



**SDCERS June 30, 2013 Actuarial Valuation: San Diego Unified Port District**  
Frequently Asked Questions

*At the request of the Board of Administration, Cheiron performed the June 30, 2013 actuarial valuation of the San Diego City Employees' Retirement System (SDCERS). 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 (Port) 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's results for the San Diego Unified Port District.*

*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 sent out by the Actuarial Standards Board.*

**FREQUENTLY ASKED QUESTIONS**

**1. Based on the June 30, 2013 Actuarial Valuation, what is the Port's Unfunded Actuarial Liability (UAL)?**

As of June 30, 2013, the Port's UAL was \$107.7 million.

**2. How does the 2013 UAL differ from the 2012 UAL?**

The Port's UAL increased by \$3.5 million, from \$104.2 million to \$107.7 million. The increase is primarily due to a change in the discount rate assumption, partially offset by a change in the pay inflation assumption and the FY 2013 investment return being greater than expected.

**3. What is the Port's funded ratio and how does this compare to the 2012 funding ratio?**

As of June 30, 2013, the Port's funding ratio was 73.7 percent, an increase of 1.0 percent from 72.7 percent as of June 30, 2012. The funding ratio is the ratio of the system's actuarial value of assets to its actuarial liabilities.

**4. What is the Port's Actuarially Determined Contribution (ADC), formerly known as the Annual Required Contribution (ARC), for FY 2015?**

The Port's FY 2015 ADC, formally known as the ARC, is \$14.3 million. The increase of \$0.4 million from the \$13.9 million paid in FY 2014 was primarily driven by same factors as those influencing the UAL as noted in answer number two above. The FY 2015 ADC is due to be paid to SDCERS on or after July 1, 2014.

The Governmental Accounting Standards Board recently issued Statement 67 that revises the standards for pension plan financial reporting. The new standard did not retain the concept of an ARC, which had previously been used by SDCERS as the plan's funding policy. In response, the SDCERS Board voted in November 2013 to formalize its funding policy based on the existing

practices used to develop the ARC. The actuary replaced the term ARC with ADC to refer to the contribution determined by the actuary each year based on the adopted funding policy.

**5. What was the Port's annual pension contribution (ARC) in FY 2014?**

The FY 2014 ARC was \$13.9 million.

**6. How is the Port's ADC calculated?**

The Port's employer contributions are comprised of two components: the Normal Cost contribution and the UAL contribution. Normal Cost represents, for each active Port employee, the present value (as of June 30, 2013) of the portion of the employee's projected retirement benefit assigned to FY 2015. By paying the Normal Cost, the Port 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 2015, the Port's Normal Cost is \$4.3 million (approximately 12.4 percent of payroll). The UAL portion of the employer contribution is an amount the Port pays each year to pay down unfunded liabilities accrued over past years. The UAL is paid off (amortized) over a period of years. The Port's total June 30, 2013 UAL of \$107.7 million is split into several tiers, each using a different amortization period. There are now a total of 12 tiers, and adding the amortization of each tier results in a FY 2015 UAL payment of \$10.0 million. See Table IV-2 on page 24 of the Port June 30, 2013 Actuarial Valuation on the SDCERS website for more details on these tiers.

**7. Did the recent adjustment to the discount rate and inflationary pay assumptions impact the ADC and the UAL?**

Yes. The Board's November 2013 decision to lower the assumed discount rate from 7.5 percent to 7.25 percent and to lower the inflationary pay assumption from 3.75 percent to 3.3 percent increased the ADC and the UAL by \$0.5 million and \$8.1 million, respectively.

**8. What was the market value of SDCERS' Trust Fund on June 30, 2013 and the Port's portion of this amount?**

The market value of the assets in SDCERS' Trust Fund on June 30, 2013 was \$5.8 billion. The Port's portion of this amount was \$309.7 million.

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

For the June 30, 2013 Valuation, SDCERS' actuary assumed a long-term average investment return of 7.25 percent for Trust Fund assets.

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

SDCERS' annualized investment returns for the one, three and ten year periods ended June 30, 2013, as reported by Hewitt EnnisKnupp were 13.6 percent, 12.5 percent and 8.1 percent. Annualized investment returns are different from the actuarial rate of return calculated by the actuary because the actuary computes the actuarial results using the Expected Value of Assets smoothing method.

**11. 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 percent of the expected actuarial value of SDCERS' June 30, 2013 assets plus 25 percent 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 percent of the market value of assets nor greater than 120 percent of the market value of assets. In the June 30, 2013 valuation, the Port's actuarial value of assets of \$302.3 million was 97.6 percent of the Port's market value of assets of \$309.7 million.