June 30, 2012 Actuarial Valuation for the
San Diego Unified Port District

At the request of the Board of Administration, Cheiron performed the June 30, 2012 actuarial valuation (Valuation) of San Diego City Employees' Retirement System. The purpose of the actuarial valuation is to report on the financial condition of the System's Defined Benefit Plans for its three Plan Sponsors – the City of San Diego, the San Diego Unified Port District and the San Diego County Regional Airport Authority. The following FAQ is intended to provide SDCERS' Plan Sponsors and Members with information regarding the Valuation results for the San Diego Unified Port District (UPD).

The Valuation and its contents were prepared in accordance with generally recognized and accepted actuarial principles and practices consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

FREQUENTLY ASKED QUESTIONS

1. Based on the June 30, 2012 Actuarial Valuation for the San Diego Unified Port District, what is the UPD's 2012 Unfunded Actuarial Liability (UAL)?

Using the Entry Age Normal ("EAN") funding method, the UPD's UAL as of June 30, 2012 was $104.2 million.

2. How does the 2012 UAL compare to the 2011 UAL?

In 2012 the Port's UAL increased by $8.7 million when compared to 2011. The largest sources of the increase were liabilities greater than expected ($5.3 million), investment returns less than expected ($2.1 million) and a change in the methodology ($2.4 million) used to allocate liabilities.

3. What is the UPD's 2012 funding ratio?

As of June 30, 2012, the UPD's funding ratio -- the System's actuarial value of assets over total actuarial liabilities – is 72.7%.

4. How does this compare to the UPD's 2011 funding ratio?

The UPD's 2012 funding ratio is 0.4% lower than the 2011 funding ratio. As of June 30, 2011, the UPD's funding ratio was 73.1%.

5. What is the UPD's Annual Required Contribution (ARC) for FY 2014?

The ARC is the amount the UPD will have to contribute to SDCERS on or after July 1, 2013. If paid in full in July 2013 as expected, the UPD's ARC for FY 2014 will be $13.9 million.

6. What was the UPD's ARC payment for FY 2013?

The UPD's FY 2013 ARC was $13.2 million.

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

The UPD's employer contributions are comprised of two components: the Normal Cost contribution and the UAL contribution. Normal Cost represents, for each active UPD employee, the present value (as of June 30, 2012) of the portion of the employee's projected retirement benefit assigned to FY 2014. By paying the Normal Cost, the UPD 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 2014, the UPD's Normal Cost is $4.5 million (approximately 12.3% of payroll).

The UAL portion of the employer contribution is an amount the UPD pays each year to pay down unfunded liabilities accrued over past years. The UAL is paid off ("amortized") over a period of years. The UPD's total June 30, 2012 UAL of 104.2 million is split into several tiers, each using a different amortization period.

These tiers are comprised of:

- $14.6 million remaining from the UPD's June 30, 2007 UAL, amortized over 9 years ($1.8 million of the FY 2014 ARC),

- $4.3 million remaining from the 2008 changes in actuarial assumptions, amortized over 26 years ($0.3 million of the FY 2014 ARC);

- $0.9 million remaining from the FY 2008 experience loss, amortized over 11 years ($0.1 million of the FY 2014 ARC);

- $45.6 million remaining from the FY 2009 experience loss, amortized over 12 years ($4.6 million of the FY 2014 ARC);

- $9.3 million remaining from the FY 2010 experience loss, amortized over 13 years ($0.9 million of the FY 2014 ARC);

- The negative $0.5 million remaining from the FY 2011 experience gain, amortized over 14 years (negative $0.05 million of the FY 2014 ARC);

- $10.2 million remaining from a plan change (ERIP), amortized over 19 years ($0.7 million of the FY 2014 ARC);

- $11.0 million remaining from 2011 changes in actuarial assumptions, amortized over 29 years ($0.6 million of the FY 2014 ARC);

- $6.5 million from the FY 2012 experience loss amortized, over 15 years ($0.6 million of the FY 2014 ARC); and

- $2.4 million from the FY 2012 changes in actuarial method, amortized over 30 years ($0.1 million of the FY 2014 ARC);

- Adding the amortization amounts of each tier together results in a FY 2014 UAL amortization payment of $9.4 million. The ARC payments for each tier are rounded.

Port contributions were determined under full compliance with the Governmental Accounting Standards Board (GASB) Statement Number 25, defining the annual required contribution (ARC) for the Port fiscal year July 1, 2013 through June 30, 2014.

8. What was the market value of SDCERS' Trust Fund on June 30, 2012, and the UPD's portion of this amount?

The market value of the assets in SDCERS' Trust Fund on June 30, 2012 was $5.164 billion. The UPD's portion of this amount was $271.7 million.

9. How does this compare to the June 30, 2011 market values?

The June 30, 2012 values are 0.9% higher. The June 30, 2011 market value for the SDCERS Trust Fund was $5.204 billion, and the UPD's portion of the Trust Fund was $269.4 million ($2.3 million less than at June 30, 2012). This increase is largely due to an increase in the market value of investments plus investment income, and reflects an investment return of 0.9% for the year.

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

For the 2012 Valuation, SDCERS' actuary assumed a long-term average investment return of 7.5% for Trust Fund assets.

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

SDCERS' annualized investment returns at market value for the one, three, and ten year periods ended June 30, 2012, as reported by Hewitt EnnisKnupp, SDCERS' Investment Consultant, were 0.9%, 12.4%, and 7.3%, respectively. Annualized investment returns are different from the actuarial rate of return calculated by the actuary (e.g., the actuarial investment return was 6.4% for the year ended June 30, 2012) because the actuary computes the actuarial return using the Expected Value of Assets smoothing method.

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

The Expected Value of Assets smoothing method dampens the volatility in asset values that can occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets each year is equal to 100% of the expected actuarial value of San Diego City Employees' Retirement System June 30, 2012 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.

In the June 30, 2012 valuation, UPD's actuarial value of assets of $277.8 million was 102% of UPD's market value of assets of $271.7 million.