



Summary and Frequently Asked Questions about the June 30, 2010 Actuarial Valuation for the San Diego County Regional Airport Authority

SUMMARY

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

FREQUENTLY ASKED QUESTIONS

- 1. Based on the June 30, 2010 Actuarial Valuation for the San Diego County Regional Airport Authority (the “2010 Valuation”) what is the Airport’s 2010 Unfunded Actuarial Liability (UAL)?**
Using the Entry Age Normal (“EAN”) funding method, the Airport’s UAL as of June 30, 2010 was \$4.8 million. *[See the 2010 Valuation Letter of Transmittal.]*
- 2. How does the 2010 UAL compare to the 2009 UAL?**
It is \$4.1 million, or 46%, lower. The primary cause of the decrease was an additional contribution of \$4.6 million made by the Airport Authority in FY 2010 above the ARC determined in the June 30, 2008 actuarial valuation. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at pages 2 and 3.]*
- 3. What is the Airport’s 2010 funding ratio?**
As of June 30, 2010, the Airport’s funding ratio, which is the ratio of the actuarial value of assets (after smoothing) over total actuarial liabilities, was 93.7%. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 2.]*
- 4. How does this compare to the Airport’s 2009 funding ratio?**
It is 6.8% higher. As of June 30, 2009, the Airport’s funding ratio was 86.9%. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 2.]*
- 5. What is the Airport’s Annual Required Contribution (ARC) for FY 2012? (The ARC is the amount the Airport will have to contribute to SDCERS on or after July 1, 2011.)**
If paid in full in July 2011 as expected, the Airport’s ARC for FY 2012 will be \$3.9 million (approximately 14.3% of payroll). If the Airport pays the ARC evenly throughout FY 2012, the contribution will be \$4.1 million (approximately 15.1% of payroll). *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 4.]*
- 6. What was the Airport’s ARC payment for FY 2011?**
The Airport’s FY 2011 ARC was \$4.3 million, and it was paid in full on July 1, 2010. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 4.]*

7. How is the Airport's FY 2012 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, 2010) of the portion of the employee's projected retirement benefit assigned to FY 2012. 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 2012, 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, 2010 UAL of \$4.8 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 11 years (\$0.3 million of the FY 2012 ARC);
2. the \$3.1 million UAL due to the impact of changes in actuarial assumptions that is amortized over 28 years (\$0.2 million of the FY 2012 ARC);
3. the \$(1.4) million UAL due to the FY 2008 experience gain that is amortized over 13 years (\$0.1 million of the FY 2012 ARC);
4. the \$10.6 million UAL due to the FY 2009 experience loss that is amortized over 14 years (\$0.9 million of the FY 2012 ARC); and
5. the \$(5.0) million UAL due to the FY 2010 experience gain that is amortized over 15 years (\$0.5 million of the FY 2012 ARC).

Adding the amortization amounts of each tier together, plus \$0.1 million needed to avoid negative UAL for FY 2012, results in an FY 2012 UAL amortization payment of \$0.3 million. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at pages 4 and 23.]*

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

The market value of the assets in SDCERS' Trust Fund on June 30, 2010 was \$4.177 billion. The Airport's portion of this amount was \$64.8 million. *[See the 2010 Valuation at page 14.]*

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

The June 30, 2010 values are higher. The June 30, 2009 market value for the SDCERS Trust Fund was \$3.715 billion, and the Airport's portion of the Trust Fund was \$49.2 million (\$15.6 million less than at June 30, 2010). This increase is largely due to an increase in the market value of investments, plus investment income, of \$5.9 million, and employer contributions of \$7.6 million. This reflects an investment return of 13.4% for the year. *[See the 2010 Valuation at pages 14 and 16.]*

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

For the 2010 Valuation, SDCERS' actuary assumes a long-term average investment return of 7.75% for Trust Fund assets. *[See the 2010 Valuation at page 33.]*

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

SDCERS' annualized investment returns at market value for the one, three, five and ten-year periods ended June 30, 2010, as reported by Hewitt EnnisKnupp, SDCERS' investment consultant, were 13.4%, -4.4%, 2.8% and 4.5%, respectively. Annualized investment returns are different from the actuarial rate of return calculated by the actuary (e.g., 4.47% for the year ending June 30, 2010) because the actuary computes the actuarial return using the Expected Value of Assets smoothing method. *[See the 2010 Valuation at page 16.]*

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 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 asset smoothing corridor did not apply in the June 30, 2010 valuation, as the Airport's actuarial value of assets of \$71.7 million was 111% of the Airport's market value of assets of \$64.8 million. *[See the 2010 Valuation at page 15.]*