# Summary and Frequently-Asked Questions about the June 30, 2009 Actuarial Valuation for the San Diego County Regional Airport Authority

## SUMMARY

The June 30, 2009 Actuarial Valuation for the San Diego County Regional Airport Authority (the "2009 Valuation") incorporates the same benefit provisions and actuarial methods used in the Airport's June 30, 2008 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, 2009 Actuarial Valuation for the San Diego County Regional Airport Authority (the "2009 Valuation") what is the Airport's 2009 Unfunded Actuarial Liability (UAL)?**

Using the Entry Age Normal ("EAN") funding method, the Airport's UAL as of June 30, 2009 was $8.9 million. *[See the 2009 Valuation Letter of Transmittal.]*

**2. How does the 2009 UAL compare to the 2008 UAL?**

At June 30, 2008, there was a surplus of $1.3 million. The primary cause of the Airport's June 30, 2009 UAL was the FY 2009 actuarial investment experience loss of $9.6 million. *[See the 2009 Valuation Letter of Transmittal and the 2009 Valuation at page 2 and 3.]*

**3. What is the Airport's 2009 funding ratio?**

As of June 30, 2009, the Airport's funding ratio, which is the ratio of the actuarial value of assets (after smoothing) over total actuarial liabilities, was 86.9%. *[See the 2009 Valuation Letter of Transmittal and the 2009 Valuation at page 2.]*

**4. How does this compare to the Airport's 2008 funding ratio?**

It is 15.4% lower. As of June 30, 2008, the Airport's funding ratio was 102.3%. *[See the 2009 Valuation Letter of Transmittal and the 2009 Valuation at page 2.]*

**5. What is the Airport's Annual Required Contribution (ARC) for FY 2011? (The ARC is the amount the Airport will have to contribute to SDCERS on or after July 1, 2010.)**

If paid in full in July 2010 as expected, the Airport's ARC for FY 2011 will be $4.3 million (approximately 15.9% of payroll). If the Airport pays the ARC evenly throughout FY 2011, the contribution will be $4.5 million (approximately 16.6% of payroll). *[See the 2009 Valuation Letter of Transmittal and the 2009 Valuation at page 4.]*

**6. What was the Airport's ARC payment for FY 2010?**

The Airport's FY 2010 ARC was $3.0 million, and it was paid in full on July 1, 2009. *[See the 2009 Valuation Letter of Transmittal and the 2009 Valuation at page 4.]*

**7. How is the Airport's FY 2011 ARC calculated?**

The Airport's employer contributions are composed 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, 2009) of the portion of the employee's projected retirement benefit assigned to FY 2011. 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 2011, the Airport's Normal Cost is $3.6 million.

The UAL portion of the employer contribution is an amount the Airport pays each year to pay down any unfunded liabilities accrued over past years. The UAL is paid-off ("amortized") over a period of years. The Airport's total June 30, 2009 UAL of $8.9 million is split into several tiers, each using a different amortization period. These tiers are comprised of:

1. the ($2.5) million remaining balance of the Airport's June 30, 2007 UAL now amortized over 12 years (($0.3) million of the FY 2011 ARC);

2. the $3.0 million UAL due to the impact of changes in actuarial assumptions that is amortized over 29 years ($0.2 million of the FY 2011 ARC);

3. the $(1.5) million UAL due to the FY 2008 experience gain that is amortized over 14 years (($0.1) million of the FY 2011 ARC); and

4. the $9.9 million UAL due to the FY 2009 experience loss that is amortized over 15 years ($0.9 million of the FY 2011 ARC).

Adding the amortization amounts of each tier together results in an FY 2011 UAL amortization payment of $0.7 million. *[See the 2009 Valuation Letter of Transmittal and the 2009 Valuation at page 4.]*

**8. What was the market value of SDCERS' Trust Fund on June 30, 2009, and what was the Airport's portion of this amount?**

The market value of the assets in SDCERS' Trust Fund on June 30, 2009 was $3.715 billion. The Airport's portion of this amount was $49.2 million. *[See the 2009 Valuation at page 14.]*

**9. How does this compare to the June 30, 2008 market values?**

The June 30, 2009 values are 20% lower. The June 30, 2008 market value for the SDCERS Trust Fund was $4.696 billion, and the Airport's portion of the Trust Fund was $54.9 million ($5.7 million more than at June 30, 2009). This decrease is entirely due to the decline in the market value of investments, net of investment income, of $11.0 million, partially offset by member and employer contributions. This reflects an investment return of -19.2% for the year. *[See the 2009 Valuation at page 14 and 16.]*

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

For the 2009 Valuation, SDCERS' actuary assumes a long-term average investment return of 7.75% for Trust Fund assets. *[See the 2009 Valuation at page 32.]*

**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, 2009, as reported by Callan Associates, SDCERS' Investment Consultant, were -19.2%, -3.5%, 2.3% and 4.6%, respectively. Annualized investment returns are different from the actuarial rate of return calculated by the actuary (e.g., -6.18% for the year ending June 30, 2009) because the actuary computes the actuarial return using the Expected Value of Assets smoothing method. *[See the 2009 Valuation at pages 15 and 16.]*

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

This Expected Value of Assets smoothing method dampens the volatility in asset values that can 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.

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 120% factor applied in the June 30, 2009 valuation, as the Airport's actuarial value of assets is now $59.0 million, which is 120% of the Airport's market value of assets of $49.2 million.

Unlike many other public pension funds, SDCERS' Board voted to make no changes to the 120% ceiling of actuarial value of assets as compared to market value, nor to amortize the FY 2009 investment losses over a longer period of time, in spite of the extraordinary global investment market decline during Fiscal Year 2009. *[See the 2009 Valuation at page 15.]*

**13. How were the 2009 DROP interest rate changes handled in the 2009 Valuation?**

For DROP members still working, the liability for the account balances in the asset information received from SDCERS staff was adjusted to assume average distribution in 2 ½ years and an interest crediting rate of 3.54%. Thereafter, it was assumed the account balance would be converted to an annuity at an interest rate of 5% over 10 years, reflecting the average period of payout options. Pre-2006 DROP account balances still left on account were valued assuming they would be paid out until age 70 ½, with an interest crediting rate of 3.54%. The remaining account balances were valued at asset value.