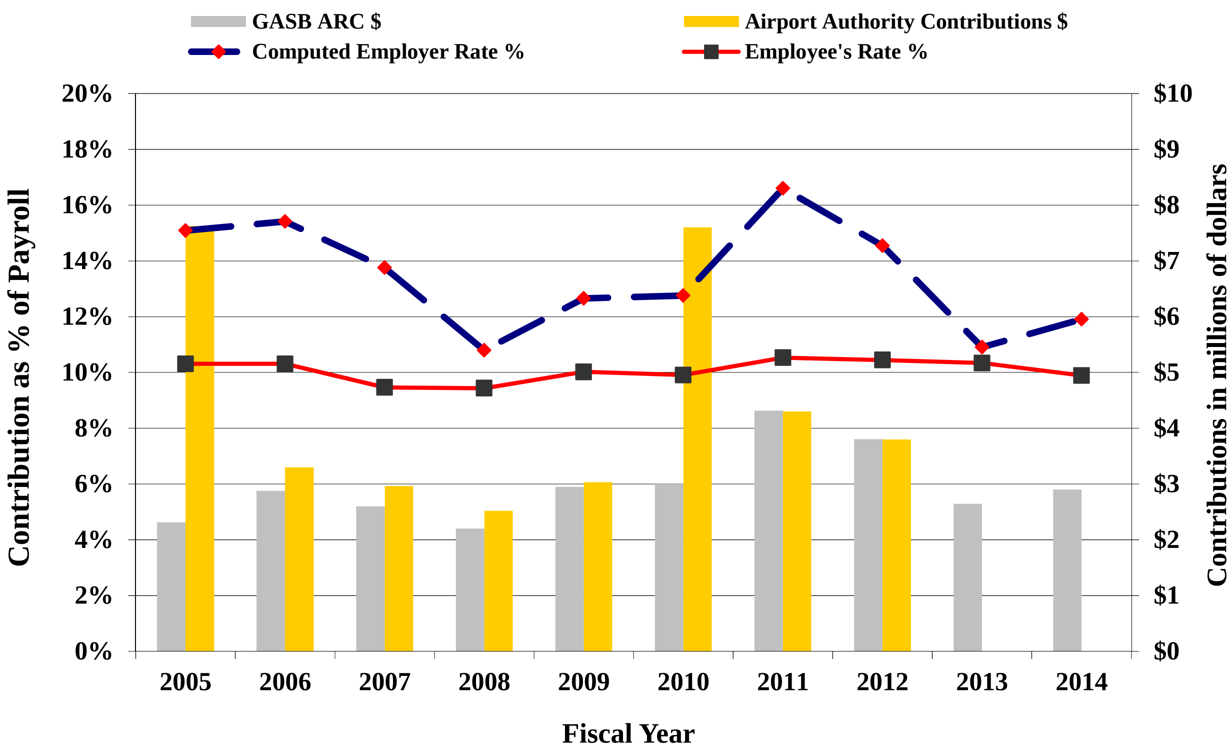
BOARD SUMMARY

In the chart below, we present the historical trends for the SDCERS-Airport Authority contribution rates, actual contributions made by the Airport Authority and the actuarially computed GASB ARC.

SDCERS-Airport Authority and Member Contribution Rates FY 2005-2014



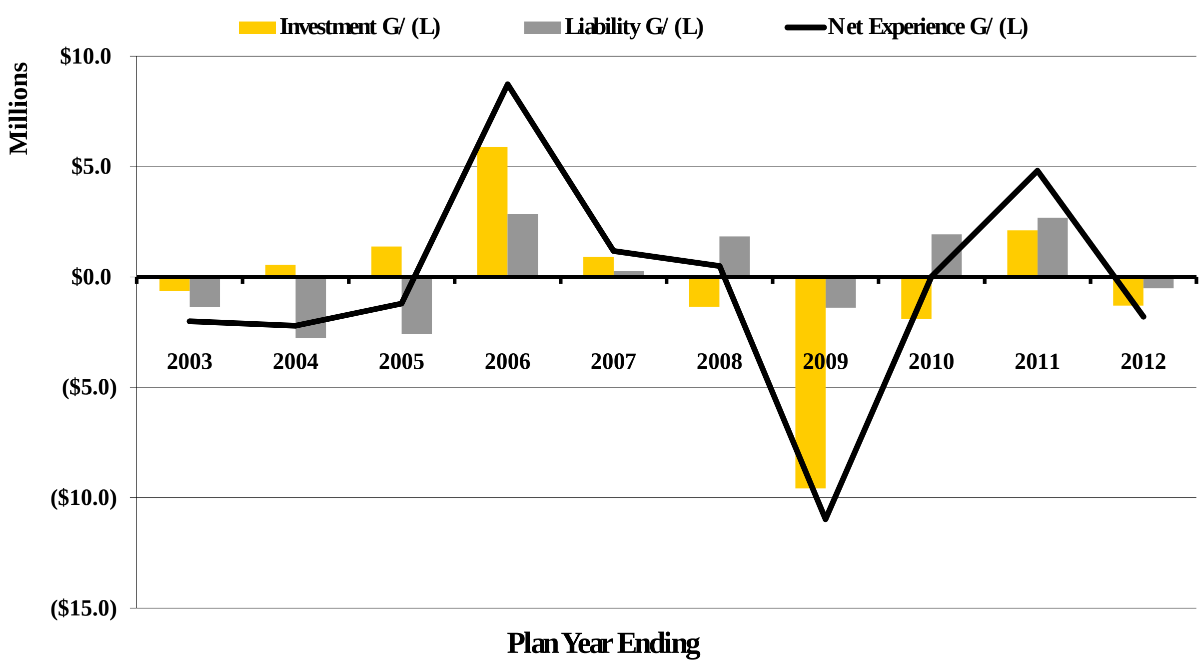
The Airport Authority's contribution rate increased for fiscal year 2014 after decreasing significantly for fiscal years 2012 and 2013, but is still lower than the average throughout the period. The chart shows that the Members' contribution rate has remained relatively stable in contrast to the volatility in the employer rates.

This chart also compares the actual contributions made by the Airport Authority to the annual required contribution (ARC) based on the Board's adopted funding practice of Normal Cost plus amortization of various UAL components, including the requirement beginning in fiscal year 2009 that there be no negative amortization. The chart indicates that the Airport Authority has been consistently paying at or above the ARC since FY 2005, with a significant excess contribution amount in FY 2010.

SECTION I
BOARD SUMMARY

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

SDCERS-Airport Authority Historical Gain/(Loss) 2003-2012



The key insights from this chart are:

- The System experienced investment gains (gold bars) in 2004 through 2007, which were more than offset by investment losses of 2008 through 2010.
- The investment loss in 2009 was by far the most significant gain or loss during the last ten years.
- There was a pattern of liability loss from 2003 to 2005. The liability experience has been more varied over the past few years.

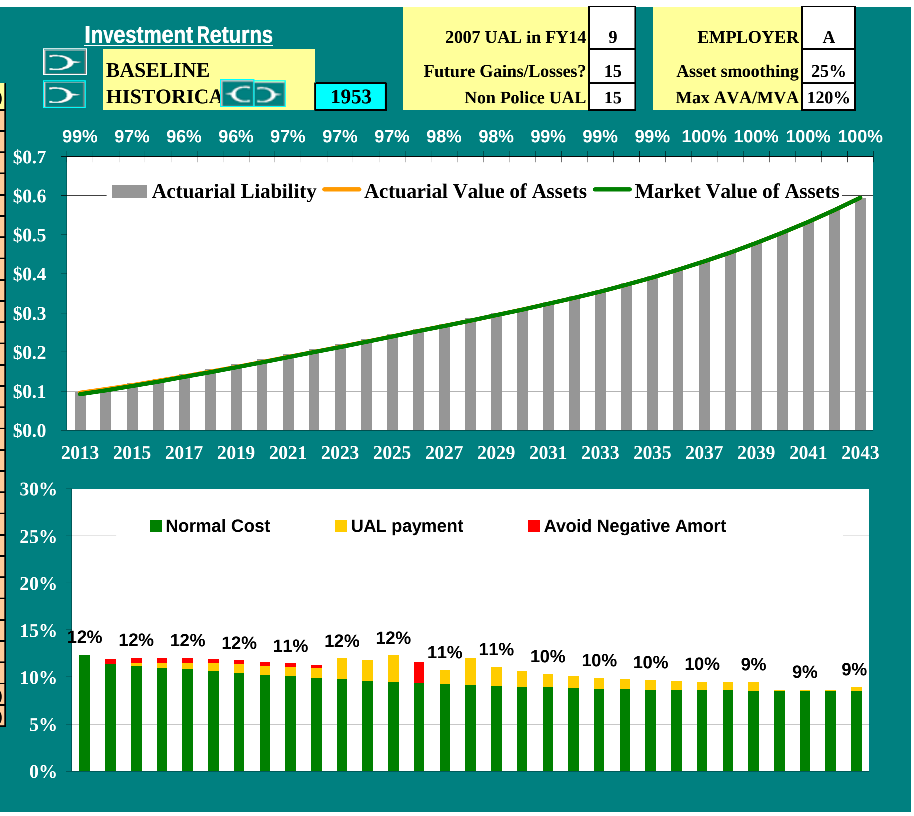
D. Projected Financial Trends

Our analysis of SDCERS-Airport Authority projected financial trends is an important part of this valuation. Our assessment of the implications of the June 30, 2012 valuation results on the future outlook of SDCERS-Airport Authority in terms of benefit security (assets over liabilities) and the Airport Authority's expected cost progression is set forth below. In addition, given the concern regarding unfunded liabilities, we also show the Airport Authority's expected future pay down of unfunded liabilities.

In the chart that follows, we project the SDCERS-Airport Authority assets and liabilities and the Airport Authority's contributions as a percent of payroll assuming 7.50% returns each and every year and liability growth exactly as anticipated by the plan assumptions. The upper chart compares the assets (green and yellow lines) and liabilities (gray bars) and the lower chart shows the Airport Authority contribution rates (UAL rate in yellow bars and Normal Cost rate in green bars). The left side of the exhibit shows the returns assumed each year followed by the annual ARC and UAL in dollar amounts.

SDCERS-Airport Authority Projections FY 2013-2042 (earnings as assumed)

FYE		ARC (mill)	UAL (mill)
2013	7.50%	$ 2.6	$ (2.27)
2014	7.50%	$ 2.9	$ 1.43
2015	7.50%	$ 3.0	$ 2.90
2016	7.50%	$ 3.2	$ 3.80
2017	7.50%	$ 3.3	$ 4.51
2018	7.50%	$ 3.4	$ 5.08
2019	7.50%	$ 3.5	$ 5.54
2020	7.50%	$ 3.5	$ 5.91
2021	7.50%	$ 3.6	$ 6.21
2022	7.50%	$ 3.7	$ 6.44
2023	7.50%	$ 4.1	$ 6.63
2024	7.50%	$ 4.2	$ 6.79
2025	7.50%	$ 4.5	$ 6.59
2026	7.50%	$ 4.0	$ 6.31
2027	7.50%	$ 4.2	$ 5.72
2028	7.50%	$ 5.0	$ 5.79
2029	7.50%	$ 4.7	$ 5.63
2030	7.50%	$ 4.7	$ 4.79
2031	7.50%	$ 4.7	$ 4.25
2032	7.50%	$ 4.8	$ 3.79
2033	7.50%	$ 4.9	$ 3.38
2034	7.50%	$ 5.0	$ 3.00
2035	7.50%	$ 5.1	$ 2.62
2036	7.50%	$ 5.3	$ 2.24
2037	7.50%	$ 5.4	$ 1.84
2038	7.50%	$ 5.6	$ 1.42
2039	7.50%	$ 5.8	$ 0.96
2040	7.50%	$ 5.5	$ 0.45
2041	7.50%	$ 5.7	$ (0.11)
2042	7.50%	$ 5.9	$ (0.19)
FYE	7.50%	= average return	



SECTION I
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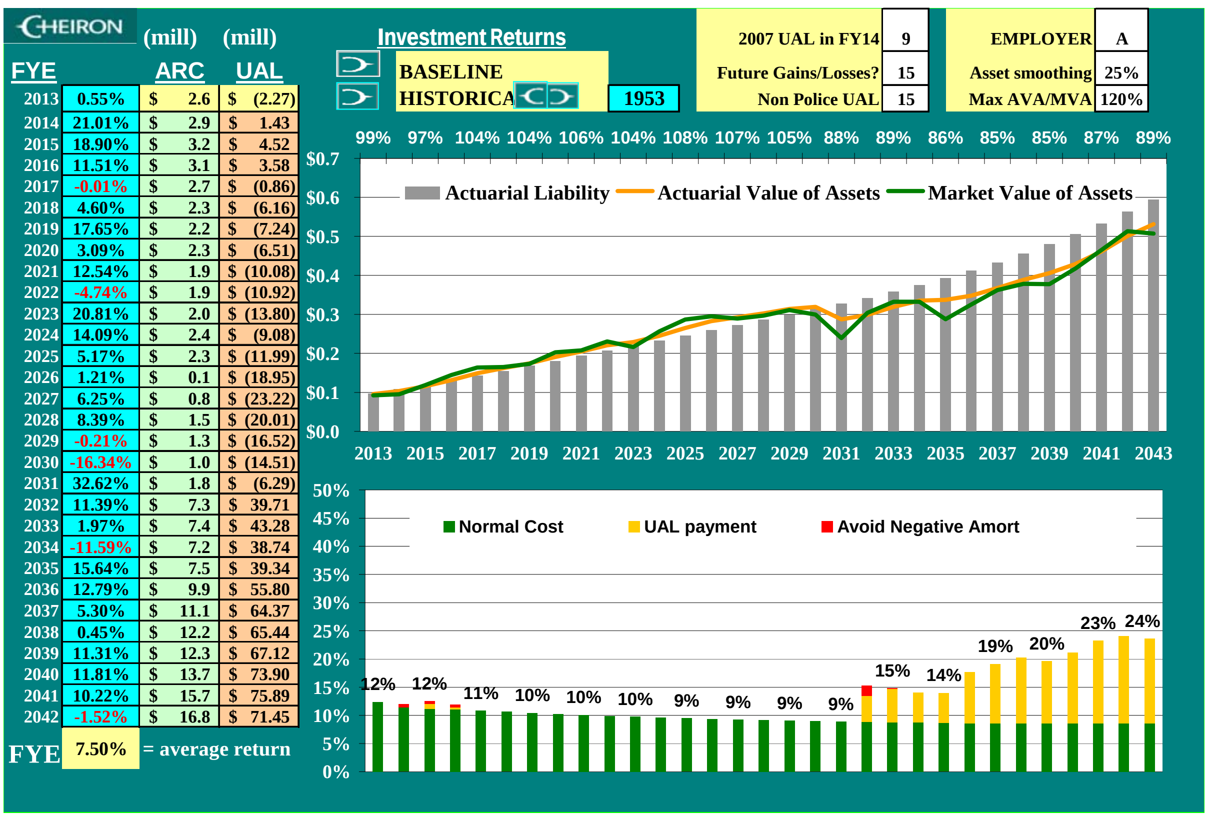
Based on assuming 7.50% earnings each and every year, the Airport Authority's funded status (percentages at the top of the upper graph) is ultimately projected to reach 100%. The Airport Authority's ARC generally increases throughout the projection period, reaching $5.9 million by 2042, but the payment as a percentage of pay gradually declines.

However, it is critical to note that these projections, while valid as baseline projections, **are not likely to occur** as experience never conforms exactly to assumptions from year to year. As a result, we present the following projection, based on assuming varying returns over the period which on average equal the assumed 7.50% earnings rate. The returns selected generally represent the returns that would have resulted from a passive 60%/40% equity/fixed income portfolio during the period of 1953 to 1983. This period was selected because it happened to mirror the assumed 7.50% investment assumption of SDCERS.

SDCERS-Airport Authority Projections FY 2013-2042 (earnings which vary by year)



FYE		(mill) ARC	(mill) UAL
2013	0.55%	$ 2.6	$ (2.27)
2014	21.01%	$ 2.9	$ 1.43
2015	18.90%	$ 3.2	$ 4.52
2016	11.51%	$ 3.1	$ 3.58
2017	-0.01%	$ 2.7	$ (0.86)
2018	4.60%	$ 2.3	$ (6.16)
2019	17.65%	$ 2.2	$ (7.24)
2020	3.09%	$ 2.3	$ (6.51)
2021	12.54%	$ 1.9	$ (10.08)
2022	-4.74%	$ 1.9	$ (10.92)
2023	20.81%	$ 2.0	$ (13.80)
2024	14.09%	$ 2.4	$ (9.08)
2025	5.17%	$ 2.3	$ (11.99)
2026	1.21%	$ 0.1	$ (18.95)
2027	6.25%	$ 0.8	$ (23.22)
2028	8.39%	$ 1.5	$ (20.01)
2029	-0.21%	$ 1.3	$ (16.52)
2030	-16.34%	$ 1.0	$ (14.51)
2031	32.62%	$ 1.8	$ (6.29)
2032	11.39%	$ 7.3	$ 39.71
2033	1.97%	$ 7.4	$ 43.28
2034	-11.59%	$ 7.2	$ 38.74
2035	15.64%	$ 7.5	$ 39.34
2036	12.79%	$ 9.9	$ 55.80
2037	5.30%	$ 11.1	$ 64.37
2038	0.45%	$ 12.2	$ 65.44
2039	11.31%	$ 12.3	$ 67.12
2040	11.81%	$ 13.7	$ 73.90
2041	10.22%	$ 15.7	$ 75.89
2042	-1.52%	$ 16.8	$ 71.45
FYE	7.50%	= average return	

With varying annual earnings that average over the period to 7.50%, one can see the volatility in the funding ratios in the top chart, and the fact that the Airport Authority contribution rate and ARC increase at the end of the projection period. Note that this chart is based on a particular historical period and is not intended to reflect future expectations.

SECTION I
BOARD SUMMARY

This last chart demonstrates the risks faced by SDCERS measured in terms of funding ratios and contribution rates. Whether the System is fully funded or poorly funded, subsequent returns can quickly alter the financial position of the plan dramatically. The point being, it is impossible to judge the financial soundness of a system with a single year point measurement. What is more important to consider is the systems' level of conservatism in funding the plan, and the discipline and ability of the plan sponsor to consistently contribute the ARC as determined by the plan actuary.

SECTION II
ASSETS

Like other public pension plans, SDCERS uses two different asset measurements that are presented in this section of the report: the market value and the 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 smoothes annual investment performance over multiple years to reduce the impact of annual investment volatility on employer contribution rates. The actuarial value of assets 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, this section discloses information on the total assets of SDCERS-All Employers. In addition, a brief explanation of how those assets are apportioned to the City of San Diego, the San Diego Unified Port District (Port), and the San Diego County Regional Airport Authority (Airport) is included.

On the following pages, detailed information is presented on SDCERS-All Employers assets, including:

A. Disclosure of the June 30, 2012 total SDCERS market value of assets, by asset class;
B. Market value of assets by Plan Sponsor;
C. Development of the actuarial value of assets; and
D. Disclosure of the investment performance for the year.

SECTION II
ASSETS

A. Disclosure of Market Value of Assets

The market value of assets represents a "snap-shot" value as of June 30, 2012, the last day of the fiscal year, which provides the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with swings in the investment markets. 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, 2012.

Table II-1
SDCERS – All Employers
Summary of Reported Market Value of Total Defined Benefit Plan Assets

Cash	$	166,455,000
US Stocks		1,534,892,000
International Stocks		1,204,447,000
Private Equity		155,834,000
Bonds		1,737,793,000
Real Estate		555,969,000
Receivables		171,954,000
Miscellaneous		3,720,000
Accounts Payable		(367,537,000)
Market Value of Assets – June 30, 2012	**$**	**5,163,527,000**

SECTION II
ASSETS

B. Market Value of Assets by Plan Sponsor

As of July 1, 2007, the City, Unified Port District, and Airport Authority plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust. Cash flow activity for each plan is recorded directly to that plan, with investment activity and other cash flow activity not specific to any one plan being allocated based upon each plan's respective share of the Group Trust's total assets, with time-weighted adjustments for the plan-specific cash flows. Administrative expenses are allocated based on the proportion of participants of a participating trust to the number of total participants of all participating trusts on the first day of the plan year. Table II-2 below discloses the market value and actuarial value of assets by plan.

Table II-2
Summary of Market and Actuarial Assets for Each Employer Group
as of June 30, 2012

	Market Value Total Net Assets June 30, 2011	Market Value Total Net Assets June 30, 2012	Actuarial Value Total Assets June 30, 2012
City of San Diego	$ 4,848,058,570	$ 4,799,827,000	$ 4,982,441,649
Unified Port District	269,379,835	271,703,000	277,821,539
Airport Authority	86,907,895	91,997,000	95,792,613
Total-SDCERS	***$ 5,204,346,300***	***$ 5,163,527,000***	***$ 5,356,055,801***

SECTION II
ASSETS

C. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets. Unlike 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.

The actuarial value of assets is equal to 100% of the expected actuarial value of assets as of June 30, 2012 (based on the prior year assumption of 7.50% earnings for the year) plus 25% of the difference between the current actual market value of assets and the expected actuarial value of assets. (See Appendix B, Section B-2 for further explanation of the asset valuation method). In no event will the actuarial value of assets ever be less than 80% of the market value of assets, nor ever greater than 120% of the market value of assets.

Table II-3
SDCERS - Airport Authority
Development of Actuarial Value of Assets at June 30, 2012
Expected Value of Assets Method

1. Actuarial Value of Assets at June 30, 2011	$	86,309,270
2. Amount in (1) with interest at 7.5% to June 30, 2012		92,782,465
3. Employer and Member contributions for the Plan Year ended June 30, 2012		5,907,000
4. Disbursements from Trust excluding investment and admin expenses, June 30, 2011 through June 30, 2012		1,924,000
5. Interest on cash flows to June 30, 2012 at 7.5% per year		292,352
6. Expected Actuarial Value of Assets at June 30, 2012 = (2) + (3) – (4) + (5)		97,057,817
7. Actual Market Value of Assets at June 30, 2012		91,997,000
8. Excess of (7) over (6)		(5,060,817)
9. Preliminary Actuarial Value of Assets at June 30, 2012 = (6) + 25% of (8)	$	95,792,613
10. 80% Minimum Corridor on the Actuarial Value of Assets = 80% of (7)		73,597,600
11. 120% Maximum Corridor on the Actuarial Value of Assets = 120% of (7)		110,396,400
12. Final Actuarial Value of Assets at June 30, 2012 = (9), but no less than (10) and no more than (11)	$	95,792,613

SECTION II
ASSETS

D. Investment Performance

The return on the market value of assets, as reported by SDCERS' investment consultant Hewitt Ennis Knupp, was 0.9%. The return in FY 2011 was 24.2%.

On an actuarial (smoothed) value of assets basis, the return for FY 2012 was 6.40%. This return produced for SDCERS-All Employers an overall investment loss of $65.5 million for the year ending June 30, 2012. (Note this reported loss is different than the investment loss of $1.4 million reported on page 4 in this report. The $1.4 million is the loss only for the SDCERS-Airport Authority, and is based on the phase-in of investment experience from prior years. See Section III, Part B for more details on this difference.

SECTION III
LIABILITIES

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

- Disclosure of liabilities at June 30, 2011 and June 30, 2012, 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 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-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. It represents the portion of the present value of future benefits attributed to service prior to the valuation date by the Entry Age Normal method.

- **Present Value of Accrued Benefits:** Disclosed in Section V of this report for accounting statement purposes (ASC Topic 960). 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 two 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).

SECTION III
LIABILITIES

Table III-1
SDCERS - Airport Authority - Total

Item	June 30, 2012	June 30, 2011
Present Value of Future Benefits		
Actives	$ 109,404,288	$ 104,309,491
Terminated Vested	4,246,096	4,010,179
Disabled	228,252	226,161
Retirees	21,356,642	15,054,748
Beneficiaries	852,988	851,875
Total Airport Authority	**$ 136,088,266**	**$ 124,452,455**
Actuarial Liability - EAN		
Total Present Value of Future Benefits	$ 136,088,266	$ 124,452,455
Present Value of Future Normal Costs		
Employer Portion	20,794,777	21,806,916
Employee Portion	18,068,635	18,603,114
Actuarial Liability - EAN	**$ 97,224,854**	**$ 84,042,425**
Actuarial Value of Assets	$ 95,792,613	$ 86,309,270
Unfunded EAN Actuarial Liability	**$ 1,432,241**	**$ (2,266,845)**

Table III-2 shows actuarial liability as of June 30, 2012 for General and Executive Members of SDCERS-Airport Authority.

Table III-2
SDCERS - Airport Authority - General & Executives

Item	June 30, 2012 Total	June 30, 2012 General	June 30, 2012 Executives
Present Value of Future Benefits			
Actives	$ 109,404,288	$ 104,658,462	$ 4,745,826
Terminated Vested	4,246,096	4,246,096	-
Disabled	228,252	228,252	-
Retirees	21,356,642	16,152,766	5,203,876
Beneficiaries	852,988	852,988	-
Total Airport Authority	**$ 136,088,266**	**$ 126,138,564**	**$ 9,949,702**
Actuarial Liability - EAN			
Actives	$ 70,540,876	$ 66,748,754	$ 3,792,122
Terminated Vested	4,246,096	4,246,096	-
Disabled	228,252	228,252	-
Retirees	21,356,642	16,152,766	5,203,876
Beneficiaries	852,988	852,988	-
Total Airport Authority	**$ 97,224,854**	**$ 88,228,856**	**$ 8,995,998**

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 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.

Note that the investment loss of $1.3 million reported on line 10 is different from the $1.4 million loss reported on page 4 of the report. The $1.3 million loss is based on the actuarial assumption of 7.50%. The $1.4 million on page 4 is based on the prior year's projected actuarial return, assuming a market return of 7.50%.

Table III-3
Development of 2012 Experience Gain/(Loss) SDCERS - Airport Authority
(In Thousands)

1.	Unfunded Actuarial Liability at June 30, 2011			$	(2,266.8)
2.	Beginning of year unfunded actuarial liability payment				(100.4)
3.	Interest accrued ((1+2) x 7.5%)				(177.5)
4.	Expected Unfunded Actuarial Liability at June 30, 2012 (1+2+3)				(2,544.7)
5.	Actual Unfunded Liability at June 30, 2012				1,432.2
6.	Difference: (4 - 5)				(3,977.0)
7.	Portion of difference (6) due to actuarial assumption or method changes				(1,443.0)
8.	Portion of difference (6) due to plan changes				-
9.	Portion of difference (6) due to employee contributions less than expected				(732.2)
10.	Portion of difference (6) due to net experience Gain/(Loss)				(1,801.7)
a)	*portion of (10) due to investment experience*	*$*	*(1,291.7)*		
b)	*portion of (10) due to liability experience*	*$*	*(510.1)*		
	Elements of Liability Gain/(Loss)				
1.	G/(L) due to demographic and payroll experience				(475.5)
2.	G/(L) due to purchased service credit				(34.6)
3.	Other Gain/(Loss)				-
4.	Total Estimated Liability Gain/(Loss): sum 1 through 3			**$**	**(510.1)**

SECTION III
LIABILITIES

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

Table III-4
Experience Gain/(Loss) - Historical SDCERS - Airport Authority

Valuation Date	Gain/(Loss)	Beginning-of-Year Actuarial Liabilities	Gain/(Loss) % of Liability
6/30/2003	$ (2,013,702)	$ 11,526,293	(17.5%)
6/30/2004	(2,204,850)	16,278,613	(13.5)
6/30/2005	(1,207,448)	23,578,460	(5.1)
6/30/2006	8,732,864	32,602,898	26.8
6/30/2007	1,176,387	36,905,216	3.2
6/30/2008	492,707	46,636,555	1.1
6/30/2009	(10,976,099)	56,807,663	(19.3)
6/30/2010	27,790	67,870,945	0.0
6/30/2011	4,808,814	76,447,473	6.3
6/30/2012	(1,801,741)	84,042,425	(2.1)

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 attempts to create a pattern of contributions that is both stable and predictable.

The actuarial funding methodology employed is the Entry Age Normal (EAN) actuarial funding method. Under EAN, there are two components to the total contribution: the normal cost and an amortization payment on the unfunded actuarial liability. The normal cost for an individual employee is the ratio of their present value of future benefits to present value of future salaries at entry age, multiplied by their current salary. The gross normal cost rate for each sub-group is determined by dividing the sum of the present value of future normal costs for all employees by the sum of the present value of future salaries. The gross normal cost rate is then reduced by the average employee contribution rate to determine the employer normal cost rate. Finally, the employer normal cost rate for each sub-group is multiplied by that group's projected FY 2014 payroll to determine the normal cost component of the FY 2014 ARC.

The EAN actuarial liability is the plan's total present value of future benefits minus the total present value of future normal costs. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability. The UAL for FY 2014 is to be amortized over several different periods. Table IV-2 shows the outstanding balance, the FY 2014 payment and the remaining amortization period for each of these components. If necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

Table IV-1 on the following page shows how the Airport Authority's contribution rate for SDCERS for FY 2014 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement Number 25 for purposes of determining the annual required contribution (ARC).

SECTION IV
CONTRIBUTIONS

Table IV-1
SDCERS - Airport Authority
Development of the Airport's Contribution as of June 30, 2012, For (FY 2014)
(dollars in millions)

		WEIGHTED TOTAL AIRPORT	General	Executives
1.	Total Normal Cost Rate as of June 30, 2012	**21.85%**	21.85%	21.68%
2.	Member Contribution Rate as of June 30, 2012	**10.16%**	10.15%	10.47%
3.	Employer Normal Cost Rate as of June 30, 2012 (1-2)	**11.69%**	11.70%	11.21%
4.	Actuarial Liability	**$ 97.2**	$ 88.2	$ 9.0
5.	Actuarial Assets	**$ 95.8**	$ 86.9	$ 8.9
6.	Total Unfunded Actuarial Liability (UAL) (4-5)*	**$ 1.4**	$ 1.3	$ 0.1
7.	Preliminary FY14 UAL amortization*	**$ (0.0)**	$ (0.0)	$ (0.0)
8.	Negative Amortization Test for FY14			
	a. Total UAL on 6/30/12 less FY13 UAL payment	**$ 1.3**	$ 1.2	$ 0.1
	b. interest on 8a. To 6/30/13	**$ 0.1**	$ 0.1	$ 0.0
	c. preliminary FY14 UAL amortization (line 7)	**$ (0.0)**	$ (0.0)	$ (0.0)
	d. Negative interest (8b - 8c, not less than zero)	**0.1**	0.1	0.0
9.	Total FY14 UAL payment on 7/01/13 (8c + 8d)	**$ 0.1**	$ 0.1	$ 0.0
10.	Total FY14 UAL payment throughout year	**$ 0.1**	$ 0.1	$ 0.0
11.	Total Expected Payroll for FY14	**$ 25.3**	$ 24.2	$ 1.1
12.	FY14 Normal Cost paid throughout the year (3x11)	**$ 2.9**	$ 2.8	$ 0.1
13.	FY14 Normal Cost paid at start of year	**$ 2.8**	$ 2.7	$ 0.1
14.	Determination of FY14 GASB ARC %			
	a. Employer Normal Cost Rate (12 divided by 11)	**11.37%**	11.70%	11.21%
	b. UAL Rate (line 10 divided by line 11)	**0.54%**	0.39%	0.88%
	c. Total employer ARC % (14a + 14b)	**11.90%**	12.09%	12.09%
15.	Determination of FY14 GASB ARC dollars			
	a. FY14 ARC if paid throughout year	**$ 3.0**	$ 2.9	$ 0.1
	b. FY14 ARC if paid at beginning of year	**$ 2.9**	$ 2.8	$ 0.1

** See Table IV-2 for components of these amounts.*
Note: Numbers may not add due to rounding.

SECTION IV
CONTRIBUTIONS

Table IV-2 shows information on each layer of the June 30, 2012 UAL.

Table IV-2
SDCERS - Airport Authority
Schedule of Amortization Bases as of July 1, 2012
Used in Development of the Airport Authority's Contribution for FY 2014

Type of Base	Date Established	Initial Amount	Initial Amortization Years	July 1, 2012 Outstanding Balance	Outstanding Balance for FY 2014 (BOY)*	Remaining Amortization Years	FY 2014 Amortization Amount
1. June 30, 2007 UAL	7/1/2007	$ (4,175,587)	14	$ (2,329,382)	$ (2,211,816)	9	$ (282,075)
2. Assumption Change	7/1/2008	2,808,340	30	3,194,909	3,240,222	26	187,527
3. Experience Gain	7/1/2008	(1,356,123)	15	(1,377,658)	(1,332,072)	11	(143,715)
4. Experience Loss	7/1/2009	9,892,984	15	10,298,457	10,026,281	12	1,008,122
5. Experience Gain	7/1/2010	(5,002,725)	15	(5,305,442)	(5,195,430)	13	(490,201)
6. Experience Gain**	7/1/2010	(1,750,000)	15	(1,855,893)	(1,817,410)	13	(171,477)
7. Experience Gain	7/1/2011	(4,235,009)	15	(4,552,635)	(4,480,631)	14	(399,029)
8. Assumption Change	7/1/2011	(574,045)	30	(617,098)	(628,069)	29	(34,080)
9. Experience Loss	7/1/2012	2,533,950	15	2,533,950	2,723,996	15	230,123
10. Method Change	7/1/2012	1,443,033	30	1,443,033	1,551,260	30	82,573
TOTAL				**$ 1,432,241**	**$ 1,876,330**		**$ (12,231)**

* July 1, 2012 outstanding balance adjusted to the FY2014 beginning of year (BOY), July 1, 2013.

** Reduction in UAL from anticipated impact of PSC correction as of the June 30, 2010 valuation. The difference between the original and updated estimates is included in the 7/1/2011 experience gain.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Accounting Standards Codification (ASC) Topic 960 of the Financial Accounting Standards Board (FASB) requires the disclosure of certain information regarding its funding status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The ASC Topic 960 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 disclosure compares 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 (ASC Topic 960) and the actuarial liability (GASB No. 25) 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 7.50% per annum.

ASC Topic 960 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, 2011 and June 30, 2012 are presented in Table V-1 and Table V-2.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-1
SDCERS - Airport Authority - Total

Item	June 30, 2012	June 30, 2011	% Change
ASC Topic 960 Basis			
1. Present Value of Benefits Accrued and Vested to Date			
a. Members Currently Receiving Payments	$ 22,437,882	$ 16,132,784	39.1%
b. Vested Terminated and Inactive Members	4,246,096	4,010,179	5.9%
c. Active Members	45,930,356	46,462,441	-1.1%
d. Total PVAB	$ 72,614,334	$ 66,605,403	9.0%
2. Assets at Market Value	$ 91,997,000	$ 86,907,895	5.9%
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	$ -	$ -	
4. Ratio of Assets to Value of Benefits (2)/(1)(d)	126.69%	130.48%	-3.8%
GASB No. 25 Basis			
1. Actuarial Liabilities			
a. Members Currently Receiving Payments	$ 22,437,882	$ 16,132,784	39.1%
b. Vested Terminated and Inactive Members	4,246,096	4,010,179	5.9%
c. Active Members	70,540,876	63,899,462	10.4%
d. Total Actuarial Liability	$ 97,224,854	$ 84,042,425	15.7%
2. Actuarial Value of Assets	$ 95,792,613	$ 86,309,270	11.0%
3. Unfunded Actuarial Liability	$ 1,432,241	$ (2,266,845)	-163.2%
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d)	98.53%	102.70%	-4.2%

Table V-2
SDCERS - Airport Authority - Total

Item	Accumulated Benefit Obligation (ASC Topic 960)
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2011	**$ 66,605,403**
Increase (Decrease) During Year Attributable to:	
Passage of Time	4,923,255
Benefits Paid	(1,924,000)
Assumption Changes	-
Plan Changes	-
Benefits Accrued, Other Gains/Losses	3,009,676
Net Increase (Decrease)	$ 6,008,931
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2012	**$ 72,614,334**

SECTION V
ACCOUNTING STATEMENT INFORMATION

Tables V-3 through V-5 are exhibits required for the Airport Authority's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits in the CAFR. 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 - Airport Authority
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date	June 30, 2012
Actuarial funding method	Entry Age Normal
Amortization method	Level percent closed
Equivalent single amortization period	13.539 years [1]
Asset valuation method	Expected Value Method
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases due to inflation [2]	0% for the next year, 3.75% thereafter
Cost-of-living adjustments	2.00%

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 2011.

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] Nine years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

[2] Additional merit salary increases of 0.50% to 5.00% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization of the APA's UAL.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-4
SDCERS - Airport Authority
ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Actuarial Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity		*Gain (or Loss) for Year ending June 30, 2012*
Investment Income	$	(1,291,682)
Combined Liability Experience		(510,059)
Gain (or Loss) During Year from Financial Experience	$	(1,801,741)
Non-Recurring Gain (or Loss) Items (e.g., Contributions, Assumption Changes)		(2,175,243)
Composite Gain (or Loss) During Year	$	(3,976,984)

Table V-5
SDCERS - Airport Authority
GASB SOLVENCY TEST
Actuarial Liabilities For
($ in thousands)

Valuation Date June 30,	(A) Active Member Contributions	(B) Retirees And Beneficiaries	(C) Remaining Active Members' Liabilities	Reported Assets [1]	Portion of Actuarial Liabilities Covered by Reported Assets (A)	(B)	(C)
2012	$ 11,371	$ 22,438	$ 63,416	$ 95,793	100%	100.00%	97.74%
2011 [6]	11,132	16,133	56,778	86,309	100	100	103.99
2010	10,611	11,832	54,004	73,401	100	100	94.36
2009	9,120	9,924	48,827	58,981	100	100	81.79
2008 [5]	7,335	6,341	43,131	58,096	100	100	102.99
2007 [4]	6,681	4,288	35,668	50,812	100	100	111.71
2006 [3]	5,402	2,783	28,720	41,222	100	100	115.03
2005	4,255	2,713	25,635	28,551	100	100	84.19
2004	2,935 [2]	795	19,848	16,225	100	100	62.95
2003	2,200 [2]	300	13,779	11,142	100	100	62.72

[1] Actuarial Value of Assets.
[2] Estimated.
[3] Reflects contingent liabilities (13th check), DROP reserves, and IRC Section 415 limits.
[4] The actuarial liability on June 30, 2007 and after is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method.
[5] Reflects revised actuarial and economic assumptions.
[6] Reflects revised actuarial and economic assumptions.

APPENDIX A
MEMBERSHIP INFORMATION

Table A-1
SDCERS - Airport Authority
Active Member Data

	June 30, 2012	June 30, 2011	% Change
Count	341	344	-0.9%
Average Current Age	47.7	47.1	1.3%
Average Service	9.3	9.0	3.3%
Average Pensionable Earnings	$ 72,510	$ 73,106	-0.8%
Annual Pensionable Earnings	$ 24,726,029	$ 25,148,489	-1.7%
Average Valuation Compensation[1]	$ 72,414	$ 73,067	-0.9%
Annual Valuation Compensation[1]	$ 24,693,205	$ 25,135,166	-1.8%
Service Without Permissive Service Purchased	8.9	8.3	7.2%
Members with Paid Purchased Service	37	38	-2.6%
Members with Any Purchased Service	39	50	-22.0%
Amount of Paid Purchased Service	133	154	-13.8%
Amount of Total Purchased Service	144	246	-41.3%

[1] The definition of valuation compensation differs from the definition of pensionable earnings due to IRS 401(a).

Table A-2
SDCERS - Airport Authority
Non-Active Participant Data

	Count			Average Age		
	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
Retired	41	33	24.2%	65.1	65.2	-0.2%
Disabled	1	1	0.0%	49.5	48.5	2.1%
Beneficiaries	4	4	0.0%	62.0	61.0	1.6%
Payee Total	46	38	21.1%	64.5	64.3	0.3%
DROP Participants	11	10	10.0%	62.9	64.3	-2.2%
Deferred Vested [1]	76	75	1.3%	46.7	45.9	1.7%
Vested < 5 yrs svc	47	47	0.0%			

[1] Includes all participants having a contribution balance still on account with SDCERS.

Table A-3
SDCERS - Airport Authority
Non-Active Participant Data

	Total Annual Benefit			Average Annual Benefit		
	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
Retired	$ 1,633,186	$ 1,178,216	38.6%	$ 39,834	$ 35,704	11.6%
Disabled	14,916	14,630	2.0%	14,916	14,630	2.0%
Beneficiaries	68,282	66,783	2.2%	17,070	16,696	2.2%
Payee Total	$ 1,716,384	$ 1,259,628	36.3%	$ 37,313	$ 33,148	12.6%
DROP Participants	$ 642,645	$ 430,606	49.2%	$ 58,422	$ 43,061	35.7%
Deferred Vested [1]	$ 1,316,550	$ 1,250,452	5.3%	$ 17,323	$ 16,673	3.9%

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

APPENDIX A
MEMBERSHIP INFORMATION

Table A-4
SDCERS - Airport Authority
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2012
Total Airport Authority

Age	Years of Service: 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	Total Count	Average Salary
Under 25	1	1	-	-	-	-	-	-	-	-	2	$ 39,754
25 to 29	4	9	-	-	-	-	-	-	-	-	13	45,580
30 to 34	1	12	13	1	-	-	-	-	-	-	27	54,724
35 to 39	2	7	18	3	1	-	-	-	-	-	31	67,456
40 to 44	3	15	23	13	3	1	-	-	-	-	58	75,725
45 to 49	1	13	15	12	9	4	1	-	-	-	55	75,483
50 to 54	-	11	21	13	10	8	6	-	-	-	69	70,785
55 to 59	3	9	20	11	9	3	2	1	1	-	59	77,362
60 to 64	-	5	14	2	2	-	-	-	-	-	23	88,231
65 to 69	1	-	2	-	-	-	-	-	-	-	3	127,766
70 and up	-	-	-	-	-	1	-	-	-	-	1	80,583
Tot Count	16	82	126	55	34	17	9	1	1	-	341	
Avg. Salary	$ 53,725	$ 60,788	$ 77,973	$ 70,809	$ 88,482	$ 71,003	$ 82,555	$ 79,671	$ 124,590	$ -		$ 72,510

APPENDIX A
MEMBERSHIP INFORMATION

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

	Age										
Plan Year	**Under 50**	**50 to 54**	**55 to 59**	**60 to 64**	**65 to 69**	**70 to 74**	**75 to 79**	**80 to 84**	**85 to 89**	**90 and up**	**Total**
2002	-	-	-	-	-	-	1	-	-	-	1
2003	-	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	1	1	-	-	-	2
2005	1	-	-	-	2	1	-	-	-	-	4
2006	-	-	-	1	-	-	-	-	-	-	1
2007	-	-	-	-	3	2	-	-	-	-	5
2008	-	-	1	3	1	-	-	-	-	-	5
2009	-	-	1	1	2	-	-	-	-	-	4
2010	-	-	1	2	3	-	-	-	-	-	6
2011	-	-	1	6	3	-	-	-	-	-	10
2012	-	-	3	4	1	-	-	-	-	-	8
Total	1	-	7	17	15	4	1	-	-	-	46

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

Average Age at Retirement/Disability	61.1
Average Current Age	64.5

APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Practices

In preparing our data, we relied on information (some oral and some written) supplied by the SDCERS staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Service 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.

- For duplicate records (based on SSN and Benefit Type) in the payee file, records having the same plan and same benefit type but different benefit amounts, we have added those benefit 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.” The “Non-COLA Adjustments” field is mainly for Qualified Domestic Relation Order purposes. The “Supplement Amount” field is added as an annual benefit (i.e., 13^{th} check) and the “Corbett Supplemental Payment” is annualized for new retirees in the City only. It is assumed the payment is annual for Members already in pay status prior to this valuation.

APPENDIX A
MEMBERSHIP INFORMATION

- Members retiring since the prior valuation date and not having a "Supplement Amount" (13^{th} check) will have their projected "Supplement Amount" (13^{th} check) calculated assuming $30 multiplied by the "Total Service Credit."

- Members may retire and receive benefits from multiple Plans (e.g., a City police officer could have also worked for the Airport Authority); we will value each Member's 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 retiree 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 retirees 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 Final 415 Regulations were used to calculate the present value of Member benefits over the Internal Revenue Service Code 415 Benefit Limits.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Rate

SDCERS' assets are assumed to earn 7.50 % net of both administrative and investment expenses.

2. Inflation Rate

An inflation assumption of 3.75% compounded annually is used for projecting the total annual payroll growth for amortization of the UAL.

3. Interest Credited to Member Contributions

7.50%, compounded annually.

4. Salary Increase Rate

Inflation component: 3.75% (following an assumed freeze in FY 2014. A freeze had also been assumed for FY 2013).

The additional merit component:

Table B-1

Years of Service at Valuation Date	General
0	5.00%
1	4.00%
2	3.00%
3	2.00%
4	1.00%
5+	0.50%

5. Cost-of-Living Increase in Benefits

Assumed to be 2.0% per annum, compounded.

6. COL Annuity Benefit

For active Members, the COL annuity benefit is valued by adding to the liabilities one-sixth of accumulated member contribution accounts and using a load factor of 2.0% for future member contributions.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

7. Member Refunds

All or part of the employee contribution rate is subject to potential "offset" by the employer. That "offset" and the related accumulated interest are not to be refunded to employees at termination. However, such offsets are not directly reflected in either the employee contributions or related refund calculations.

8. Rates of Termination

Table B-2
SDCERS - Airport Authority

Rates of Termination

Service	General
0	11.00%
1	10.00
2	9.00
3	8.00
4	7.00
5	5.50
6	4.50
7	4.50
8	4.00
9	4.00
10	3.00
11	3.00
12	3.00
13	3.00
14	3.00
15	3.00
16	3.00
17	3.00
18	3.00
19	3.00
20	3.00
21	3.00
22+	3.00

10% of terminating employees, with 5+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.25% pay increases per year.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Disability

Table B-3
SDCERS - Airport Authority
Rates of Disability at Selected Ages

Age	General
20	0.02%
25	0.03
30	0.04
35	0.06
40	0.08
45	0.12
50	0.20
55	0.35
60	0.45

60% of the disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

10. Rates of Mortality for Active Lives

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010 and include a projection to 2013.

All active members follow the RP2000 Combined Healthy table (male and female) projected to 2013.

Table B-4
SDCERS - Airport Authority
Rates of Mortality for Active Lives at Selected Ages

Age	Male	Female
20	0.03%	0.02%
25	0.03	0.02
30	0.04	0.02
35	0.07	0.04
40	0.10	0.06
45	0.13	0.09
50	0.17	0.13
55	0.28	0.25
60	0.55	0.47
65	1.03	0.91
70	1.83	1.57

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

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

11. Rates of Mortality for Retired Healthy Lives

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements. In the next experience study we will examine the mortality experience and consider the projection of future improvement.

All retired healthy participants use the RP2000 Combined Healthy table (male and female).

Table B-5
SDCERS - Airport Authority
Rates of Mortality for Retired Healthy Lives at Selected Ages

Age	Male	Female
40	0.11%	0.07%
45	0.15	0.11
50	0.21	0.17
55	0.36	0.27
60	0.67	0.51
65	1.27	0.97
70	2.22	1.67
75	3.78	2.81
80	6.44	4.59
85	11.08	7.74
90	18.34	13.17

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

12. Rates of Mortality for Retired Disabled Lives

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements. In the next experience study we will examine the mortality experience and consider the projection of future improvement.

The mortality tables used are variations of the CALPERS Disability Tables (male and female):

Table B-6
SDCERS - Airport Authority
Rates of Mortality for Disabled Lives at Selected Ages

Age	Male	Female
40	1.45%	0.67%
45	1.65	0.99
50	1.63	1.25
55	1.86	1.58
60	2.19	1.63
65	2.99	1.97
70	3.76	3.02
75	5.42	3.92
80	7.90	5.56
85	12.48	9.58

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

13. The Rates of Retirement

Table B-7
SDCERS - Airport Authority
Rates of Retirement by Service Years

Service	Prior to age 62	Age 62 or greater
5-9	--	9.0%
10	--	33.3
11	--	33.3
12	--	33.3
13	--	33.3
14	--	33.3
15	--	33.3
16	--	33.3
17	--	33.3
18	--	33.3
19	--	33.3
20	30.0	40.5
21	15.0	33.3
22	17.5	35.1
23	20.0	36.9
24	22.5	38.7
25	25.0	40.5
26	27.5	42.3
27	30.0	44.1
28	32.5	45.9
29	35.0	47.7
30	37.5	49.5
31	40.0	51.3
32	40.0	53.1
33	40.0	54.9
34	40.0	56.7
35+	100.0	100.0

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

If the inactive participant is not vested, the liability is the contributions with interest.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

14. Family Composite Assumptions

80% of men and 55% of women were assumed married at retirement. A female spouse is assumed to be three 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 Actuarial Accrued 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 participants without sufficient data or service, accumulated participant contribution balances, with interest, were used as the actuarial accrued liability.

17. DROP Account Balances

For DROP participants still working, the liability for the account balances in the asset information received from SDCERS staff was adjusted to assume average commencement in 2½ years and an interest crediting rate of 1.9%. Thereafter, it was assumed the account balance would be converted to an annuity at an interest rate of 4.4% over an average period of 10 years. The 10-year period was selected to average among the available DROP payment elections, including a lump sum, life expectancy, and 20 years. The liability for pre-2006 DROP account balances still left on account was valued assuming they would be paid out until age 70½, with an interest crediting rate of 1.9%. The liability for the remaining account balances was adjusted based on the DROP annuity rate in effect at the Member's benefit effective date.

These adjustments are applied to the DROP account balance values provided in the financial statements. The account balance liability is allocated to each individual sub-group (e.g., General) based on the total amount of the DROP account balances for that sub-group in the valuation data.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

18. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and Member information furnished, using the actuarial 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.

19. Changes Since Last Valuation

The DROP interest crediting and annuity rates used to value the liability for account balances were reduced from 2.3% to 1.9% and from 4.8% to 4.4%, respectively, to reflect the Board's adoption of these rates at its December 2011 meeting.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal funding method was used for active employees, whereby the normal cost rate is computed as the average level annual percent of pay required to fund the retirement benefits for all Members between their dates of hire and assumed dates of retirement. The EAN actuarial liability is the difference between the plan's total present value of future benefits and the present value of future normal costs, calculated for each sub-group (e.g., General). The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets, and is allocated to each sub-group based on its liability.

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 3.75% per year. The UAL is amortized over different closed periods depending on the source of the loss. The entire UAL as of June 30, 2007 is amortized over 14 years. Subsequent gains and losses are amortized over 15 years, changes in assumptions over 30 years, and changes in benefits over 20 years (or period over which benefit changes are paid, if shorter). Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

2. Asset Valuation Method

For the purposes of determining the Airport Authority's annual required contribution to SDCERS, we use a smoothed actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the use of retirement benefits and expenses.

The actuarial value of assets each year is equal to 100% of the *expected actuarial value of assets*[1] 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.

3. Changes Since Last Valuation

The present value of future normal costs under the Entry Age Normal funding method is now calculated individually for each member, instead of in aggregate for all members. This method change does not impact the value of total benefit liabilities.

[1] The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased with actual contributions made, decreased with actual disbursements made, all items (prior assets, contributions and disbursements) further adjusted with expected investment returns for the year.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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

1. Membership Requirement

Membership is mandatory upon first day of employment for all full-time Airport employees (§ 0103).*

2. Monthly Salary Base for Benefits

Highest contiguous 26 bi-weekly pay periods (§ 0102), subject to a 10% increase for employees who were both a UPD employee on December 31, 2002 and became an Airport employee on or after January 1, 2003 and were employed by the UPD and contributing to SDCERS on January 1, 2002, if the Member elects such increase in lieu of an increased benefit formula.

3. Service Retirement

Eligibility

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

Benefit

Member choice of: (1) formula in place on December 31, 2001 with 10% increase in Final Average Compensation, (2)“Andrecht” formula effective as of January 1, 2002, or (3) “2.5% at 55” multiplier with a benefit cap of 90% of Final Average Compensation effective April 1, 2004 for Non-Executive General Members. Executive Members receive “3% at 55” multiplier without an increase in Final Average Compensation.

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

* All “§ “ references are to the Airport Authority Plan Document.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Member Service Retirement Accrual Factors

Table C-1
SDCERS - Airport Authority
Member Service Retirement Accrual Factors

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

Table C-2
SDCERS – Airport Authority

For Vested Members who terminated--	--the accrual factors are--
December 31, 2002 – Present	Pre 12/31/2001 factors above with 10% increase in Final Average Compensation, Andrecht, Post 4/1/2004 or Executive (if applicable)

<u>Maximum Benefit</u>

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

<u>Unmodified Form of Payment</u>

Monthly payments continued for the life of the Member, with 50% continuance to the eligible spouse, domestic partner, or dependent child under 21 years of age upon Member's death. If there is no eligible spouse, the Member may receive either a lump sum payment equal to the accumulated surviving spouse contributions or an actuarially equivalent annuity (§ 24.0601).

Note: Airport Authority employees participate in Social Security.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

4. **Non-Industrial Disability**

Eligibility

Ten years of service. (§ 0502)

Benefit

Greater of 1.5% per year of service multiplied by final compensation, one-third of final compensation, or the earned service retirement benefit, if eligible. (§ 0503)

5. **Industrial Disability**

Eligibility

No age or service requirement (§ 0500).

Benefit

Greater of one-third of final compensation, or the earned service retirement benefit, if eligible.
(§ 0501)

6. **Non-Industrial Death Before Eligible to Retire**

Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six months salary. (§ 0701)

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

50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. (§ 0703)

8. **Industrial Death**

50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner or dependent child under 21 years of age. (§ 0704)

APPENDIX C
SUMMARY OF PLAN PROVISIONS

9. Death After Retirement

Continuance to surviving beneficiary depending on benefit selection made at retirement.

$2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§ 0600, 0708)

10. Withdrawal Benefits

<u>Less than five years of service</u>

Refund of accumulated employee contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§0205, 0401)

<u>Five or more years of service</u>

If contributions left on deposit, entitled to earned benefits, commencing any time after eligible to retire. (§0205)

10. Post-retirement Cost-of-Living Benefit

Based on changes in Consumer Price Index, to a maximum of 2% per year. (§ 1301)

11. COL Annuity

Actuarial equivalent of accumulated contributions in cost-of-living annuity account at time of retirement. (§ 0300)

APPENDIX C
SUMMARY OF PLAN PROVISIONS

12. Member Contributions

Vary by age at time of entrance into the system (§ 0200). While a significant portion of these contributions may be "offset," such offsets are not directly reflected in either the employee contributions or related refund calculations. Rates include cost of providing spouse's continuance, cost of providing COL Annuity, and cost of funding final one-year average in lieu of final three-year average (§ 0102, 0200, 0201).

Table C-3
SDCERS - Airport Authority
Employee Contribution Rates[1]

	Integrated Members[2]	
Entry Age	**First $400/Mo.**	**Over $400/Mo.**
20	5.52%	8.28%
21	5.59	8.38
22	5.66	8.49
23	5.73	8.60
24	5.80	8.70
25	5.89	8.83
26	5.97	8.95
27	6.04	9.06
28	6.12	9.18
29	6.20	9.30
30	6.28	9.42
31	6.37	9.55
32	6.45	9.67
33	6.53	9.79
34	6.61	9.91
35	6.70	10.05
36	6.79	10.18
37	6.88	10.32
38	6.97	10.45
39	7.05	10.58
40	7.15	10.72
41	7.24	10.86
42	7.33	10.99
43	7.42	11.13
44	7.52	11.28
45	7.61	11.42
46	7.71	11.56
47	7.81	11.71
48	7.91	11.86
49	8.01	12.01
50	8.10	12.15
51	8.21	12.32
52	8.31	12.47
53	8.42	12.63
54	8.53	12.79
55	8.63	12.95
56	8.74	13.11
57	8.87	13.31

[1] Rate = Normal Cost + Cost of Living Rate
[2] Non-Integrated Members will follow the "Over $400/month" rate

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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

Changes to the salary scale and mortality table effective with the June 30, 1994 valuation were applied to the then existing Member rates.

13. Internal Revenue Code Compliance

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

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 valuation, all benefit payments were limited by Section 415 of the Internal Revenue Code.

14. Deferred Retirement Option Plan

Effective April 1, 1997, a deferred retirement option plan (DROP) was created and offered to Members as an alternative method of benefit accrual (§1200). Members eligible for service retirement are eligible to participate in DROP, but only those hired before October 3, 2006 may enter the program (§21201).

A participant in DROP may leave DROP at any time before the end of his or her designated DROP participation period by voluntarily leaving Airport Authority employment (§1202). The maximum DROP participation period is 60 months (§1201).

A DROP participation account is a nominal account established with the Retirement System, which is credited with the following amounts (§1203):

- The Member's monthly service retirement allowance, credited monthly, calculated at the date of DROP entry and increased each year by a cost-of-living adjustment.
- The Member's supplemental 13^{th} check benefit, if applicable, credited annually.
- 3.05% of base compensation, payable by the Airport Authority and credited bi-weekly.
- 3.05% of base compensation, payable by the Member and credited bi-weekly.
- Interest on the above amounts, as determined by the Board.

When a Member leaves DROP and Airport Authority employment, they begin to collect their monthly service retirement allowance, their supplemental 13^{th} check benefit (if applicable), and the amounts credited to their DROP participation account, payable as a single lump sum distribution, as a 240-month annuity with equal payments, or any other form approved by the Board and subject to applicable provisions of the Internal Revenue Code (§1206).

APPENDIX C
SUMMARY OF PLAN PROVISIONS

DROP is not intended to jeopardize the tax-qualified status of the retirement system under the rules and regulations of the Internal Revenue Service. Benefits provided under this division are subject to the limitations of Section 415 of the Internal Revenue Code relating to the amount of benefits that can be paid (§1207).

15. Blended Benefit with Participating Agencies

Members may retire and receive benefits from multiple Plans (e.g., an Airport Authority employee could have also worked for the Unified Port District).

16. Changes Since Last Valuation

None.

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 actuarial value of future normal costs. This is also referred to by some actuaries as "accrued liability" or "actuarial accrued 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 retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

6. **Actuarial Gain/(Loss)**

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

7. **Actuarial Present Value**

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

8. **Amortization**

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

APPENDIX D
GLOSSARY OF TERMS

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) as the employer's periodic required contributions to a defined benefit plan, calculated in accordance with the parameters outlined in Statement No. 25. The SDCERS-Airport Authority's Computed Contribution rate for FY 2014 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 two 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 the actuarial value of assets.

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

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