

Unfunded Actuarial Liability
Projected Unit Credit (PUC) vs. Entry Age Normal (EAN)
For the Fiscal Year Ended June 30, 2006

| | PUC | EAN | % Change |
|---|------------------|------------------|----------|
| Actuarial Value of Liability (Cheiron*) | \$ 4,982,699,455 | \$ 5,191,961,336 | 4.2% |
| Actuarial Value of Assets (Cheiron*) | 3,981,931,694 | 3,981,931,694 | 0.0% |
| Unfunded Actuarial Liability | 1,000,767,761 | 1,210,029,642 | 20.9% |
| Funding Ratio | 79.9% | 76.7% | (3.2%) |

*SDCERS Actuary

On November 7, 2006, the public approved an amendment to Article 9, § 143 of the City's Charter, requiring voter approval of certain increases in retirement system benefits for public employees. Specifically, this amendment requires voter approval of any ordinance that amends the City's retirement system by increasing the benefits of any employee. However, increases in retirement benefits due to cost of living adjustments do not require voter approval.

On August 3, 2007, the General Counsel of SDCERS issued a letter to the City stating their opinion in regards to the effective date of the fiscal year 2005 agreements between the City and the labor unions. As part of the agreements, several benefits were altered or eliminated for employees hired on or after July 1, 2005, including the Deferred Retirement Option Plan (DROP), the 13th Check, and the option to purchase years of service credits ("air-time"). According to their fiduciary counsel, "SDCERS is obligated to administer benefits in accordance with its plan documents." However, the City did not enact such ordinances until January 17, 2007, which took effect on February 16, 2007. Therefore, the General Counsel of SDCERS and their outside counsel opine that the effective date of the agreements with the labor unions is February 16, 2007, the date that the benefit changes were codified into the plan document. On October 9, 2007, the City filed a petition for declaratory relief to determine the effective date of retirement benefit changes for employees hired between July 1, 2005 and February 16, 2007.

On September 21, 2007 the President of the SDCERS Board of Administration issued a press release stating that, under the direction of the Board of Administration, SDCERS' staff, actuary, and legal counsel, he had reviewed the SDCERS purchase of service credit program, and that his review concluded the following:

- With respect to SDCERS' service credit pricing structure that was in place prior to November 2003, Cheiron, SDCERS actuary, has determined that the full cost was not reflected in the price then charged to SDCERS members.
- This pricing shortfall, which totals approximately \$146 million, has been included in the System's Unfunded Actuarial Liability since the inception of the service credit program.
- With respect to the SDCERS' service credit pricing in place since November 2003, Cheiron advised SDCERS that structure covers the full projected cost to the System when members purchased the service credits.

The pricing shortfall of approximately \$146 million, which is included in the System's Unfunded Actuarial Liability, is reported in the RSI of these financial statements.

Additional information regarding the City's pension trust fund, including the City's NPO, can be found in Note 12 of the notes to the financial statements.

Other Post Employment Benefits

Retiree Health

The City provides certain healthcare insurance benefits to a variety of retired employees, as provided for in SDMC Sections 24.1201 through 24.1204 (the "Plan"). Currently, the benefits are primarily for employees who were actively employed on or after October 5, 1980 and were otherwise entitled to retirement allowances. Employees who retired or terminated prior to October 6, 1980, who were eligible for retirement allowances prior to that date, are also eligible for healthcare benefits, limited to a total of \$1,200 per year. Additionally, employees who were hired on or after July 1, 2005 and become eligible for retirement allowances