

**San Diego City
Employees' Retirement System**

**June 30, 2006
Actuarial Valuation for the**

City of San Diego

Produced by [Cheiron](#)

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LETTER OF TRANSMITTAL

January 12, 2007

Board of Administration
 San Diego City Employees' Retirement System
 401 B Street, Suite 400
 San Diego, CA 92101

Dear Members of the Board:

At your request, we performed the June 30, 2006 actuarial valuation of the San Diego City Employees' Retirement System (SDCERS). The valuation results with respect to the City of San Diego are contained in this report. In the table below we present the key results of the valuation:

- the unfunded actuarial liability (UAL),
- the funding ratio, and
- the City contribution rate and GASB's annual required contribution (GASB ARC Statement No. 25).

Valuation results are shown as of June 30, 2006 (rates effective Fiscal Year 2008) and June 30, 2005 (rates effective for Fiscal Year 2007). The contribution rates and dollar amounts shown below are in full compliance with Governmental Accounting Standards Board (GASB) Statement No. 25 as far as determining the annual required contributions (ARC).

Valuation Date	6/30/2006	6/30/2005
Unfunded Actuarial Liability (millions)	\$ 1,000.8	\$ 1,394.0
Funding Ratio	79.9%	68.2%
Fiscal Year	2008	2007
City Contribution Rate during year	24.95%	28.06%
City Contribution Rate start of year	24.01%	27.00%
Annual Required Contribution (GASB):		
-if paid at the beginning of the year	\$ 137.7 million	\$ 162.0 million
-if paid throughout the year	\$ 143.1 million	\$ 168.3 million

These results are based on the same actuarial assumptions used in the June 30, 2005 valuation, but reflect methodology changes that the Board approved based on Cheiron's on-going actuarial funding study and recommendations. Details on these methodology changes and their impact on the June 30, 2006 valuation results can be found in the Board Summary section.



In conclusion, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable actuarial standards set out by the Actuarial Standards Board and Actuarial Standards of Practice (ASOPs) Nos. 4, 27 and 35. As such, it reflects the actuary's responsibility under Section 5.8 of ASOP No. 4 "for assessing the implications of the overall results, in terms of short- and long-range benefit security and expected cost progression." In preparing our report, we relied without audit, on information supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

Finally, in our best professional judgment, the assumptions and methodologies as adopted by the SDCERS Board of Administration are reasonably related to the experience and expectations for the City's Retirement Plan. In our opinion, the use of these assumptions and methodologies for the June 30, 2006 actuarial valuation will not, in and of itself, expose SDCERS to unsound financial risk.

Sincerely,

Cheiron



Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary



Ken Kent, FSA, EA, MAAA
Consulting Actuary



Margaret Tempkin, FSA, EA
Actuary

SECTION I BOARD SUMMARY

The primary purpose of the actuarial valuation and this report is to measure, describe and identify as of the valuation date:

- The financial condition of SDCERS-City of San Diego,
- Past and expected trends in the financial condition of SDCERS-City of San Diego,
- The City's contribution rates for Fiscal Year 2008, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section we present a summary of the principal valuation results. This includes the basis upon which this year's valuation was completed and an examination of the current financial condition of SDCERS-City of San Diego. In addition, we present a review of the key historical trends followed by the projected financial outlook for SDCERS-City of San Diego.

A. Valuation Basis

This valuation represents Cheiron's second valuation performed for SDCERS. As stated in the Letter of Transmittal, the June 30, 2006 valuation results, while based on the same actuarial assumptions used in the prior valuation, reflect a number of methodology changes that Cheiron recommended and the Board approved. These changes include:

- A move from a "book value based" asset smoothing method to the "expected asset value" smoothing method. For June 30, 2006, the asset value is set to market value as of the same date, with the actual smoothing method commencing on June 30, 2007.
- The asset apportionment method between SDCERS' three plan sponsors (City of San Diego, Unified Port District, and San Diego County Regional Airport Authority) was changed from an allocation method based on various approximations to one that will directly reflect as of June 30, 2005 and forward, the actual cash flows attributable to each plan sponsor since June 30, 2005.
- All "contingent" liabilities (Corbett pre-July 1, 2000 retirees and the 13th check) are now reflected in the June 30, 2006 valuation liabilities.
- SDCERS assets and liabilities as of June 30, 2006 now reflect both the future liabilities for DROP retirements and supplemental COLA as well as the asset reserves held for such liabilities. Previously, both amounts were excluded from SDCERS reported assets and liabilities.
- All future benefits payable from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code (IRC) Section 415.

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- Benefits and resulting liabilities for current and future disabled participants have been reduced to reflect the legal decision that the Corbett judgment and plan document do not authorize a 10% increase to non-service eligible disability retirees.
- Minor adjustments in the allocation of liabilities amongst the three plan sponsors were made to ensure that when participants have service with more than one contributing employer the resulting liability allocation is equitably determined.

In Part B of this section, we present the financial impact on the current valuation of each of the changes.

In addition to the above, there will be a change to the actuarial funding method commencing with the June 30, 2007 valuation, from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method based upon the Board's approval of Cheiron's recommendation at its October 2006 meeting. Also, in the coming months, Cheiron will resume its study of the amortization basis for the UAL. We expect to complete that study prior to the completion of the June 30, 2007 valuation and there may be some change to the current amortization basis, which was 27 years as of June 30, 2006. For informational purposes the EAN calculation has been included in Table III-1a.

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B. Current Financial Condition of SDCERS-City of San Diego Employees

On the following pages, we summarize the key results of the June 30, 2006 valuation and how they compare to the results from the June 30, 2005 valuation.

1. City Membership:

Table I-2 SDCERS - City of San Diego - Membership Total			
Item	June 30, 2006	June 30, 2005	% Change
Active Counts	8,887	9,436	-5.8%
Terminated Vesteds	2,359	1,998	18.1%
Disabled	1,237	1,239	-0.2%
Retirees	4,118	3,728	10.5%
Beneficiaries	1,046	1,028	1.8%
Total City Members	17,647	17,429	1.3%
Active Member Payroll	\$ 534,102,800	\$ 557,630,735	-4.2%
Average Pay per Active Member	60,099	59,096	1.7%

Total membership in SDCERS-City of San Diego increased from 2005 to 2006 by 1.3%. Total payroll decreased by 4.2% due largely to the decline in active membership of 5.8%. Average pay per active member increased by only 1.7% which is lower than the salary inflation assumption of 4.25%.

2. City Assets and Liabilities

Table I-3 SDCERS - City of San Diego - Assets & Liabilities			
Item	June 30, 2006	June 30, 2005	% Change
Actives	\$ 1,970,655,791	\$ 2,058,660,269	-4.3%
Terminated Vesteds	189,840,833	135,169,560	40.4%
Disabled	371,327,233	344,346,695	7.8%
Retirees	2,335,419,143	1,737,804,362	34.4%
Beneficiaries	115,456,455	101,112,062	14.2%
Total Actuarial Liability	4,982,699,455	4,377,092,948	13.8%
Market Value Assets	\$ 3,981,931,694	\$ 3,205,721,975	24.2%
Actuarial Value Assets	3,981,931,694	2,983,079,852	33.5%
Unfunded Actuarial Liability	\$ 1,000,767,761	\$ 1,394,013,096	-28.2%
Funding Ratio-Actuarial Value	79.9%	68.2%	11.7%

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Table I-3 presented the SDCERS-City of San Diego funding ratio. This is the ratio of assets smoothed (actuarial value of assets) over total actuarial liabilities. For the year ending June 30, 2006 the ratio improved from 68.2% to 79.9%.

Between June 30, 2005 and June 30, 2006, SDCERS-City of San Diego unfunded actuarial liability decreased by 28.2%, from \$1,394.0 million to \$1,000.8 million, or \$393.2 million. If all assumptions had been exactly realized, and no changes were made to any actuarial method or procedure, the UAL was expected to increase by \$21.4 million. The fact that the UAL decreased by \$393.2 million means that there was a net overall positive experience of \$414.6 million.

The specific components of this positive change were as follows:

Table I-4		
SDCERS - City of San Diego		
(In Millions)		
Experience		
1. UAL change due to investment experience	\$	(158.9)
2. UAL change due to purchased service credit		12.3
3. UAL change due to overall liability gain		(58.6)
Contributions		
4. UAL change due to contributions in excess of expected		(105.6)
Actuarial		
5. UAL change due to marking the smoothing method to market value		(183.8)
6. UAL change due to reflection of "contingent" liabilities		112.7
7. UAL change due to DROP and supplemental COLA		-
8. UAL change due to removal of liabilities in excess of IRC S. 415 limits		(22.8)
9. UAL change due to removal of future disability benefits		(9.9)
Total		
10. Total net overall experience: sum 1 through 9	\$	(414.6)
11. Expected change in UAL	\$	21.4
12. Total change in UAL: 10 + 11	\$	(393.2)

It is important to note that the current amortization basis used to pay off the UAL is based on increasing payments which are a level percent of expected payroll. As a result and absent any experience gains or losses, it is anticipated that the UAL will increase in the earlier years and then decrease in the later years, until the payments fully fund the UAL in 27 years. This expected increase in the UAL in the early years is an acceptable and common method used by many public sector retirement systems, and specifically accepted by GASB in Statement No. 25. This is commonly acceptable for two key reasons: first, the schedule of increasing payments both fully amortize the UAL, and remain level as a percent of payroll, thus resulting in an equal tax burden to all generations of taxpayers; and second, experience gains in any given year are just as likely as experience losses, and level percent of payroll amortization results in a more stable pattern of costs.

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3. City Contributions:

Table I-5 SDCERS - City of San Diego - Contributions			
Item	June 30, 2006	June 30, 2005	% Change
Gross Normal Cost %	24.94%	24.90%	0.2%
Member Cost %	<u>10.54%</u>	<u>10.61%</u>	-0.7%
Employer Normal Cost %	14.40%	14.29%	0.8%
Employer Unfunded Liability Cost %	<u>10.55%</u>	<u>13.77%</u>	-23.4%
Total Employer Cost %	24.95%	28.06%	-11.1%
Employer Cost % Beginning of Year	24.01%	27.00%	-11.1%
Annual Required Contribution (GASB):			
-if paid at the beginning of the year	\$ 137.7 million	\$ 162.0 million	-14.8%
-if paid throughout the year	\$ 143.1 million	\$ 168.3 million	-14.9%

With respect to the City's contribution for FY 2008, the beginning of year computed contribution rate is 24.01%, which is down by nearly 3% from the 27.00% required contribution for the prior year.

In dollars, the contribution rates shown here translate to a FY 2008 City contribution of \$137.7 million, if paid in full as of July 1, 2008. If that amount is paid evenly throughout FY 2008, we would expect a payment of about \$143.1 million, or approximately \$12 million per month. In Section IV of this report, we provide more detail on the development of this contribution rate.

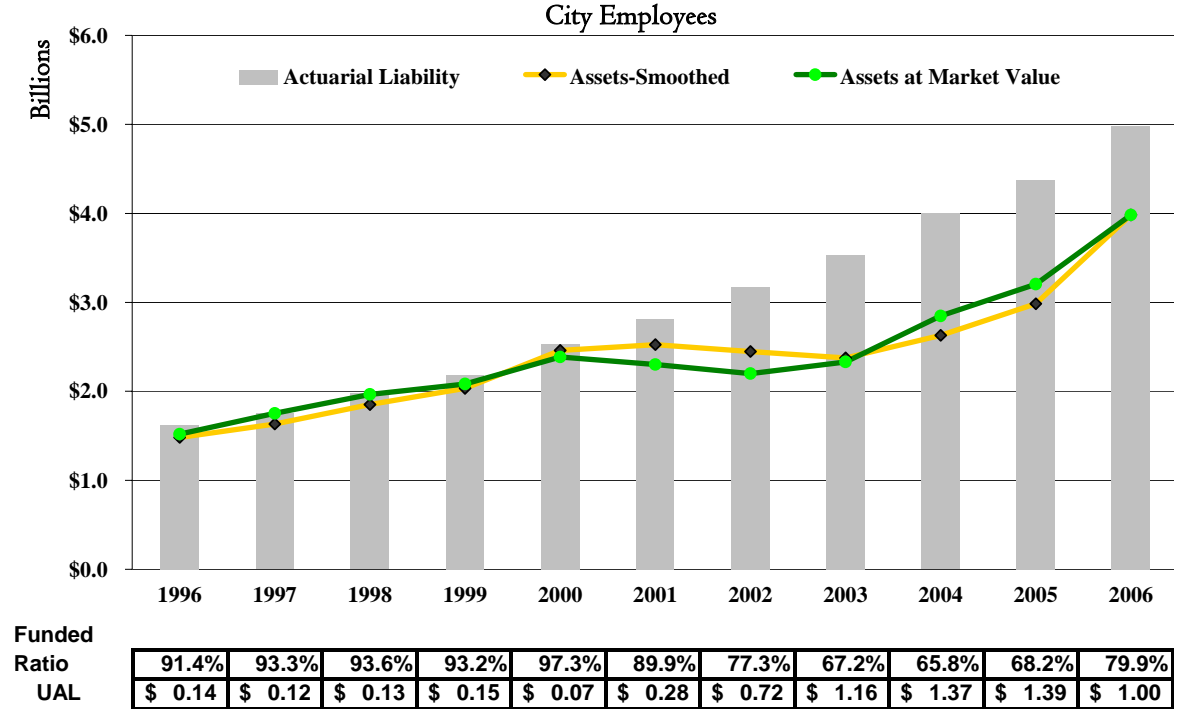
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C. Historical Trends SDCERS-City of San Diego

Despite the fact that most of the attention given to the valuation results has always been with respect to the most recently computed unfunded actuarial liability, funding ratio, and the City's contribution rate, it is important to remember that each valuation is merely a snapshot in the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

In the chart below, we present the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also show the progress of SDCERS-City of San Diego funding ratios since 1996.

SDCERS-City of San Diego Assets and Liabilities 1996-2006



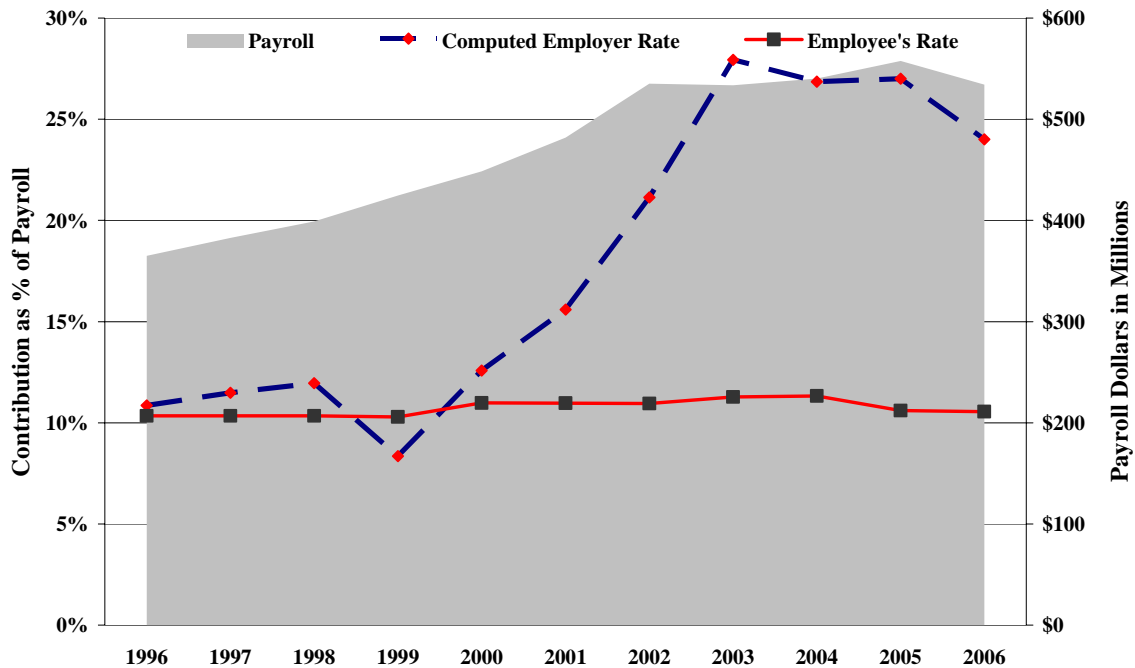
The chart above indicates that from 1996 to 2000, SDCERS maintained a strong and improving funding ratio. Then from 2000 to 2004, the funding ratio significantly declined with a low point being in 2004 at 65.8%. In the past two years, the ratio has improved significantly primarily driven by strong asset performance.

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In the chart below, we present the historical trends for the SDCERS-City of San Diego contribution rates and membership payroll since 1996. The chart does not show the actual contribution rate made by the City, but rather the rate calculated in each of the prior valuations.

SDCERS-City of San Diego City and Member Contribution Rates 1996-2006

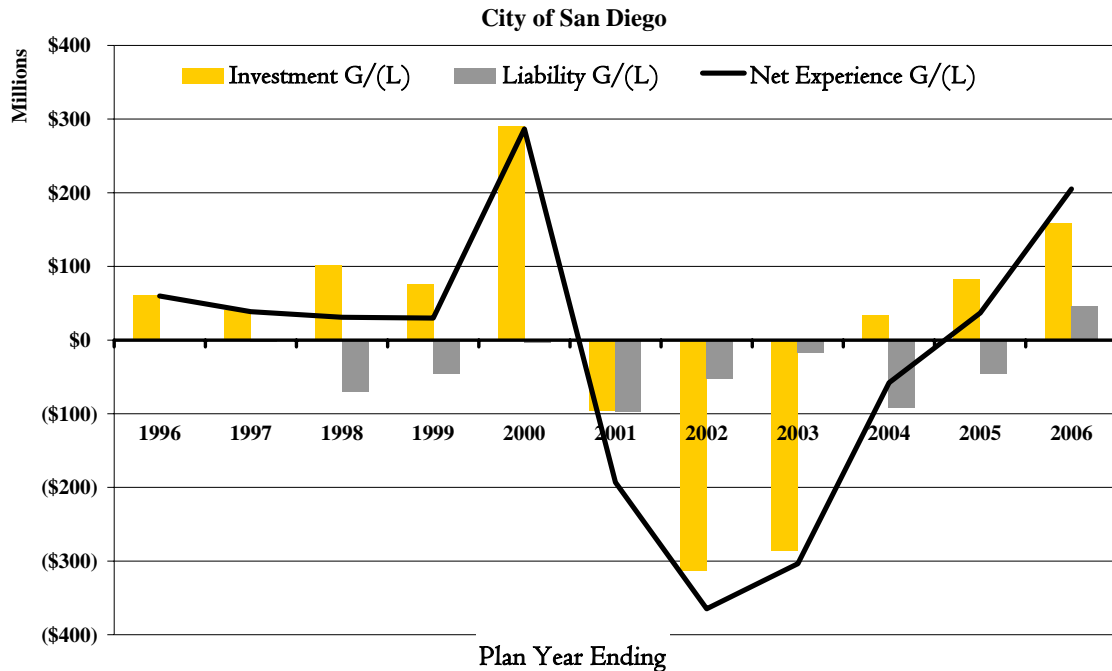


The key information indicated by the chart is the escalation in the computed employer contribution rate between 1999 and the year 2003. Since then the rate stabilized and then dropped in 2006. In addition, this chart shows the escalation of the City's total payroll from 1996 through 2002, and the stabilization of payroll growth after 2002, with a decline in the plan year ending June 30, 2006. Finally, the chart indicates that the members' rate has remained relatively stable throughout the period 1996 through 2006.

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The chart below for SDCERS-City of San Diego presents the pattern of annual gains and losses, broken into the investment and liability components. The chart does not include any changes in the system’s assets and liabilities attributable to changes to methods, procedures or assumptions. Experience shown prior to 1999 is for SDCERS-All Employers.

SDCERS-City of San Diego Historical Gain/(Loss) 1996-2006



The key insights from this chart are:

- Investment gains (gold bars) from 1996 through 2000 were significantly offset by investment losses from 2001 through 2003.
- The SDCERS-City of San Diego has recently turned the investment trend back to positive, as there have been increasing investment gains for the past three years.
- On the liability side prior to 2001, there was a pattern of relatively small losses. However, between 2001 and 2005 those liability losses significantly increased. In 2006, SDCERS-City of San Diego experienced a liability gain for the first time in this decade.

In future valuations, we will continue to closely monitor these trends and make recommendations as necessary to ensure that our assumptions conform as closely as possible to the plan’s experience. In that connection, following the June 30, 2007 actuarial valuation, Cheiron is scheduled to perform an experience study that is intended to determine what the sources of any experience gains or losses are.

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D. Projected Financial Trends

Our analysis of SDCERS-City of San Diego projected financial trends is an important part of this valuation. In this Section we present our assessment of the implications of the June 30, 2006 valuation results on the future outlook of SDCERS-City of San Diego in terms of benefit security (assets over liabilities) and the City's expected cost progression. In addition, given the concern regarding unfunded liabilities, we also show their expected future pay down.

Our projections are shown on six different bases, current and two shortened UAL amortization periods, each shown with level and volatile investment returns. We show two shorter UAL amortization periods, because the Board is likely to be studying that in the coming months. More importantly, however, we also show volatile investment returns, which happen to average 8% over the projection period. We do this because SDCERS returns will never be level each and every year.

In the charts that follow, we project the SDCERS-City of San Diego assets and liabilities, the pay down of UAL, and the City's contributions as a percent of payroll on six different bases:

- 1) Assuming 8% returns each and every year, and the continuation of the pay down of the UAL over 27 years as a level percent of payroll, and as of June 30, 2006,
- 2) Assuming returns that vary each year but over the projection period equals on average the assumed 8% return, and the continuation of the 27-year UAL paying it down,
- 3) Assuming 8% returns each and every year, but moving to 20-year level percent of payroll amortization as of July 1, 2008, and paying it down until 2028,
- 4) Same as 3) (varying returns) but using a 20-year UAL pay down starting in 2008,
- 5) Assuming 8% returns each and every year, but moving to 15-year level percent of payroll amortization as of July 1, 2008, and paying it down until 2023, and
- 6) Same as 5) (varying returns) but using a 15-year UAL pay down starting in 2008.

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The following table shows the assumed rate of return for each projected valuation year under the varying return exhibits (items 2, 4 and 6 above). These rates average 8% over the 30-year period.

Fiscal Year	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Return	8%	12%	16%	20%	16%	12%	8%	4%	0%	-4%
Fiscal Year	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Return	0%	4%	8%	8%	12%	16%	20%	16%	12%	8%
Fiscal Year	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Return	4%	0%	-4%	0%	4%	8%	4%	0%	12%	16%

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Projection Set 1: Assets and Liabilities - City of San Diego

The six charts below show asset measures (green and gold lines) compared to liabilities (grey bars). At the top of each chart is the progression of the SDCERS-City of San Diego funding ratios. The most revealing insight from these six charts is how varying investment returns impact the unfunded liabilities significantly more than the choice of the amortization period and basis.

Chart 1: Projection of Assets and Liabilities, 8% return each year, 26 year level percent of pay amortization in 2008

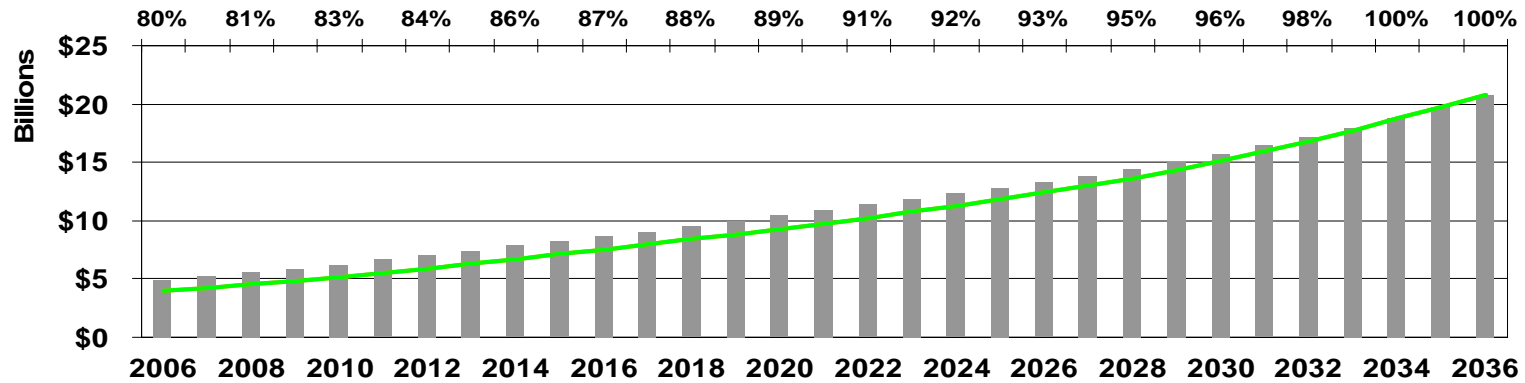
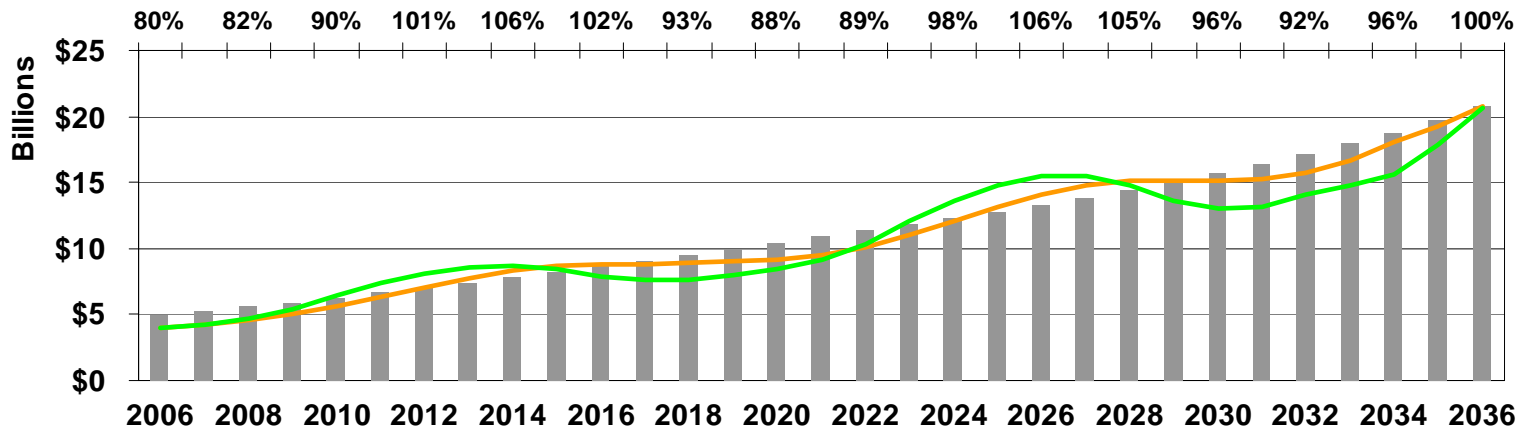


Chart 2: Projection of Assets and Liabilities, varying returns averaging 8%, 26 year level percent of pay amortization in 2008



Actuarial Liability Actuarial Value of Assets Market Value of Assets

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Chart 3: Projection of Assets and Liabilities, 8% return each year, 20 year level percent of pay amortization in 2008

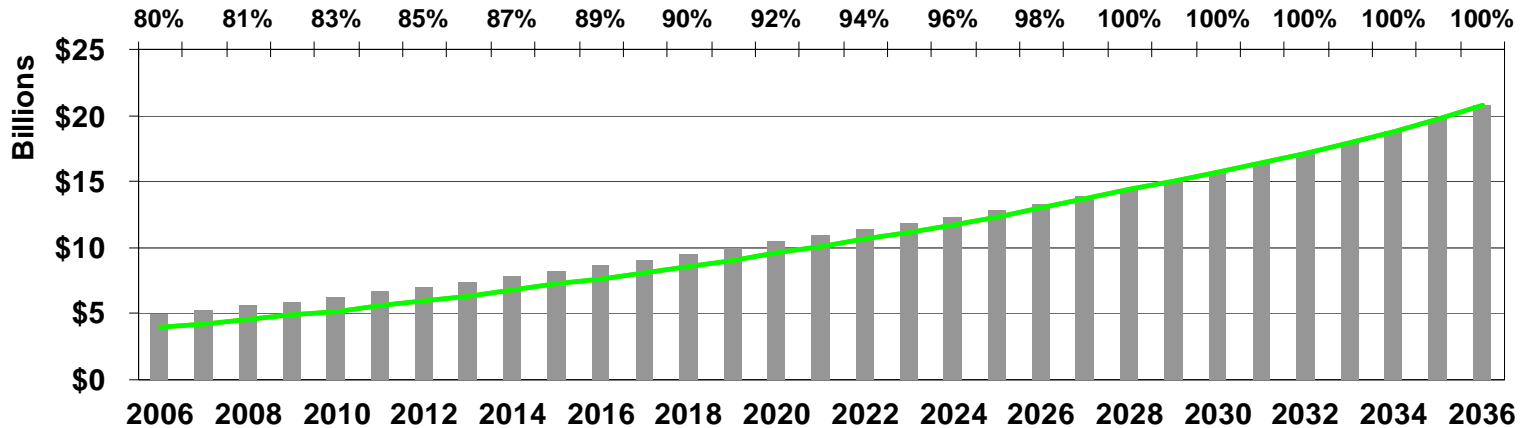
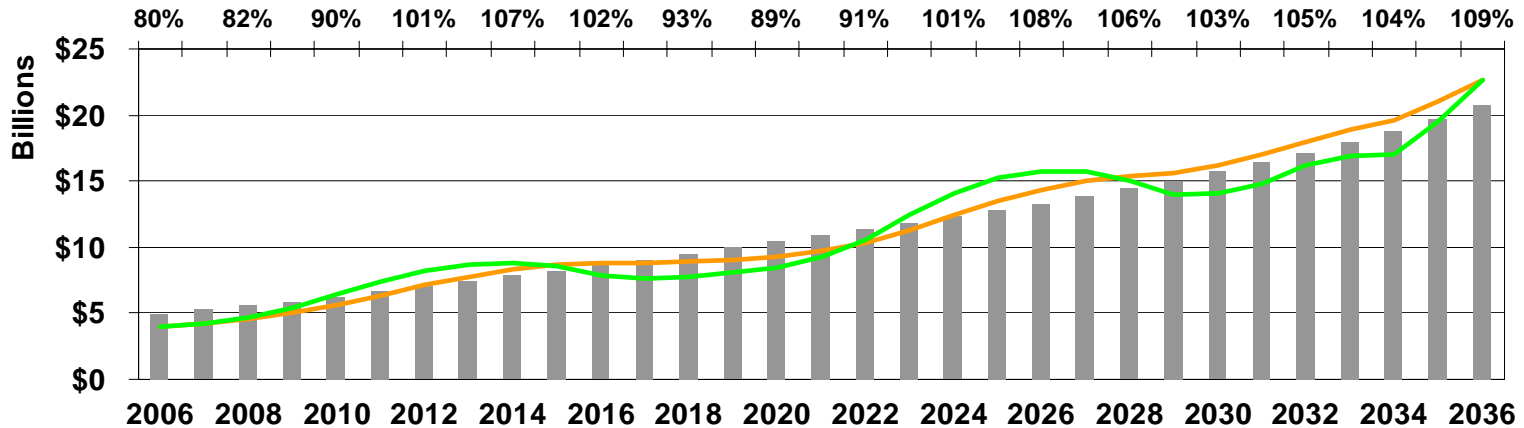


Chart 4: Projection of Assets and Liabilities, varying returns averaging 8%, 20 year level percent of pay amortization in 2008



■ Actuarial Liability — Actuarial Value of Assets — Market Value of Assets

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Chart 5: Projection of Assets and Liabilities, 8% return each year, 15 year level percent of pay amortization in 2008

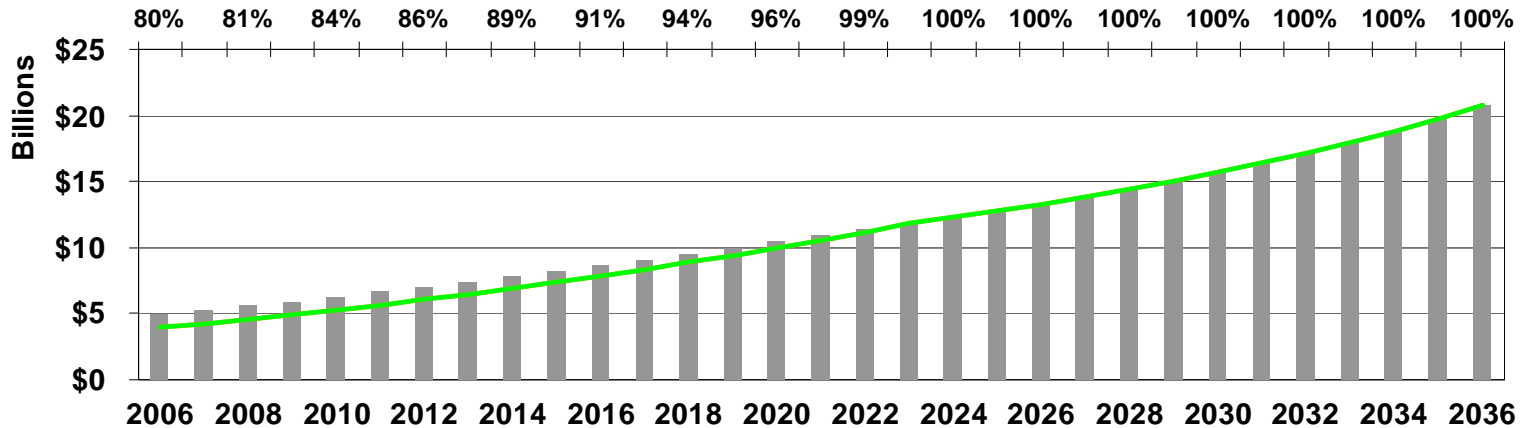
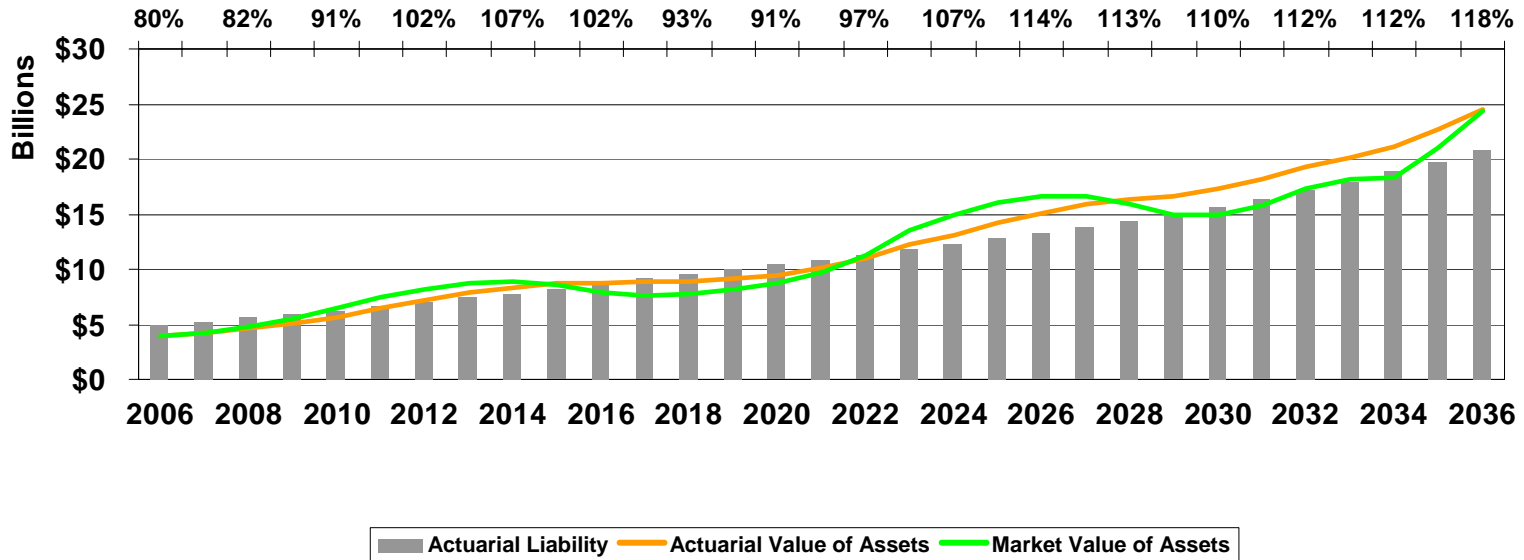


Chart 6: Projection of Assets and Liabilities, varying returns averaging 8%, 15 year level percent of pay amortization in 2008



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Projection Set 2: Pay down of the Unfunded Actuarial Liability (UAL) – City of San Diego

Choice of an amortization period is significant when viewing the projected pay down of the UAL, especially when one is assuming level returns. The second chart in each set demonstrates that varying returns, which will occur, mean that there will always be dramatic swings in the annually computed UAL.

Chart 1: 8% return each year, 26 year level percent of pay amortization in 2008

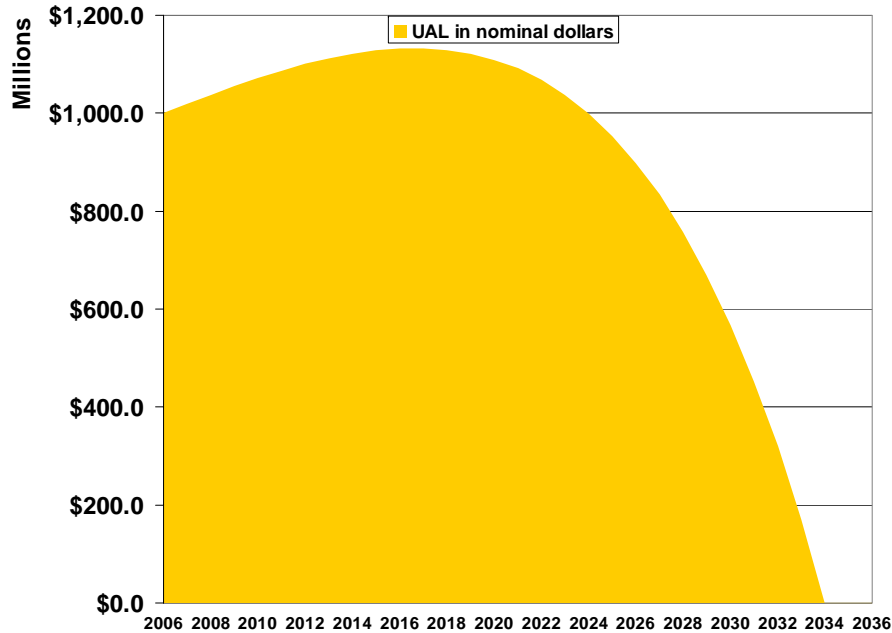
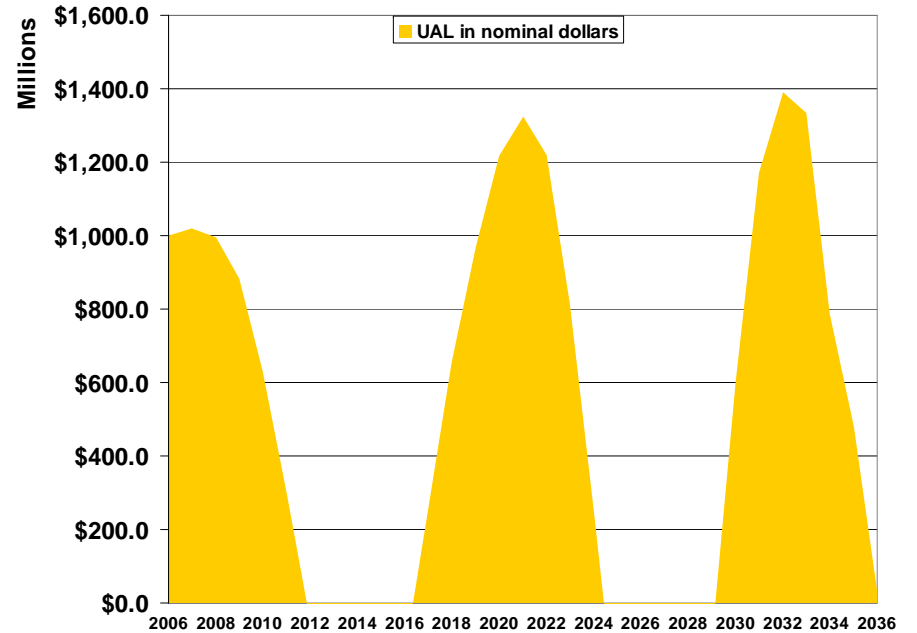


Chart 2: varying returns averaging 8%, 26 year level percent of pay amortization in 2008



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Chart 3: 8% return each year, 20 year level percent of pay amortization in 2008

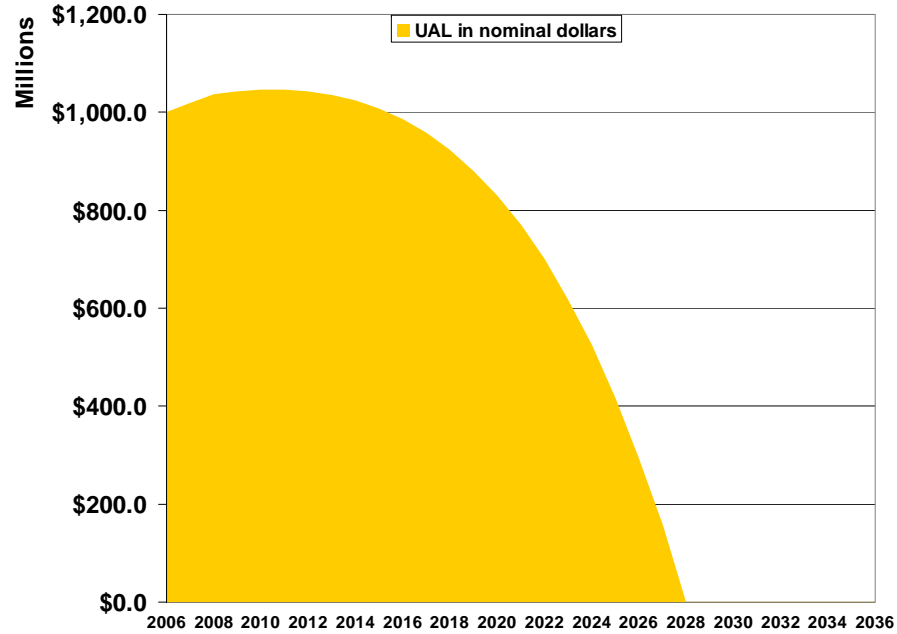
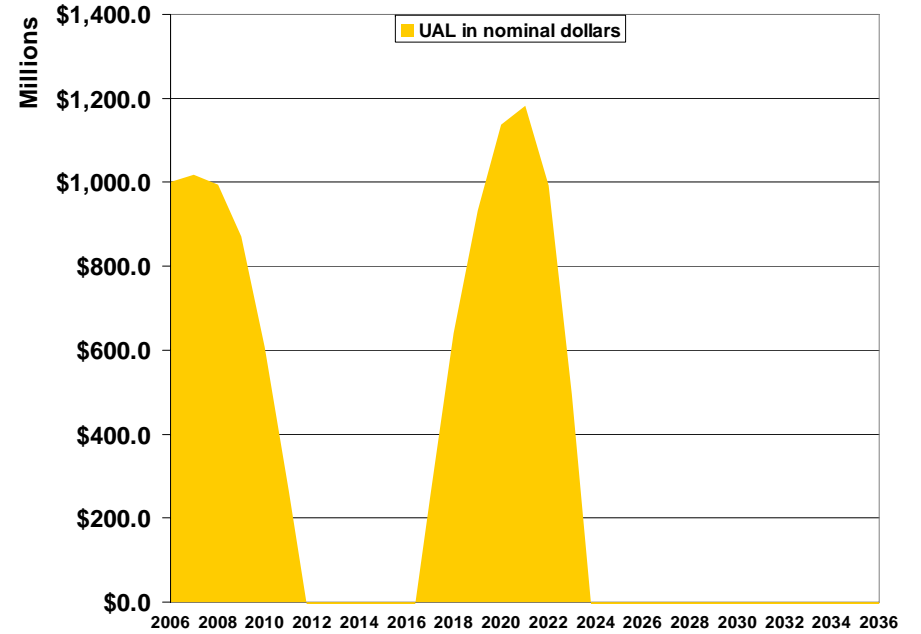


Chart 4: varying returns averaging 8%, 20 year level percent of pay amortization in 2008



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Chart 5: 8% return each year, 15 year level percent of pay amortization in 2008

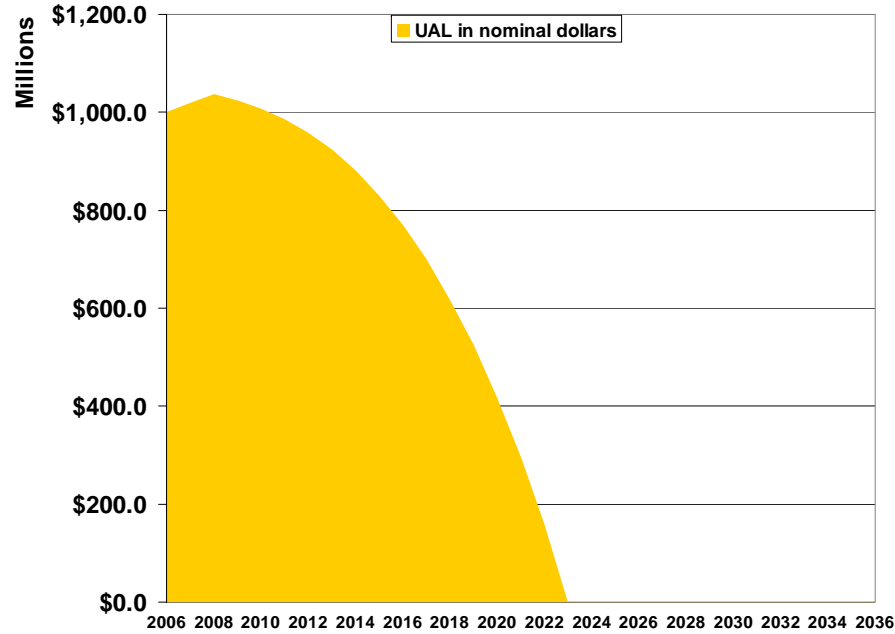
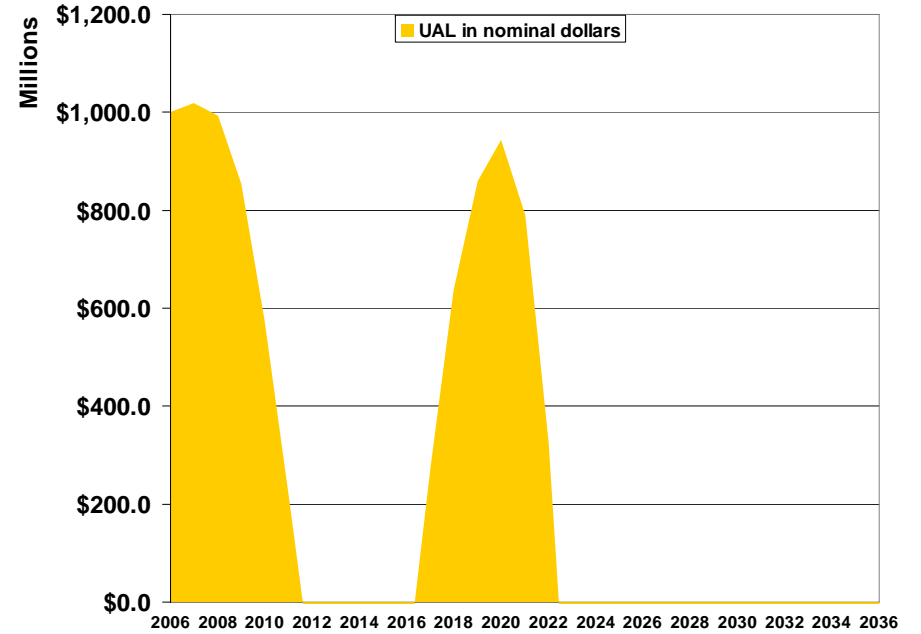


Chart 6: varying returns averaging 8%, 15 year level percent of pay amortization in 2008



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Projection Set 3: Projected City Contribution Rate

Choice of an amortization period and varying returns all have a significant impact on the actuarially computed City contribution rate. Note how with varying returns (charts 2, 4 and 6) that the shorter the amortization period, the more dramatic the volatility in contribution rates.

Chart 1: 8% return each year, 26 year level percent of pay amortization in 2008

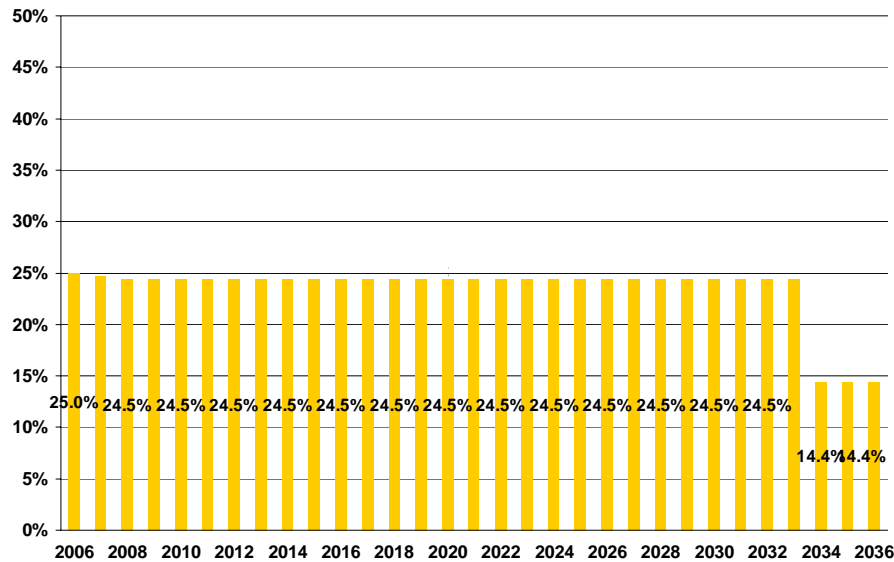
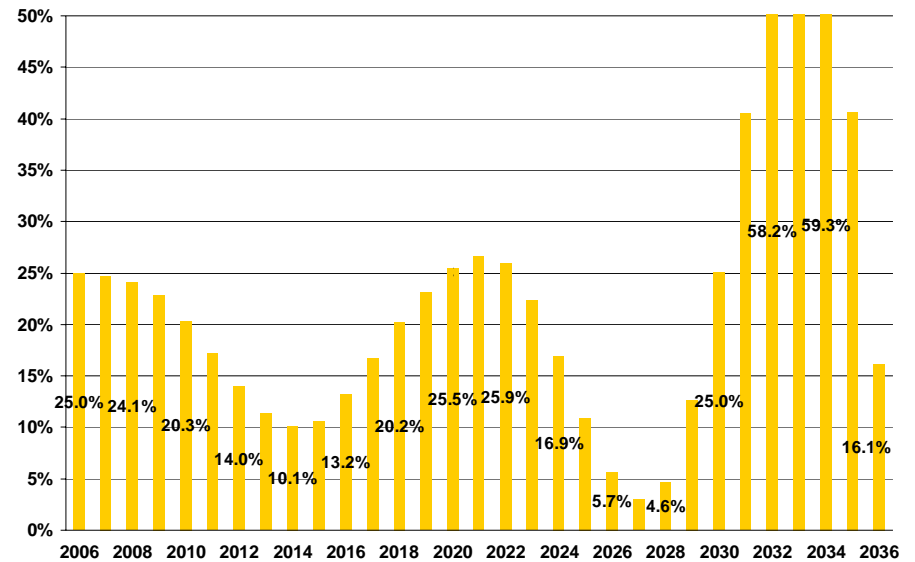


Chart 2: varying returns averaging 8%, 26 year level percent of pay amortization in 2008



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Chart 3: 8% return each year, 20 year level percent of pay amortization in 2008

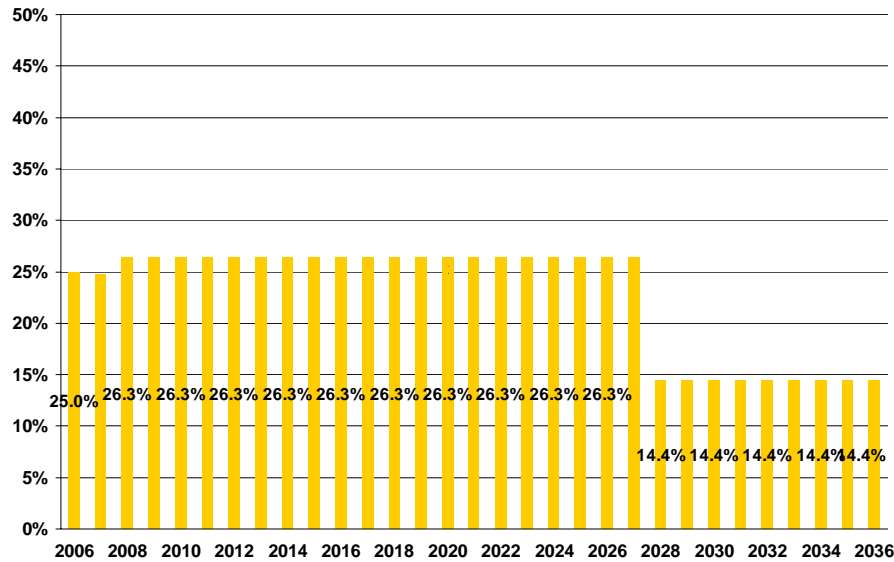
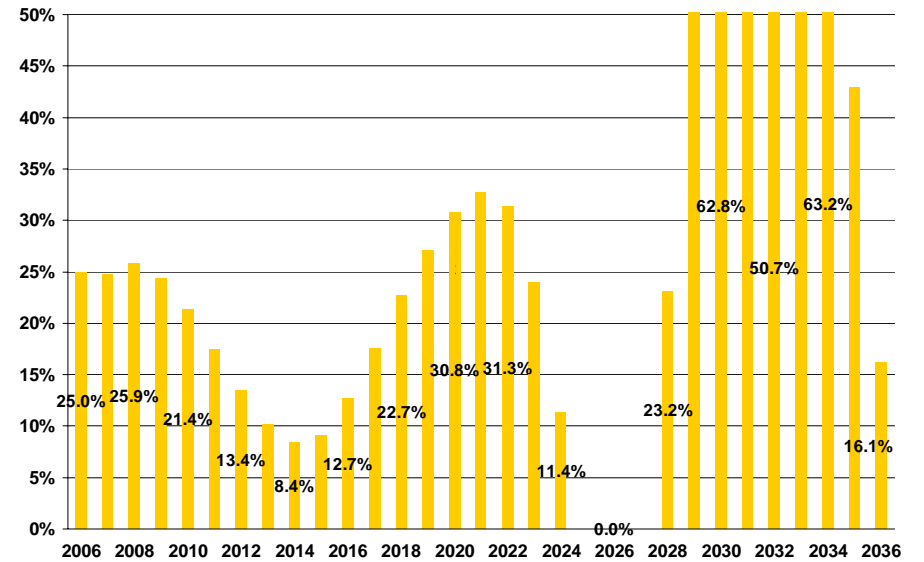


Chart 4: varying returns averaging 8%, 20 year level percent of pay amortization in 2008



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Chart 5: 8% return each year, 15 year level percent of pay amortization in 2008

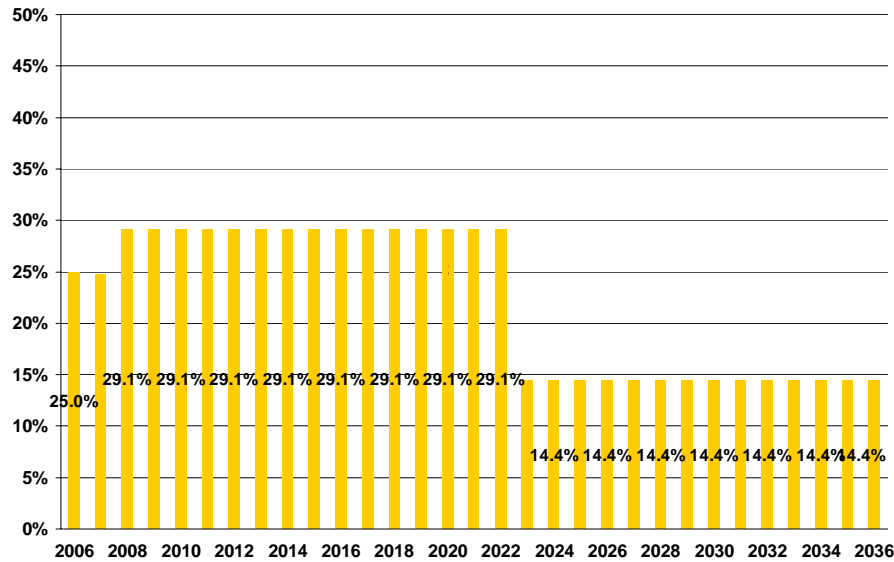
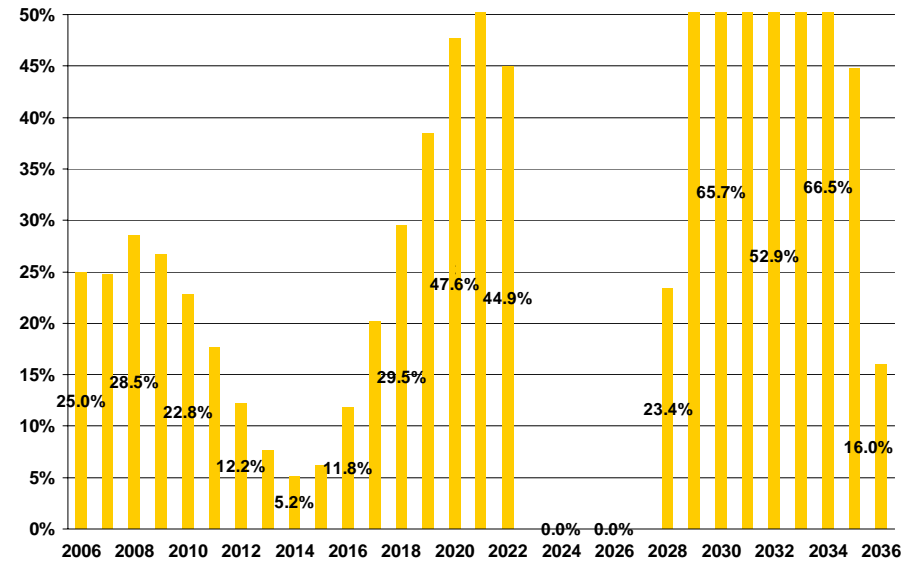


Chart 6: varying returns averaging 8%, 15 year level percent of pay amortization in 2008



SECTION II ASSETS

SDCERS has historically used and disclosed three different asset measurements which are presented in this Section of the report: market value, book value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The book value of assets measures assets based on their value when they were first purchased (cost value), plus earnings that have been realized such as interest and dividends and less depreciation for certain fixed assets. The actuarial value of assets is a value that attempts to smooth annual investment return performance and is used in determining SDCERS' contribution rates for the three participating employer plans.

Each employer receives a separate actuarial valuation report and cost determination. However, the assets of all employer plans are pooled for investment purposes. The apportionment of the assets between the employer plans directly impacts each employer's costs. Therefore, in the interest of ensuring transparency, we disclose in this section information on the total assets of SDCERS-All Employers. How those assets are apportioned to the City of San Diego, the Unified Port District, and the San Diego County Regional Airport Authority is explained here.

On the following pages we present detailed information on SDCERS-All Employers assets:

- Disclosure of assets at June 30, 2005 and June 30, 2006,
- Statement of cash flows during the year,
- Development of the actuarial value of assets,
- Apportionment of assets to contributing employers, and member groups within each, and
- Disclosure of investment performance for the year.

**SECTION II
ASSETS**

A. Disclosure

The market value of assets represents a “snap-shot” value as of the last day of the fiscal year that provides the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace. Because these fluctuations would result in volatility in employer contributions, an actuarial value of assets is developed. Table II-1 below discloses the market value by asset class of SDCERS – All employers’ gross assets on June 30, 2006. Table II-2 which follows, discloses the book value of gross assets, by type of book reserve.

Table II-1 SDCERS – All Employers Summary of Reported Market Value of Total Defined Benefit Plan Assets	
Cash	\$ 493,016,555
US Stocks	1,605,508,248
International Stocks	703,112,207
Bonds	940,867,782
Mortgages	5,915
Real Estate	373,123,539
Receivables	91,987,716
Short Term Investments	192,171,460
Fixed Assets	116,125
Miscellaneous	8,955
Accounts Payable	<u>(173,478,701)</u>
Market Value of Assets – June 30, 2006	\$ 4,226,439,801

Table II-2 SDCERS – All Employers Summary of Book Value of Reserves of Total Defined Benefit Plan Assets	
Member Deposit Reserve	\$ 567,766,248
DROP Reserve	225,570,127
Employer Reserve	116,846,660
Retired Members Reserve	2,126,403,964
Undistributed Reserve	619,925,093
Encumbrance Reserve	721,973
Receivables Reserve	20,300,054
Fixed Assets Reserve	116,125
Retiree Health 401(h) Reserve	0
Supplemental COLA Reserve	17,273,016
Employee Contribution Rate Inc. Reserve	0
Other	0
Book Value of Reserves – June 30, 2006	\$ 3,694,923,260
Unrealized Appreciation	531,516,541
Market Value of Assets – June 30, 2006	\$ 4,226,439,801

SDCERS-CITY OF SAN DIEGO
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**SECTION II
ASSETS**

B. System Cash Flows Year June 30, 2005 through June 30, 2006

Table II-3 SDCERS – All Employers SDCERS Net Monthly Cash Flows				
	City	Unified Port District	Airport Authority	Total SDCERS
Reported Market Value as of June 30, 2005	\$ 3,205,721,975	\$ 175,908,319	\$ 30,682,414	\$ 3,412,312,708
Adjustments due to Methodology Changes ¹	<u>265,881,858</u>	<u>1,133,194</u>	<u>157,277</u>	<u>267,172,329</u>
Adjusted Market Value as of June 30, 2005	\$ 3,471,603,833	\$ 177,041,513	\$ 30,839,691	\$ 3,679,485,037
<u>Monthly Cash Flows</u>				
July 2005	\$ 149,098,642	\$ 7,762,293	\$ 3,282,675	\$ 160,143,610
August 2005	(15,899,980)	(337,811)	75,197	(16,162,595)
September 2005	(322,468)	(31,452)	324,787	(29,133)
October 2005	(9,374,515)	(86,194)	153,786	(9,306,923)
November 2005	(21,151,516)	(363,954)	1,074,703	(20,440,767)
December 2005	(12,190,972)	(232,101)	349,844	(12,073,229)
January 2006	(36,824,678)	(241,603)	165,156	(36,901,125)
February 2006	(11,712,901)	(207,607)	79,663	(11,840,845)
March 2006	(12,096,786)	(243,285)	249,604	(12,090,467)
April 2006	(10,158,304)	(268,228)	43,611	(10,382,921)
May 2006	(9,118,186)	(201,453)	256,214	(9,063,426)
June 2006	100,220,328	43,107	358,277	100,621,712
Total Net Cash Flows²	\$ 110,468,662	\$ 5,591,710	\$ 6,413,517	\$ 122,473,889
Internal Rate of Return	11.28%	11.28%	11.28%	11.28%
Investment Income: (net of expenses)	<u>\$ 399,859,199</u>	<u>\$ 20,652,605</u>	<u>\$ 3,969,071</u>	<u>\$ 424,480,875</u>
Market Value as of June 30, 2006	\$ 3,981,931,694	\$ 203,285,828	\$ 41,222,279	\$ 4,226,439,801

¹ Adjustments due to methodology changes are the reflection of reserves held for DROP contributions, undistributed earnings, employee contribution rate increase and supplemental COLA as of June 30, 2005. Please see page 16 of the June 30, 2005 actuarial report.

² Totals may not add due to rounding.

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION II
ASSETS**

B. System Cash Flows Year June 30, 2005 through June 30, 2006 - continued

Table II-4 SDCERS – All Employers SDCERS Cash Flows				
	City	Unified Port District	Airport Authority	Total SDCERS
Adjusted Market Value as of June 30, 2005	\$ 3,471,603,833	\$ 177,041,513	\$ 30,839,691	\$ 3,679,485,037
<u>Additions</u>				
Contributions: <u>Employers'</u>				
Contributions	\$ 271,349,109	\$ 8,121,319	\$ 4,300,000	\$ 283,770,428
DROP Contributions	1,953,165	45,719	6,104	2,004,988
Offset Contributions	19,261,595	2,853,120	1,333,732	23,448,447
Total Employers' Contributions	\$ 292,563,869	\$ 11,020,158	\$ 5,639,836	\$ 309,223,863
Contributions: <u>Employees'</u>				
Members Contributions	\$ 31,426,532	\$ 1,209,380	\$ 575,920	\$ 33,211,832
Members PSC Contributions	8,220,378	769,278	280,570	9,270,226
Members DROP Contributions	2,015,431	45,719	6,104	2,067,254
Members PSC Interest Earned	1,495,502	230,355	100,064	1,825,921
Total Employees' Contributions	\$ 43,157,843	\$ 2,254,732	\$ 962,658	\$ 46,375,233
Contributions: <u>DROP</u>				
Pension Allowances	\$ 48,793,017	\$ 847,117	\$ 98,650	\$ 49,738,784
Supplemental Benefit	715,645	10,307	1,178	727,130
Total DROP Contributions	\$ 49,508,662	\$ 857,424	\$ 99,828	\$ 50,465,914
Total Contributions	\$ 385,230,374	\$ 14,132,315	\$ 6,702,322	\$ 406,065,011
Other Additions – Litigation Settlement	\$ 15,500,000	\$ 0	\$ 0	\$ 15,500,000
Investment Income: (net of expenses)	\$ 399,859,199	\$ 20,652,605	\$ 3,969,071	\$ 424,480,875
Total Additions	\$ 800,589,573	\$ 34,784,921	\$ 10,671,393	\$ 846,045,886

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION II
ASSETS**

B. System Cash Flows Year June 30, 2005 through June 30, 2006 - continued

Table II-4 (continued)				
SDCERS – All Employers				
SDCERS Cash Flows				
	City	Unified Port District	Airport Authority	Total SDCERS
<u>Deductions</u>				
Monthly Retirement Allowances	\$ (143,515,914)	\$ (7,070,316)	\$ (112,049)	\$ (150,698,278)
Monthly Retirement Allowances – DROP	(48,793,017)	(847,117)	(98,650)	(49,738,784)
Monthly Retirement Allowances – Supp COLA	(3,685,076)	(48,225)	(0)	(3,733,301)
Supplemental Benefit Payments	(4,206,260)	(150,183)	(2,380)	(4,358,823)
Corbett Retro Payment	(5,498,098)	(0)	(0)	(5,498,098)
DROP Payments to Members	(74,911,006)	(287,387)	(32,507)	(75,230,900)
Death Benefit Payments	(387,155)	(0)	(0)	(387,155)
Retiree Death Benefit Payments	(280,255)	(8,000)	(2,000)	(290,255)
Refunds of Member Contributions	(4,449,250)	(129,377)	(41,220)	(4,619,847)
Litigation Settlement Expense	(4,535,682)	(0)	(0)	(4,535,682)
Total Deductions	\$ (290,261,712)	\$ (8,540,605)	\$ (288,805)	\$ (299,091,122)
Total Net Increase (Decrease)	\$ 510,327,861	\$ 26,244,315	\$ 10,382,588	\$ 546,954,764
Market Value as of June 30, 2006	\$ 3,981,931,694	\$ 203,285,828	\$ 41,222,279	\$ 4,226,439,801

SECTION II ASSETS

C. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets which will differ from the market value of assets. The actuarial value of assets typically represents an asset value based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions. Prior to this June 30, 2006 actuarial valuation, the actuarial value of assets used by SDCERS was one which did not effectively achieve the goal of reducing contribution volatility. In addition, the method that had been in place was based on smoothing the “book value” of assets. Using book value in asset smoothing is no longer a commonly accepted method for pension funds, and for good reasons, had been on the decline for many years. Soon after the completion of Cheiron’s June 30, 2005 valuation of SDCERS, Cheiron commenced a study of this smoothing method, and reached the same conclusion that the prior actuary, and actuaries in prior audits of SDCERS reached; a recommendation to discontinue the use of the book value smoothing method.

Cheiron’s specific recommendation, which was adopted by the Board at its September 2006 meeting, was to set the actuarial value of assets equal to the market value of assets as of June 30, 2006. Then, for the 2007 valuation year, the actuarial value will be calculated by accepting 100% of the expected asset value as of June 30, 2007 (assuming 8% earnings for the year) plus 25% of the difference between the actual market value next year and expected asset value.

D. Apportionment of Actuarial Value of Assets

In addition to the change in the asset smoothing method, there has been a change in the method to apportion assets amongst contributing employers. Prior to June 30, 2006, the allocation method had been based on utilizing estimating techniques for allocating undistributed earnings. Cheiron advised the Board at its September 2006 meeting that such estimation techniques were not necessary, as all specific plan sponsor cash flows were identifiable, so that an accurate asset apportionment could be made each year. The Board adopted Cheiron’s recommendation to change the asset apportionment method to reflect the actual cash flows by each plan sponsor, and proportional allocation of investment earnings. On the next page we show the assets now apportioned under this method amongst the three contributing employers, and then amongst the different member groups for SDCERS. For the June 30, 2006 valuation, the market value includes all reserves for contingencies, supplemental COLA and DROP. As explained above, as of June 30, 2006 the actuarial value was set equal to the market value for all employer groups.

SDCERS-CITY OF SAN DIEGO
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**SECTION II
ASSETS**

**Table II-5
Summary of Actuarial Assets Available for Each Employer Group
As of June 30, 2006**

<u>Employer Groups</u>	<u>Reported</u> <u>Market Value</u> <u>Total Net Assets</u> <u>June 30, 2005</u> ¹	<u>Adjusted</u> <u>Market Value</u> <u>Total Assets</u> <u>June 30, 2005</u> ²	<u>Market Value</u> <u>Total Assets</u> <u>June 30, 2006</u>	<u>Actuarial Value</u> <u>Total Assets</u> <u>June 30, 2006</u>
General	\$ 1,655,133,812	\$ 1,730,347,325	\$ 1,977,823,235	\$ 1,977,823,235
Elected Officers	4,419,233	4,462,487	6,846,931	6,846,931
Safety	<u>1,546,168,929</u>	<u>1,715,975,921</u>	<u>1,997,261,528</u>	<u>1,997,261,528</u>
Total City	\$ 3,205,721,975	\$ 3,471,603,833	\$ 3,981,931,694	\$ 3,981,931,694
Unified Port District	175,908,318	177,041,512	203,285,828	203,285,828
Airport Authority	30,682,414	30,839,691	41,222,279	41,222,279
Total-SDCERS	\$ 3,412,312,708	\$ 3,679,485,037	\$ 4,226,439,801	\$ 4,226,439,801

¹ As reflected in the June 30, 2005 report. These numbers do not include reserves for DROP, undistributed earnings, employee contribution rate increase and supplemental COLA.

² Reflects total net assets plus reserves held for DROP contributions, undistributed earnings, employee contribution rate increase and supplemental COLA as of June 30, 2005.

E. Investment Performance

The market value of assets returned 11.28% for the year ending June 30, 2006. This is compared to an assumed return of 8%. The return in FY 2005 was 10.21%.

On an actuarial value of assets basis, the return for FY 2006 was 13.65%. This return produced for SDCERS-All Employers, an overall investment gain of \$185.7 million for the year ending June 30, 2006. (Note this reported gain is different than the investment gain of \$158.9 million reported on page 4 in this report. The latter is the gain only for the City of San Diego.)

SECTION III LIABILITIES

In this section, we present detailed information on liabilities for SDCERS-City of San Diego, including:

- Disclosure of liabilities at June 30, 2005 and June 30, 2006,
- Statement of changes in the unfunded actuarial liabilities during the year, and
- Disclosure of certain contingent liabilities not reflected in determining costs and liabilities, and how they have been funded.

A. Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of all Future Benefits:** Used for measuring all future SDCERS obligations, represents the amount of money needed today to fully pay off all benefits of SDCERS both earned as of the valuation date and those to be earned in the future by current plan participants, under the current Plan provisions.
- **Actuarial Liability-Projected Unit Credit (PUC):** Used for determining employer contributions and GASB accounting disclosures, this liability is calculated taking the present value of future benefits based on service as of the valuation date, but including future salaries growth.
- **Actuarial Liability-Entry Age Normal (EAN):** Used in this report purely for informational purposes here. This liability is calculated taking the present value of all future benefits and subtracting the present value of future member contributions and future employer normal costs as determined under the EAN actuarial funding method.
- **Present Value of Accrued Benefits:** Disclosed in Section V of this report for accounting statement purposes (FASB 35). This liability represents the present value of future benefits payable to all plan participants if the plan were terminated as of the valuation date, and future accruals and contributions stopped.

Table III-1 on the following page discloses the first three of these liabilities for the current and prior year valuations. With respect to the actuarial liability a subtraction of the actuarial value of assets yields a net surplus or an unfunded actuarial liability (UAL).

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

Table III-1a		
SDCERS - City of San Diego - Total		
Item	June 30, 2006	June 30, 2005*
Present Value of Future Benefits		
Actives	\$ 3,463,425,413	\$ 3,639,468,040
Terminated Vesteds	189,840,833	135,169,560
Disabled	371,327,233	344,346,695
Retirees	2,335,419,143	1,737,804,362
Beneficiaries	115,456,455	101,112,062
Total City	\$ 6,475,469,077	\$ 5,957,900,719
Actuarial Liability - PUC		
Actives	\$ 1,970,655,791	\$ 2,058,660,269
Terminated Vesteds	189,840,833	135,169,560
Disabled	371,327,233	344,346,695
Retirees	2,335,419,143	1,737,804,362
Beneficiaries	115,456,455	101,112,062
Total City	\$ 4,982,699,455	\$ 4,377,092,948
Market Value of Assets	\$ 3,981,931,694	\$ 3,205,721,975
Actuarial Value of Assets	\$ 3,981,931,694	\$ 2,983,079,852
Unfunded Actuarial Liability	\$ 1,000,767,761	\$ 1,394,013,096
Actuarial Liability - EAN		
Total Present Value of Benefits	\$ 6,475,469,077	\$ 5,957,900,719
Present Value of Future Normal Costs		
Employer Portion	705,063,836	743,299,479
Employee Portion	578,443,905	612,559,471
Actuarial Liability - EAN	\$ 5,191,961,336	\$ 4,602,041,768
Actuarial Value of Assets	\$ 3,981,931,694	\$ 2,983,079,852
Unfunded EAN Actuarial Liability	\$ 1,210,029,642	\$ 1,618,961,916

* The June 30, 2005 results do not reflect the contingent liabilities, DROP reserves, supplemental COLA reserves, nor did it apply IRC section 415.

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

During the 2006 valuation review process, the Board adopted the recommendation of the Actuary to reflect the cost associated with the contingent liabilities, DROP reserves, supplemental COLA reserves and reflection of IRC Section 415 limits. In the above Table III-1a, we have reflected these changes in the June 30, 2006 results. In our June 30, 2005 report, the values in Table III-1a did not reflect the additional liabilities associated with the contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, nor did it apply IRC Section 415 limits to expected benefits at retirement. Table III-1b below reflects these additional liabilities for June 30, 2005 on both the present value of future benefits (PVFB) and the actuarial liability on a Projected Unit Credit basis. This table is shown for comparison purposes only and should not be used to determine the solvency of SDCERS.

Table III-1b		
SDCERS - City of San Diego		
Item	June 30, 2005	June 30, 2005
Additional Liabilities	PVFB	Actuarial Liability - PUC
Reported June 30, 2005	\$ 5,957,900,719	\$ 4,377,092,948
Corbett	\$ 58,923,978	\$ 58,923,978
13th Check	67,859,178	56,686,313
Apply IRC Section 415 limits	(40,202,304)	(22,971,046)
DROP	227,223,791	227,223,791
Supplemental COLA	17,839,967	17,839,967
Total Additional Liabilities	\$ 331,644,610	\$ 337,703,003
Total of Reported and Additional	\$ 6,289,545,329	\$ 4,714,795,951

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

Table III-2 shows actuarial liability as of June 30, 2006 for general and elected members of SDCERS-City of San Diego.

Item	June 30, 2006	June 30, 2006	June 30, 2006
Present Value of Future Benefits	Total	General	Elected
Actives	\$ 1,955,442,279	\$ 1,952,353,521	\$ 3,088,758
Terminated Vesteds	143,884,085	143,311,799	572,286
Disabled	70,436,856	70,436,856	-
Retirees	1,119,214,747	1,112,509,027	6,705,720
Beneficiaries	52,828,489	52,786,018	42,471
Total City General & Elected	\$ 3,341,806,456	\$ 3,331,397,221	\$ 10,409,235
Actuarial Liability - PUC			
Actives	\$ 1,097,107,594	\$ 1,095,860,319	\$ 1,247,275
Terminated Vesteds	143,884,085	143,311,799	572,286
Disabled	70,436,856	70,436,856	-
Retirees	1,119,214,747	1,112,509,027	6,705,720
Beneficiaries	52,828,489	52,786,018	42,471
Total City General & Elected	\$ 2,483,471,771	\$ 2,474,904,019	\$ 8,567,752

Table III-3 shows actuarial liability as of June 30, 2006 for safety members of SDCERS-City of San Diego.

Item	June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
Present Value of Benefits	Total	Police	Fire	Lifeguard
Actives	\$ 1,507,983,134	\$ 1,023,052,880	\$ 443,879,559	\$ 41,050,695
Terminated Vesteds	45,956,748	42,459,169	2,889,932	607,647
Disabled	300,890,377	197,220,914	94,326,700	9,342,763
Retirees	1,216,204,396	690,282,750	504,242,910	21,678,736
Beneficiaries	62,627,966	38,086,341	24,312,218	229,407
Total City Safety	\$ 3,133,662,621	\$ 1,991,102,054	\$ 1,069,651,319	\$ 72,909,248
Actuarial Liability - PUC				
Actives	\$ 873,548,197	\$ 595,154,165	\$ 257,636,873	\$ 20,757,159
Terminated Vesteds	45,956,748	42,459,169	2,889,932	607,647
Disabled	300,890,377	197,220,914	94,326,700	9,342,763
Retirees	1,216,204,396	690,282,750	504,242,910	21,678,736
Beneficiaries	62,627,966	38,086,341	24,312,218	229,407
Total City Safety	\$ 2,499,227,684	\$ 1,563,203,339	\$ 883,408,633	\$ 52,615,712

SDCERS-CITY OF SAN DIEGO
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**SECTION III
LIABILITIES**

B. Changes in Unfunded Actuarial Liabilities

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we will report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Below we present key changes in liabilities since the last valuation.

Table III-4	
Development of 2006 Experience Gain/(Loss) SDCERS - City of San Diego	
1. Unfunded Actuarial Liability at June 30, 2005	\$ 1,394,013,096
2. Beginning of year accrued liability payment	(83,451,235)
3. Interest accrued $((1+2) \times .08)$	<u>104,844,949</u>
4. Expected Unfunded Actuarial Liability at June 30, 2006 (1+2+3)	1,415,406,809
5. Actual Unfunded Liability at June 30, 2006	1,000,767,761
6. Difference: (4 - 5)	414,639,048
7. Portion of difference (6) due to experience Gain/(Loss)	205,249,486
8. Portion of difference (6) due to contributions more than expected	105,585,215
9. Portion of difference (6) due to actuarial changes	103,804,347
Elements of Experience Gain/(Loss)	
1. G(L) due to investment experience	\$ 158,924,281
2. G(L) due to purchased service credit	(12,272,413)
3. G/(L) due to demographic and payroll experience	58,597,619
4. Other Gain/(Loss)	<u>\$ -</u>
5. Total Estimated Experience Gain/(Loss): sum 1 through 4	\$ 205,249,486
Elements of Contributions Gain/(Loss)	
1. Total Estimated Contribution Gain/(Loss)	\$ 105,585,215
Elements of Actuarial Changes Gain/(Loss)	
1. G(L) due to smoothing method to market value	\$ 183,793,265
2. G(L) due to reflection of "contingent" liabilities	(112,718,095)
3. G/(L) due to IRS Section 415 limits	22,818,686
4. G/(L) due to removal of future disability benefits	<u>\$ 9,910,491</u>
5. Total Estimated Actuarial Changes Gain/(Loss): sum 1 through 4	\$ 103,804,347

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

Table III-5 shows the history of past experience gains and losses.

Table III-5				
Experience Gain/(Loss) - Historical SDCERS - City of San Diego*				
Valuation			Beginning-of-Year	Gain/(Loss)
<u>Date</u>		<u>Gain/(Loss)</u>	<u>Actuarial Liabilities</u>	<u>Percentage</u>
6/30/1992	\$	57,952,320	\$ 1,006,299,729	5.8%
6/30/1993		(42,605,778)	1,057,238,917	(4.0)
6/30/1994		(6,744,850)	1,220,830,059	(0.6)
6/30/1995		(11,370,990)	1,338,279,541	(0.8)
6/30/1996		59,592,960	1,476,710,662	4.0
6/30/1997		38,473,993	1,682,604,532	2.3
6/30/1998		31,086,010	1,822,432,018	1.7
6/30/1999 *		29,750,299	1,979,668,038	1.5
6/30/2000		286,639,160	2,181,547,453	13.1
6/30/2001		(193,168,984)	2,528,773,900	(7.6)
6/30/2002		(364,815,155)	2,809,537,745	(13.0)
6/30/2003		(303,699,305)	3,168,921,175	(9.6)
6/30/2004		(58,123,874)	3,532,625,521	(1.6)
6/30/2005		36,775,882	3,997,328,084	0.9
6/30/2006		205,249,486	4,377,092,948	4.7

* Beginning with June 30, 1999 valuation, experience is City only. The prior years included all employers.

**SDCERS-CITY OF SAN DIEGO
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**SECTION IV
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use a funding method that will result in a pattern of contributions that are both stable and predictable.

The funding methodology employed is the Projected Unit Credit Cost Method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost represents for each active participant, the present value as of the valuation date of that portion of the projected benefit assigned to the current year. Subtracting from the normal cost the expected employee contribution for the year yields the employer's normal cost contribution. The difference between the PUC actuarial liability and the actuarial value of assets is the unfunded actuarial liability. Under the terms of the Gleason judgment, the UAL for FY 2008 is to be amortized over 27 years.

Table IV-1 shows the City's normal cost rate by decrement for FY 2008. Table IV-2 on the following page shows how the City's contribution rate for SDCERS for FY 2008 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

**Table IV-1
SDCERS - City of San Diego
Development of the City's Total Normal Cost Rate as of June 30, 2006, For (FY 2008)**

	WEIGHTED TOTAL CITY	Non-Safety			Safety			
		Weighted Total	General	Elected	Weighted Total	Police	Fire	Lifeguard
1. Retirement Normal Cost Rate	20.29%	17.47%	17.46%	22.18%	25.57%	25.66%	25.66%	22.77%
2. Termination Normal Cost Rate	1.15%	1.49%	1.48%	2.82%	0.51%	0.49%	0.56%	0.52%
3. Death Normal Cost Rate	0.38%	0.28%	0.28%	0.39%	0.56%	0.56%	0.56%	0.65%
4. Disability Normal Cost Rate	3.13%	2.05%	2.05%	2.59%	5.14%	5.10%	5.17%	5.97%
5. Total Normal Cost Rate (sum 1-4)	24.94%	21.29%	21.28%	27.97%	31.79%	31.80%	31.94%	29.92%

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

**SECTION IV
CONTRIBUTIONS**

Table IV-2
SDCERS - City of San Diego
Development of the City's Contribution as of June 30, 2006, For (FY 2008)
(dollars in millions)

	WEIGHTED TOTAL CITY	Non-Safety			Safety			
		Weighted Total	General	Elected	Weighted Total	Police	Fire	Lifeguard
1. Total Normal Cost Rate	24.94%	21.29%	21.28%	27.97%	31.79%	31.80%	31.94%	29.92%
2. Member Contribution Rate	10.55%	9.87%	9.87%	8.44%	11.87%	12.13%	11.24%	11.96%
3. Employer Normal Cost Rate (1-2)	14.40%	11.42%	11.41%	19.53%	19.92%	19.67%	20.70%	17.96%
4. June 30, 2006 Payroll	\$ 534.1	\$ 348.1	\$ 347.6	\$ 0.5	\$ 186.0	\$ 125.6	\$ 54.7	\$ 5.6
5. Present Value Future Payroll	5,513.2	3,646.7	3,640.8	5.9	1,866.5	1,256.7	547.6	62.2
6. Present Value Future Normal Costs (1 x 5)	1,369.5	776.3	774.6	1.6	593.2	399.7	174.9	18.6
7. Actuarial Liability	\$ 4,982.7	\$ 2,483.5	\$ 2,474.9	\$ 8.6	\$ 2,499.2	\$ 1,563.2	\$ 883.4	\$ 52.6
8. Actuarial Assets ¹	3,981.9	1,984.7	1,977.8	6.8	1,997.3	1,249.1	706.0	42.0
9. Unfunded Actuarial Liability (7-8)	\$ 1,000.8	\$ 498.8	\$ 497.1	\$ 1.7	\$ 502.0	\$ 314.1	\$ 177.4	\$ 10.6
10. Unfunded Actuarial Liability Rate	10.55%	8.07%	8.05%	18.43%	15.19%	14.07%	18.24%	10.57%
11. Total Contribution Rate (3+10)	24.95%	19.50%	19.46%	37.96%	35.11%	33.74%	38.94%	28.53%
12. Total Contribution Rate Beginning of Year	24.01%	18.77%	18.73%	36.53%	33.78%	32.46%	37.47%	27.45%
13. Projected Payroll	\$ 573.6	\$ 373.6	\$ 373.2	\$ 0.6	\$ 199.8	\$ 134.9	\$ 58.9	\$ 6.0
14. Beginning of Year FY 2008 Contribution	\$ 137.7	\$ 70.1	\$ 69.9	\$ 0.2	\$ 67.5	\$ 43.8	\$ 22.1	\$ 1.7
15. FY 2008 Contribution if Paid During Year	\$ 143.1	\$ 72.9	\$ 72.6	\$ 0.2	\$ 70.1	\$ 45.5	\$ 22.9	\$ 1.7

¹ Assets are allocated to subset member groups within Non-Safety and Safety proportionately to each group's liabilities in row 7

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 35 of the Financial Accounting Standards Board (FASB) requires the disclosure of certain information regarding funding status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems and governmental employers in notes to financial statements and supplementary information.

The FASB-35 disclosures provide a “snap shot” view of how assets compare to liabilities if contributions stopped and accrued benefit claims had to be satisfied.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes, that is, the PUC actuarial liability.

Both the present value of accrued benefits (FASB-35) and the actuarial liability (GASB-25) are determined assuming that a plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 8% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2005 and June 30, 2006 are exhibited in Table V-1 and Table V-2.

**SDCERS-CITY OF SAN DIEGO
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**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Table V-1 SDCERS - City of San Diego - Total			
Item	June 30, 2006	June 30, 2005	% Change
FASB No. 35 Basis			
1. Present Value of Benefits Accrued and Vested to Date			
a. Members Currently Receiving Payments	\$ 2,822,202,831	\$ 2,183,263,118	29.3%
b. Vested Terminated and Inactive Members	189,840,833	135,169,560	40.4%
c. Active Members	<u>1,015,204,203</u>	<u>1,054,065,631</u>	<u>-3.7%</u>
d. Total PVAB	\$ <u>4,027,247,867</u>	\$ 3,372,498,309	19.4%
2. Assets at Market Value	3,981,931,694	3,205,721,975	24.2%
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	\$ 45,316,173	\$ 166,776,334	-72.8%
4. Ratio of Assets to Value of Benefits (2)/(1)(d)	<u>98.87%</u>	95.05%	3.8%
GASB No. 25 Basis			
1. Actuarial Liabilities			
a. Members Currently Receiving Payments	\$ 2,822,202,831	\$ 2,183,263,119	29.3%
b. Vested Terminated and Inactive Members	189,840,833	135,169,560	40.4%
c. Active Members	<u>1,970,655,791</u>	<u>2,058,660,269</u>	<u>-4.3%</u>
d. Total PVAB	\$ 4,982,699,455	\$ 4,377,092,948	13.8%
2. Actuarial Value of Assets	\$ 3,981,931,694	\$ 2,983,079,852	33.5%
3. Unfunded Actuarial Liability	\$ 1,000,767,761	\$ 1,394,013,096	-28.2%
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d)	79.92%	68.15%	11.7%

Table V-2 SDCERS - City of San Diego - Total	
Item	Accumulated Benefit Obligation (FASB 35)
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2005	\$ 3,372,498,309
Increase (Decrease) During Year Attributable to:	
Passage of Time	258,189,396
Benefits Paid	(290,261,711)
Assumption Change	-
Plan Amendment	-
Additional Net Liabilities not reflected in prior valuation *	348,448,500
Benefits Accrued, Other Gains/Losses	<u>338,373,373</u>
Net Increase (Decrease)	\$ 654,749,558
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2006	\$ 4,027,247,867

* Apply IRC section 415 limits and reduced disability formula for non retirement eligible by the 10% increase on FAE, Corbett pre-July 1, 2000 liability, 13th check, DROP reserves, and supplemental COLA reserves.

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Tables V-3 through V-5 are exhibits required for the City’s Comprehensive Annual Financial Report (CAFR). The GFOA recommends showing at least 6 years of experience in each of these exhibits. Table V-3 shows the Notes to Required Supplementary Information. Table V-4 is a history of gains and losses in actuarial liability, and Table V-5 is the Solvency Test which shows the portion of actuarial liability covered by assets.

**Table V-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2006
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method ¹	Expected Value Method
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases due to inflation ²	4.25%
Cost-of-living adjustments	2.0%

The actuarial assumptions used have been recommended by the actuary and adopted by SDCERS Board of Administration based on the review of SDCERS’ experience, completed in 2000.

The rate of employer contributions to SDCERS is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

¹ The asset valuation method was changed to reflect actual cash flows by employer group. This year the actuarial value of assets will be equal to the market value of assets.

² Additional merit salary increases of 0.50% to 4.50% based on a participant’s years of service, and membership group are also assumed. These increases are not used in the amortization of SDCERS’ UAL.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-4
ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Actuarial Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience
and Actual Experience

Gain (or Loss) for
Year ending
June 30, 2006

Type of Activity	
Investment Income	\$ 158,924,281
Combined Liability Experience	<u>\$ 46,325,205</u>
Gain (or Loss) During Year from Financial Experience	\$ 205,249,486
Non-Recurring Gain (or Loss) Items	<u>NA</u>
Composite Gain (or Loss) During Year	\$ 205,249,486

SDCERS-CITY OF SAN DIEGO
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SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5
GASB SOLVENCY TEST
Actuarial Liabilities For
(\$ in thousands)

Valuation Date June 30,	(A)	(B)	(C)	Reported Assets ¹	Portion of Actuarial Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities		(A)	(B)	(C)
2006 ⁴	\$ 456,562	\$ 2,822,203	\$ 1,703,935	\$ 3,981,932	100 %	100 %	41.27 %
2005	457,550	2,183,263	1,736,279	2,983,080	100	100	19.71
2004	414,986 ⁵	1,946,660	1,635,681	2,628,680	100	100	16.33
2003	375,000 ⁵	1,741,490	1,416,126	2,375,431	100	100	18.28
2002	353,686	1,440,392	1,374,742	2,448,208	100	100	47.58
2001	296,851	1,337,799	1,174,888	2,525,646	100	100	75.84
2000 ³	276,352	1,170,075	1,082,347	2,459,815	100	100	93.63
1999	238,278	1,026,395	916,874	2,033,153	100	100	83.82
1998 ²	220,415	885,586	873,667	1,852,151	100	100	85.40

¹ Actuarial Value of Assets

² Reflects revised actuarial and economic assumptions

³ Reflects non-contingent Corbett benefit increases

⁴ Reflects contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits

⁵ Estimated

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

Table A-1			
SDCERS - City of San Diego			
Active Member Data			
	June 30, 2006	June 30, 2005	% Change
<u>Total</u>			
Count	8,887	9,436	-5.8%
Average Current Age	43.3	43.0	0.7%
Average Service	13.1	12.9	1.0%
Average Valuation Pay	\$ 60,099	\$ 59,096	1.7%
Annual Compensation	\$ 534,102,801	\$ 557,630,735	-4.2%
Service Without Permissive Service Purchased	11.3	11.3	-0.4%
Members with Purchased Service	3,281	3,442	-4.7%
Amount of Service Purchased	15,844	15,244	3.9%
<u>General</u>			
Count	6,409	6,808	-5.9%
Average Current Age	44.6	44.1	1.1%
Average Service	13.0	12.7	2.4%
Average Valuation Pay	\$ 54,314	\$ 53,042	2.4%
Annual Compensation	\$ 348,098,006	\$ 361,111,714	-3.6%
Service Without Permissive Service Purchased	10.9	10.7	1.9%
Members with Purchased Service	2,574	2,760	-6.7%
Amount of Service Purchased	13,417	13,510	-0.7%
<u>Safety</u>			
Count	2,478	2,628	-5.7%
Average Current Age	40.0	40.1	-0.2%
Average Service	13.3	13.5	-1.5%
Average Valuation Pay	\$ 75,062	\$ 74,779	0.4%
Annual Compensation	\$ 186,004,794	\$ 196,519,021	-5.4%
Service Without Permissive Service Purchased	12.3	12.8	-3.9%
Members with Purchased Service	707	682	3.7%
Amount of Service Purchased	2,427	1,734	40.0%

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

Table A-2 SDCERS - City of San Diego Non-Active Member Data						
	Count			Average Age		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	% Change
<u>Total</u>						
Retired	4,118	3,728	10.5%	66.1	67.0	-1.2%
Disabled	1,237	1,239	-0.2%	61.2	60.7	0.9%
Beneficiaries	<u>1,046</u>	<u>1,028</u>	1.8%	<u>75.0</u>	<u>75.2</u>	-0.2%
Payee Total	6,401	5,995	6.8%	66.6	67.1	-0.7%
DROP Participants	959	838	14.4%	57.3	57.8	-1.0%
Deferred Vested ¹	2,359	1,998	18.1%	43.6	44.1	-1.2%
Vested < 10 yrs svc	1,630	1,421	14.7%			
<u>General</u>						
Retired	2,707	2,487	8.8%	68.3	69.2	-1.3%
Disabled	427	429	-0.5%	60.4	60.0	0.7%
Beneficiaries	<u>666</u>	<u>664</u>	0.3%	<u>77.3</u>	<u>77.3</u>	0.0%
Payee Total ²	3,800	3,580	6.1%	69.0	69.6	-0.9%
DROP Participants ²	530	478	10.9%	59.5	59.8	-0.5%
Deferred Vested ¹	1,983	1,732	14.5%	44.4	44.6	-0.4%
Vested < 10 yrs svc	1,392	1,256	10.8%			
<u>Safety</u>						
Retired	1,411	1,241	13.7%	61.8	62.7	-1.4%
Disabled	810	810	0.0%	61.6	61.0	1.0%
Beneficiaries	<u>380</u>	<u>364</u>	4.4%	<u>71.1</u>	<u>71.3</u>	-0.3%
Payee Total ³	2,601	2,415	7.7%	63.1	63.5	-0.6%
DROP Participants ³	429	360	19.2%	54.5	55.2	-1.3%
Deferred Vested ¹	376	266	41.4%	39.1	40.3	-3.0%
Vested < 10 yrs svc	238	165	44.2%			

¹ Includes all members having a contribution balance still on account with SDCERS.

² There are 37 additional Non-Active General members due to blended benefits. These counts were not available in 2005. 24 of them are DROP participants.

³ There are 41 additional Non-Active Safety members due to blended benefits. These counts were not available in 2005. 24 of them are DROP participants.

**SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

Table A-3 SDCERS - City of San Diego Non-Active Member Data						
	Total Annual Benefit			Average Annual Benefit		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	% Change
<u>Total</u>						
Retired	170,186,825	141,153,674	20.6%	41,328	37,863	9.1%
Disabled	31,992,059	29,094,290	10.0%	25,863	23,482	10.1%
Beneficiaries	<u>11,568,435</u>	<u>9,941,063</u>	16.4%	<u>11,060</u>	<u>9,670</u>	14.4%
Payee Total	213,747,320	180,189,027	18.6%	33,393	30,057	11.1%
DROP Participants	51,221,178	45,246,893	13.2%	53,411	53,994	-1.1%
Deferred Vested ¹	71,328,108	50,420,350	41.5%	30,237	25,235	19.8%
<u>General</u>						
Retired	88,006,870	72,836,675	20.8%	32,511	29,287	11.0%
Disabled	6,268,393	5,730,694	9.4%	14,680	13,358	9.9%
Beneficiaries	<u>5,788,134</u>	<u>4,894,940</u>	18.2%	<u>8,691</u>	<u>7,372</u>	17.9%
Payee Total	100,063,396	83,462,309	19.9%	26,332	23,313	12.9%
DROP Participants	22,263,866	20,467,739	8.8%	42,007	42,820	-1.9%
Deferred Vested ¹	57,398,343	40,135,911	43.0%	28,945	23,173	24.9%
<u>Safety</u>						
Retired	82,179,956	68,316,999	20.3%	58,242	55,050	5.8%
Disabled	25,723,667	23,363,596	10.1%	31,758	28,844	10.1%
Beneficiaries	<u>5,780,301</u>	<u>5,046,123</u>	14.5%	<u>15,211</u>	<u>13,863</u>	9.7%
Payee Total	113,683,924	96,726,718	17.5%	43,708	40,052	9.1%
DROP Participants	28,957,312	24,779,154	16.9%	67,500	68,831	-1.9%
Deferred Vested ¹	13,929,765	10,284,439	35.4%	37,047	38,663	-4.2%

¹ Includes all members having a contribution balance still on account with SDCERS. Annual benefit for deferred vested members is the total contribution balance on account as of June 30, 2006.

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Table A-4
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
Total City

	Years of Service Accrued										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	
Under 25	63	77	2	-	-	-	-	-	-	-	142
25 to 29	115	320	152	5	-	-	-	-	-	-	592
30 to 34	79	275	430	120	5	-	-	-	-	-	909
35 to 39	51	223	474	375	198	23	-	-	-	-	1,344
40 to 44	37	157	343	402	577	347	30	2	-	-	1,895
45 to 49	24	125	241	288	429	518	281	34	2	-	1,942
50 to 54	25	89	142	199	250	304	201	145	51	3	1,409
55 to 59	22	46	89	95	109	63	26	18	4	1	473
60 to 64	6	17	36	23	46	10	5	1	1	1	146
65 to 69	1	5	8	6	3	-	-	-	-	-	23
70 and up	-	2	2	2	2	1	-	2	1	-	12
Total Count	423	1,336	1,919	1,515	1,619	1,266	543	202	59	5	8,887

Table A-5
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
Total City

	Average Salary Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	
Under 25	\$ 34,523	\$ 42,176	\$ 67,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,142
25 to 29	42,174	51,407	57,404	41,484	-	-	-	-	-	-	51,069
30 to 34	44,482	51,554	62,425	59,384	48,728	-	-	-	-	-	57,100
35 to 39	48,203	50,496	59,614	65,195	64,218	62,392	-	-	-	-	59,951
40 to 44	49,075	49,777	56,580	60,843	68,469	70,776	65,343	47,788	-	-	63,123
45 to 49	65,523	44,790	53,074	55,553	63,106	71,526	75,038	59,157	69,618	-	63,502
50 to 54	72,741	53,411	51,577	57,911	57,090	63,160	67,561	64,057	64,590	95,887	60,570
55 to 59	115,326	46,151	51,700	55,594	58,842	62,610	65,089	68,709	63,981	41,850	59,467
60 to 64	41,782	67,291	47,999	50,474	56,265	54,443	52,790	77,355	63,561	37,336	53,824
65 to 69	34,674	84,145	35,014	46,443	49,123	-	-	-	-	-	50,502
70 and up	-	26,671	26,452	41,018	25,445	35,627	-	46,327	35,627	-	33,590
Avg. Salary	\$ 49,709	\$ 50,182	\$ 57,397	\$ 59,780	\$ 63,626	\$ 68,539	\$ 71,053	\$ 63,376	\$ 64,211	\$ 73,369	\$ 60,099

SDCERS-CITY OF SAN DIEGO
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APPENDIX A
MEMBERSHIP INFORMATION

Table A-6
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
General

Age	Years of Service										Total	
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up		
Under 25	42	49	-	-	-	-	-	-	-	-	-	91
25 to 29	71	196	78	5	-	-	-	-	-	-	-	350
30 to 34	48	198	231	75	5	-	-	-	-	-	-	557
35 to 39	38	174	311	208	126	20	-	-	-	-	-	877
40 to 44	31	135	272	289	292	203	25	2	-	-	-	1,249
45 to 49	22	117	210	247	289	326	131	33	2	-	-	1,377
50 to 54	25	87	133	179	224	259	166	142	51	3	-	1,269
55 to 59	22	46	88	95	106	59	22	17	4	1	-	460
60 to 64	6	16	36	22	46	10	5	1	1	1	-	144
65 to 69	1	5	8	6	3	-	-	-	-	-	-	23
70 and up	-	2	2	2	2	1	-	2	1	-	-	12
Total Count	306	1,025	1,369	1,128	1,093	878	349	197	59	5	-	6,409

Table A-7
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
General

Age	Average Salary										Total
	Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	
Under 25	\$ 29,714	\$ 36,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,543
25 to 29	40,670	45,572	45,566	41,484	-	-	-	-	-	-	44,518
30 to 34	44,379	47,346	53,617	50,992	48,728	-	-	-	-	-	50,194
35 to 39	50,722	46,510	52,353	56,068	55,443	60,949	-	-	-	-	52,644
40 to 44	50,066	47,301	51,740	54,957	57,138	61,562	63,010	47,788	-	-	55,041
45 to 49	65,237	43,070	50,115	52,026	55,360	63,941	60,810	58,512	69,618	-	55,722
50 to 54	72,741	52,964	50,173	55,967	54,598	59,679	62,436	63,479	64,590	95,887	58,128
55 to 59	115,326	46,151	51,426	55,594	58,243	61,495	57,373	65,329	63,981	41,850	58,564
60 to 64	41,782	59,641	47,999	49,368	56,265	54,443	52,790	77,355	63,561	37,336	52,735
65 to 69	34,674	84,145	35,014	46,443	49,123	-	-	-	-	-	50,502
70 and up	-	26,671	26,452	41,018	25,445	35,627	-	46,327	35,627	-	33,590
Avg. Salary	\$ 51,704	\$ 46,622	\$ 51,189	\$ 54,232	\$ 55,904	\$ 61,761	\$ 61,409	\$ 62,544	\$ 64,211	\$ 73,369	\$ 54,314

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Table A-8
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
Safety

	Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	
Under 25	21	28	2	-	-	-	-	-	-	-	51
25 to 29	44	124	74	-	-	-	-	-	-	-	242
30 to 34	31	77	199	45	-	-	-	-	-	-	352
35 to 39	13	49	163	167	72	3	-	-	-	-	467
40 to 44	6	22	71	113	285	144	5	-	-	-	646
45 to 49	2	8	31	41	140	192	150	1	-	-	565
50 to 54	-	2	9	20	26	45	35	3	-	-	140
55 to 59	-	-	1	-	3	4	4	1	-	-	13
60 to 64	-	1	-	1	-	-	-	-	-	-	2
65 to 69	-	-	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-	-	-
Total Count	117	311	550	387	526	388	194	5	-	-	2,478

Table A-9
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2006
Safety

	Average Salary Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	
Under 25	\$ 44,140	\$ 51,539	\$ 67,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,133
25 to 29	44,602	60,629	69,881	-	-	-	-	-	-	-	60,544
30 to 34	44,641	62,373	72,650	73,370	-	-	-	-	-	-	68,027
35 to 39	40,839	64,648	73,468	76,562	79,573	72,012	-	-	-	-	73,673
40 to 44	43,957	64,974	75,124	75,895	80,079	83,765	77,010	-	-	-	78,751
45 to 49	68,666	69,946	73,121	76,803	79,097	84,406	87,463	80,456	-	-	82,464
50 to 54	-	72,843	72,333	75,310	78,562	83,197	91,869	91,425	-	-	82,708
55 to 59	-	-	75,806	-	79,996	79,057	107,527	126,177	-	-	91,408
60 to 64	-	189,692	-	74,799	-	-	-	-	-	-	132,246
65 to 69	-	-	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-	-	-
Avg. Salary	\$ 44,490	\$ 61,916	\$ 72,849	\$ 75,952	\$ 79,673	\$ 83,877	\$ 88,402	\$ 96,182	\$ -	\$ -	\$ 75,062

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-11
SDCERS - City of San Diego
Retirees (Includes DROP Participants), Disabled, and Beneficiaries Tabulate by Attained Age/Benefit Effective Date
General**

Plan Year	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
pre-1987	4	1	16	17	24	27	72	154	159	87	561
1987	-	-	2	-	2	7	13	25	7	2	58
1988	-	2	1	1	3	13	18	26	2	3	69
1989	-	-	-	1	3	12	22	21	7	2	68
1990	1	2	3	3	2	19	43	34	4	2	113
1991	2	3	1	1	-	19	36	14	4	3	83
1992	3	1	1	3	6	24	36	14	7	-	95
1993	7	2	1	5	21	33	49	22	4	-	144
1994	5	5	4	4	15	15	17	9	4	1	79
1995	7	7	2	2	15	27	14	7	5	1	87
1996	6	4	4	7	26	26	14	7	6	8	108
1997	9	4	6	16	26	33	12	6	6	4	122
1998	12	3	7	33	57	24	13	10	7	1	167
1999	6	5	5	59	51	23	10	10	1	4	174
2000	14	1	12	61	46	15	14	5	7	2	177
2001	10	13	12	91	59	29	6	9	5	1	235
2002	5	5	40	33	24	16	6	8	6	3	146
2003	6	7	164	105	65	16	9	16	2	3	393
2004	7	10	130	66	31	12	6	11	4	1	278
2005	5	5	189	78	31	7	5	8	8	6	342
2006	11	10	186	56	13	7	7	8	3	-	301
Total	120	90	786	642	520	404	422	424	258	134	3,800

Surviving spouses benefit effective date no longer based on member's original date of retirement.

Average Age at Retirement/Disability 59.6
Average Current Age 69.0
Average Annual Pension \$ 26,332

SDCERS-CITY OF SAN DIEGO
JUNE 30, 2006 ACTUARIAL VALUATION

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-12
SDCERS - City of San Diego
Retirees (Includes DROP Participants), Disabled, and Beneficiaries Tabulate by Attained Age/Benefit Effective Date
Safety**

Plan Year	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
pre-1987	3	16	69	67	68	67	116	76	55	25	562
1987	1	4	3	4	4	9	6	3	1	1	36
1988	2	1	3	2	5	3	-	2	2	-	20
1989	-	3	4	7	22	17	6	3	3	-	65
1990	2	7	6	6	14	19	4	1	1	-	60
1991	4	3	6	5	12	17	-	1	4	1	53
1992	4	3	8	5	9	5	2	1	1	-	38
1993	12	6	9	21	73	31	2	5	1	3	163
1994	13	9	8	7	10	2	1	1	4	-	55
1995	7	7	4	14	11	1	2	-	-	2	48
1996	12	8	4	19	8	5	4	3	1	1	65
1997	11	6	13	76	40	8	-	1	2	-	157
1998	11	2	24	65	10	-	1	4	1	1	119
1999	15	7	48	62	10	1	2	4	2	-	151
2000	11	2	59	37	2	1	2	5	3	1	123
2001	13	3	98	23	2	1	3	1	1	1	146
2002	8	22	62	13	3	1	1	-	-	2	112
2003	4	53	65	18	1	2	2	3	4	-	152
2004	10	57	42	8	6	5	1	3	3	-	135
2005	7	106	43	11	3	1	3	3	2	-	179
2006	12	114	18	3	2	4	2	4	1	2	162
Total	162	439	596	473	315	200	160	124	92	40	2,601

Surviving spouses benefit effective date no longer based on member's original date of retirement.

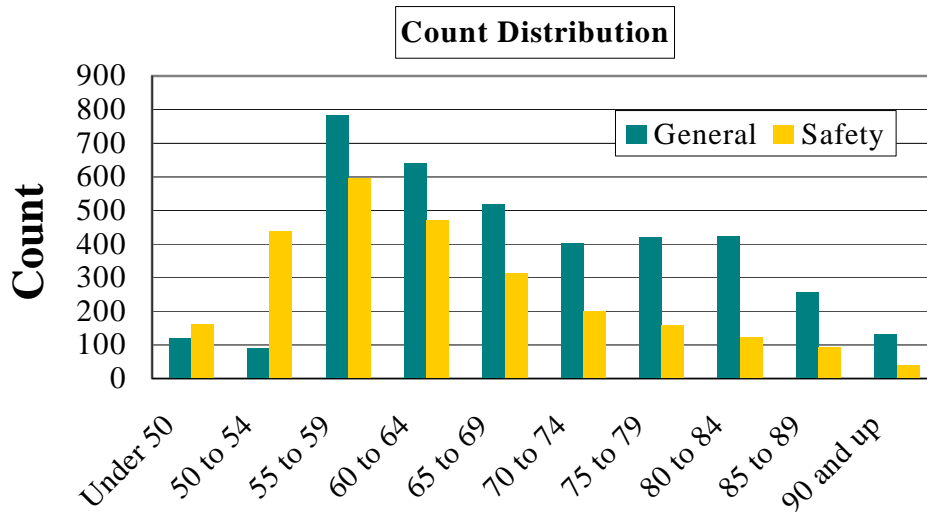
Average Age at Retirement/Disability 51.7
Average Current Age 63.1
Average Annual Pension \$ 43,708

APPENDIX A
 MEMBERSHIP INFORMATION

Table A-13
SDCERS - City of San Diego
Distribution of Retirees, Disabled Members,
Beneficiaries and Survivors
as of June 30, 2006

Age	Count		Total
	General	Safety	
Under 50	120	162	282
50 to 54	90	439	529
55 to 59	786	596	1,382
60 to 64	642	473	1,115
65 to 69	520	315	835
70 to 74	404	200	604
75 to 79	422	160	582
80 to 84	424	124	548
85 to 89	258	92	350
90 and up	134	40	174
Total	3,800	2,601	6,401

Chart A-1

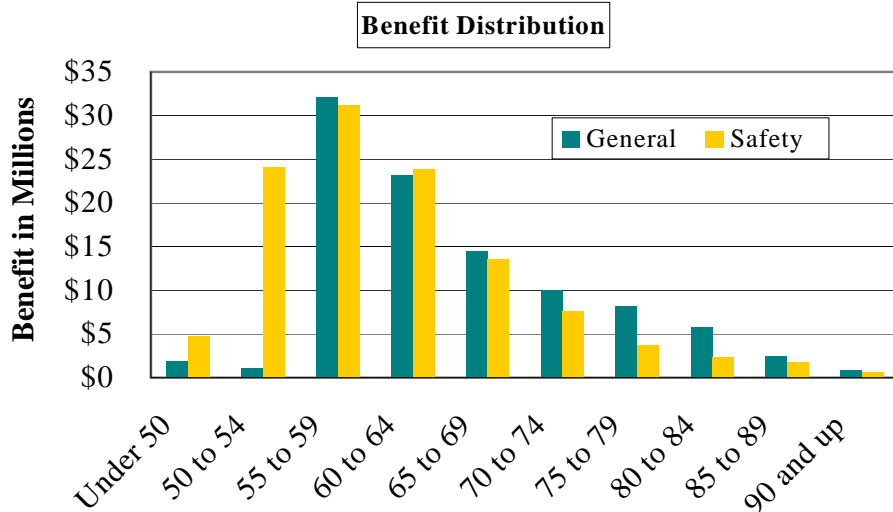


APPENDIX A
 MEMBERSHIP INFORMATION

Table A-14
SDCERS - City of San Diego
Distribution of Retirees, Disabled Members,
Beneficiaries and Survivors
as of June 30, 2006

Age	Annual Benefit		
	General	Safety	Total
Under 50	\$ 1,899,982	\$ 4,740,727	\$ 6,640,709
50 to 54	1,132,293	24,131,630	25,263,923
55 to 59	32,073,968	31,212,790	63,286,758
60 to 64	23,177,404	23,879,260	47,056,664
65 to 69	14,496,842	13,519,913	28,016,755
70 to 74	9,958,485	7,654,454	17,612,939
75 to 79	8,172,275	3,693,695	11,865,970
80 to 84	5,765,018	2,411,663	8,176,681
85 to 89	2,522,753	1,759,555	4,282,308
90 and up	864,376	680,237	1,544,613
Total	\$ 100,063,396	\$ 113,683,924	\$ 213,747,320

Chart A-2



APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Practices

In preparing our data, we relied without audit, on information (some oral and some written) supplied by the SDCERS staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Service used in the valuation is the “Benefit Service” field supplied by the retirement system plus any outstanding active permissible purchased service. We assumed that purchased service that has been paid for is included in the “Benefit Service” field. We assume that all additional purchased service—to be paid in the future—will eventually be added to the “Benefit Service” field in future valuations.
- Salary in the report is based on the “Current Annual Pensionable Salary”. However, when calculating future benefits, the maximum of “Current Annual Pensionable Salary” and annualized “Average Compensation” is used as salary.
- For accounts having duplicate records, we assume that any records with the same Social Security Number, Plan ID, and “Mandatory Employee Contributions” are duplicates and value only one copy.
- For accounts having duplicate records in the Actives and Inactives by Social Security Number, but having different “Mandatory Employee Contribution” amounts, the information from the latest payroll date is regarded as most up-to-date to determine active or inactive status. The other records are assumed to be frozen pieces from other Plan IDs. They are taken into account, but not as something that will change in the future.
- For members in payment having duplicate records, we valued only one copy. With the exception of any retiree who had two records with different benefit start dates, different plans and different benefit amounts, we combined these records to make one copy.
- Records on the provided “Member” file are considered to be Actives if they have no “Date of Death” and no “Date of Separation” and they received pay in the last pay period (Last Pay Period = 27) of the current fiscal year.
- Records on the “Member” file are considered to be Inactives if they do not have a “Date of Death” and do not fit the Active criteria list above.
- Pension Benefit for retirees for each plan was calculated by summing “Monthly Pension”, “Monthly Annuity”, “Cola Annuity”, “Surviving Spouse Annuity”, and “Cola Pension” and subtracting “Non-Cola Adjustments”. “Non-Cola Adjustments” field is mainly for QDRO purposes.
- Unlike the 2005 and preceding valuations, members who retire from multiple Plan IDs (e.g., a City police member who also worked for the airport) are counted towards each of their Plan IDs. The benefits and liabilities of a member correspond to their respective salary and service earned under each Plan ID.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

SDCERS assets are assumed to earn 8% net of expenses.

2. Inflation Rate

An inflation assumption of 4.25% compounded annually is used for projecting the total annual payroll growth for amortization of the UAL. It also represents the difference between the investment return rate and the assumed real rate of return.

3. Interest Credited to Member Contributions

8.0%, compounded annually.

4. Salary Increase Rate

Inflation component 4.25%

The additional merit component:

Table B-1		
Years of Service at Valuation Date	General	Safety
0	4.50%	7.50%
1	3.50%	6.50%
2	2.50%	5.50%
3	1.50%	3.00%
4	0.50%	1.50%
5+	0.50%	0.50%

**APPENDIX B
 ACTUARIAL ASSUMPTIONS AND METHODS**

5. Cost-of-Living Increase in Benefits

Assumed to be 2% per annum, compounded annually.

There is a closed group of 81 Special Safety Officers for whom we assume an annual adjustment equal to inflation (4.25% per year.)

6. COLA Annuity Benefit

For active members, there is a 2.5% load on valued benefits to anticipate the impact of the annuitized employee COLA contributions at retirement.

7. Member Refunds

All or part of the employee contribution rate is subject to potential “pick up” by the employer. That “pick up” and the related accumulated interest are not to be refunded to employees at termination. The liability for potential refunds is reduced to reflect this.

8. Rates of Termination

Service	Age	General	Safety
0	All	5.63%	2.20%
1	All	5.53	2.20
2	All	4.33	2.15
3	All	4.33	2.05
4	All	4.24	2.00
5 & Over	20	4.62	2.12
	25	4.62	2.12
	30	3.13	1.48
	35	2.32	0.93
	40	1.60	0.39
	45	1.34	0.20
	50	1.03	0.07
	55	0.77	0.03
	60	0.00	0.00

20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

9. Rates of Disability

Table B-3		
SDCERS - City of San Diego		
Rates of Disability at Selected Ages		
Age	General	Safety
20	0.06%	0.54%
25	0.08	0.60
30	0.10	0.65
35	0.16	0.71
40	0.22	0.90
45	0.33	1.15
50	0.50	1.25
55	0.75	1.50
60	0.97	--

70% of the general disabilities and 85% of the safety disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

10. Rates of Mortality for Active Lives

General members follow the Uninsured Pensioner 1994 (UP1994) set back 5 years (male and female). Set back 5 years is when a member currently age 50 uses the age 45 mortality rate. Safety members follow the Male UP 1994 set back 5 years.

Table B-4			
SDCERS - City of San Diego			
Rates of Mortality for Active Lives at Selected Ages			
Age	General		Safety
	Male	Female	
20	0.04%	0.02%	0.04%
25	0.05	0.03	0.05
30	0.07	0.03	0.07
35	0.09	0.04	0.09
40	0.09	0.05	0.09
45	0.12	0.08	0.12
50	0.17	0.10	0.17
55	0.28	0.15	0.28
60	0.48	0.25	0.48
65	0.86	0.48	0.86
70	1.56	0.93	1.56

All active member deaths are assumed to be duty-related for safety members and not duty-related for other members.

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

11. Rates of Mortality for Retired Healthy Lives

All retired healthy members use the Uninsured Pensioner 1994 (UP1994) table set back 2 years (male and female).

Table B-5 SDCERS - City of San Diego Rates of Mortality for Retired Healthy Lives at Selected Ages		
Age	Male	Female
40	0.10%	0.06%
45	0.15	0.09
50	0.23	0.13
55	0.39	0.21
60	0.68	0.36
65	1.23	0.72
70	2.14	1.26
75	3.35	1.97
80	5.40	3.41
85	8.87	5.90
90	13.65	10.09

12. Rates of Mortality for Retired Disabled Lives

Disabled General members use Uninsured Pensioner 1994 (UP1994) male only table set forward five years. Disabled Safety members use Uninsured Pensioner 1994 (UP1994) male only table set forward two years.

Table B-6 SDCERS - City of San Diego Rates of Mortality for Disabled Lives at Selected Ages		
Age	General	Safety
20	0.07%	0.06%
25	0.09	0.08
30	0.09	0.09
35	0.12	0.10
40	0.17	0.13
45	0.28	0.20
50	0.48	0.35
55	0.86	0.60
60	1.56	1.09
65	2.55	1.94
70	4.00	3.06

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

13. Rates of Retirement

Age	General	Elected Officials	Safety
50	--	--	10%
51	--	--	10
52	--	--	10
53	--	15%	10
54	--	1	20
55	20%	5	40
56	10	3	40
57	10	4	40
58	15	5	50
59	15	6	80
60	20	60	85
61	25	25	90
62	50	37	100
63	40	23	100
64	25	34	100
65	50	68	100
66	40	69	100
67	40	74	100
68	40	80	100
69	40	90	100
70	100	100	100

In addition, if a Safety member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service (4 years for Elected Officers) on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20+ years of service.

Elected Officers: Earlier at age 55 or age 53 and 8+ years of service.

Safety Members: Earlier of age 55 or age 50 and 20+ years of service.

If the inactive member is not vested, the liability is the member's contributions with interest.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

14. Family Composite Assumptions

80% of men and 50% of women were assumed married at retirement. Female spouse is assumed to be 4 years younger than the male spouse.

15. Member Contributions for Spousal Continuance

All active members contribute towards a 50% survivor continuance. However, members who are unmarried at retirement may either be refunded that specific part of their contributions, or they may leave such contributions on account and receive an incremental benefit that is the actuarial equivalent of such contributions.

16. Deferred Member Benefit

For the Deferred Vested and Non-Vested participants, the benefit was estimated based on information provided by SDCERS staff. The data used to value the estimated deferred benefit were date of birth, date of hire, date of termination, and last pay. Based on the data provided, service credit, highest average salary, and deferred retirement age were estimated. The estimates were used to compute the retirement benefit, upon which the liabilities are based. For those members without sufficient data or service, accumulated member contribution balances, with interest, were used as the actuarial accrued liability.

17. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial cost methods described in the following section.

Actual experience of SDCERS will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Funding Method

The Projected Unit Credit Method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

The normal cost is the present value of the amount of benefits allocated to the participant during the year. This amount is the increase in all participants' accumulated plan benefit during the year. For the City of San Diego, the normal cost rate is determined by taking the sum of the normal cost for all participants divided by the total annual payroll and subtracting that expected member contributions.

In addition to contributions required to meet a plan's normal cost, contributions are required to fund a system's unfunded actuarial liability. The actuarial liability is defined as the total of the cumulative benefit allocated to each participant on the date of the valuation. The unfunded actuarial liability is the actuarial liability for all members less the actuarial value of a system's assets.

The unfunded actuarial liability is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases 4.25% per year. The UAL measured as of June 30, 2006 is amortized over a 27-year period as mandated by the Gleason judgment.

2. Asset Valuation Method

For the purposes of determining the City of San Diego's contribution to SDCERS, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could 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. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is a weighted average giving 25% weight to the current market value and 75% weight to the prior year's actuarial value increased by expected interest and contributions and decreased by benefit payments and expenses. This is mathematically equivalent to recognizing 100% of the actuarially assumed interest rate, plus contribution, less payment each year and 25% of the portion of each year's returns that have not already been reflected in asset values. This method will start in the June 30, 2007 valuation. The actuarial value of assets for the June 30, 2006 valuation is determined to be the market value as of June 30, 2006.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

3. Changes Since Last Valuation

As was stated several times in this Report, there have been a number of changes in actuarial methods and procedures since the June 30, 2005 actuarial valuation:

- A move from a “book value based” asset smoothing method to the “expected asset value” smoothing method. For June 30, 2006, the actuarial value of assets was set to market value (see Section II).
- The asset apportionment method between SDCERS’ three plan sponsors, (City of San Diego, Unified Port District, and San Diego County Regional Airport Authority) was changed from an allocation method based on various approximations, to one that will directly reflect as of June 30, 2005 and forward, the actual cash flows attributable to each plan sponsor since June 30, 2005.
- All “contingent” liabilities (Corbett pre-July 1, 2000 retirees and the 13th check) are now reflected in the June 30, 2006 valuation liabilities.
- SDCERS assets and liabilities as of June 30, 2006 now reflect both the future liabilities for DROP retirements and supplemental COLA as well as the asset reserves held for such liabilities. Previously, both amounts were excluded from SDCERS reported assets and liabilities.
- All future benefits payable from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code Section 415.
- Benefits and resulting liabilities for current and future disabled participants have been reduced to reflect the legal decision that the Corbett judgment and plan document do not authorize a 10% increase to non-service eligible disability retirees.
- Minor adjustments in the allocation of liabilities amongst the three plan sponsors were made to ensure that when participants have service with more than one contributing employer the resulting liability allocation is equitably determined.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Salaried Employees – immediate eligibility upon employment (compulsory). (§ 24.0104)

2. Monthly Salary Base for Benefits

Highest consecutive 12 month average in any employment with a California governmental jurisdiction (§ 24.0103), subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.

3. Service Retirement

Eligibility

General members:

Age 62 with 10 years of service, or age 55 with 20 years of service (§ 141 of City Charter).

Safety members:

Age 55 with 10 years of service, or age 50 with 20 years of service (§ 141 of City Charter).

Elected Officers:

Age 55 with 4 years of service. Reduced retirement with 8 years of service regardless of age (§ 24.0545).

Benefit

General and Safety members:

Member choice of formula in place on June 30, 2000 or Corbett formula effective as of July 1, 2000 or for General Members “Option 3” with a benefit cap of 90% of Final Average Compensation (§ 24.0402). See Appendix D.

Elected Officers:

(Formerly designated as legislative) 3.5% (§ 24.0546). A 2% annual reduction factor applies to benefits for members retiring prior to age 55.

For all employees, there is an additional amount equal to the annuitized member COLA contributions at retirement date.

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**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

Member Service Retirement Calculation Factors

Table C-1						
SDCERS - City of San Diego						
Member Service Retirement Calculation Factors						
Retirement	General			Police & Fire	Lifeguard	Safety
Age	Option 1	Option 2	Option 3	Option 1		Option 2
50	--	--	--	2.50%	2.20%	3.00%
51	--	--	--	2.60%	2.32%	3.00%
52	--	--	--	2.70%	2.44%	3.00%
53	--	--	--	2.80%	2.57%	3.00%
54	--	--	--	2.90%	2.72%	3.00%
55	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
56	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
57	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
58	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
59	2.08%	2.25%	2.50%	2.99%	2.77%	3.00%
60	2.16%	2.30%	2.55%	2.99%	2.77%	3.00%
61	2.24%	2.35%	2.60%	2.99%	2.77%	3.00%
62	2.31%	2.40%	2.65%	2.99%	2.77%	3.00%
63	2.39%	2.45%	2.70%	2.99%	2.77%	3.00%
64	2.47%	2.50%	2.75%	2.99%	2.77%	3.00%
65 and up	2.55%	2.55%	2.80%	2.99%	2.77%	3.00%

GENERAL:

Table C-2	
SDCERS – City of San Diego	
For Vested Members who terminated--	--the calculation factors are--
Prior to January 1, 1997	See Pre-1997 Factors on next page
January 1, 1997 - June 30, 2000	Option 1 without 10% increase in Final Average Compensation
July 1, 2000 - June 30, 2002	Option 1 with 10% increase in Final Average Compensation; or Option 2
July 1, 2002 – Present	Option 3

SAFETY:

Table C-3	
SDCERS – City of San Diego	
For Vested Members who terminated--	--the calculation factors are--
Prior to January 1, 1997	See Pre-1997 Factors on next page
January 1, 1997 - June 30, 2000	Option 1 without 10% increase in Final Average Compensation
July 1, 2000 – Present	Option 1 with 10% increase in Final Average Compensation; or Option 2

APPENDIX C
 SUMMARY OF PLAN PROVISIONS

Age	General	Police	Safety	Lifeguard
			Fire	
50	--	2.50%	2.20%	2.00%
51	--	2.54%	2.32%	2.10%
52	--	2.58%	2.44%	2.22%
53	--	2.62%	2.57%	2.34%
54	--	2.66%	2.72%	2.47%
55	1.48%	2.70%	2.77%	2.62%
56	1.55%	2.77%	2.77%	2.62%
57	1.63%	2.77%	2.77%	2.62%
58	1.72%	2.77%	2.77%	2.62%
59	1.81%	2.77%	2.77%	2.62%
60	1.92%	2.77%	2.77%	2.62%
61	1.99%	2.77%	2.77%	2.62%
62	2.09%	2.77%	2.77%	2.62%
63	2.20%	2.77%	2.77%	2.62%
64	2.31%	2.77%	2.77%	2.62%
65 and up	2.43%	2.77%	2.77%	2.62%

Maximum Benefit

Safety Members: 90% of Final Average Compensation (subject to 10% increase).

General: 90% of Final Average compensation if Option 3 is chosen.

Elected Officers: None.

Unmodified Form of Payment

Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death (§ 24.0521).

Note: City employees withdrew from Social Security January 1, 1982 (§ 24.0104). We are assuming that all future benefits for active members will be determined on a non-integrated basis.

Note: Effective July 1, 1991, credited service earned under the 1981 Pension System will be considered equivalent to SDCERS service for the purpose of benefit calculations (i.e., the above formulas will apply to 1981 Pension System service).

APPENDIX C
SUMMARY OF PLAN PROVISIONS

4. Non-Industrial Disability

Eligibility

Ten years of service (§ 24.0501).

Benefit

General Members:

Greater of 1.5% per year of service, one-third of final compensation*, or the earned service retirement benefit (§24.0502, §34.0505.1).

Safety Members:

Greater of 1.8% per year of service, one-third of final compensation*, or the earned service retirement benefit (§24.0502, §24.0503.1).

* Per Board decision, the 10% increase on final average compensation has been removed.

5. Industrial Disability

Eligibility

No age or service requirement (§24.0501).

Benefit

General Members:

Greater of one-half of final compensation*, or the earned service retirement benefit (§24.0502, §24.0504.1).

Safety Members:

Greater of one-half of final compensation*, or the earned service retirement benefit (§24.0502, §24.0503).

* Per Board decision, the 10% increase on final average compensation has been removed.

Elected Officers:

Earned service retirement benefit (§24.0547).

6. Non-Industrial Death Before Eligible to Retire

Refund of employee contributions with interest, plus one month's salary for each completed year of service, to a maximum of six months salary (§24.0703).

**APPENDIX C
SUMMARY OF PLAN PROVISIONS**

7. Non-Industrial Death After Eligible to Retire for Service

50% of earned benefit payable to surviving eligible spouse (§24.0704.2).

8. Industrial Death

50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible spouse (§24.0710.2, §24.0706).

9. Death After Retirement

50% of member's unmodified allowance continued to eligible spouse (§24.0521).
\$2,000 payable in lump sum to the beneficiary or the estate of the retiree.

10. Withdrawal Benefits (§24.0206, §24.0503.1)

Pre-12/8/76 Hires

If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

Post-12/7/76 Hires

Less than ten years of service:

Refund of accumulated employee contributions with interest, or may keep deposits in the System and earn additional interest.

Ten or more years of service:

If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire.

11. Post-retirement Cost-of-Living Benefit

General and Safety Members:

Based on changes in Consumer Price Index, to a maximum of 2% per year (§24.0531).

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APPENDIX C
SUMMARY OF PLAN PROVISIONS

12. Member Contributions

Vary by age at time of entrance into SDCERS. (§24.0201, §24.0301). While a significant portion of these contributions are “picked up”, such pick ups are not directly reflected in either the employee contributions or related refund calculations. These are the rates in effect for the June 30, 2006 valuation.

Table C-5				
SDCERS - City of San Diego				
Employee Contribution Rates¹				
Entry Age	General	Police	Fire	Lifeguard
20	9.18%	11.86%	11.55%	11.20%
21	9.28	12.02	11.71	11.36
22	9.39	12.16	11.85	11.50
23	9.50	12.32	12.01	11.66
24	9.60	12.47	12.16	11.81
25	9.73	12.64	12.33	11.98
26	9.85	12.79	12.48	12.13
27	9.96	12.96	12.65	12.30
28	10.08	13.12	12.81	12.46
29	10.20	13.29	12.98	12.63
30	10.32	13.45	13.14	12.79
31	10.45	13.62	13.31	12.96
32	10.57	13.78	13.47	13.12
33	10.69	13.95	13.64	13.29
34	10.81	14.13	13.82	13.47
35	10.95	14.31	14.00	13.65
36	11.08	14.48	14.17	13.82
37	11.22	14.66	14.35	14.00
38	11.35	14.85	14.54	14.19
39	11.48	15.03	14.72	14.37
40	11.62	15.22	14.91	14.56
41	11.76	15.41	15.10	14.75
42	11.89	15.59	15.28	14.93
43	12.03	15.79	15.48	15.13
44	12.18	15.99	15.68	15.33
45	12.32	16.17	15.86	15.51
46	12.46	16.40	16.07	15.72
47	12.61	16.58	16.27	15.92
48	12.76	16.77	16.46	16.11
49	12.91	16.97	16.66	16.31
50	13.05			
51	13.22			
52	13.37			
53	13.53			
54	13.69			
55	13.85			
56	14.01			
57	14.21			

¹ Contribution Rate = Normal Cost + Cost-of-Living Rate

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Interest:	8.00%
Salary:	5.00%
Mortality:	83 Group Annuity Mortality (GAM) male (Males set back 2 years, Females set back 8 years)

Rates include cost of providing spouse's continuance and cost of funding final one-year average in lieu of final three-year average. Changes to the salary scale and mortality table effective with the June 30, 1994 valuation were applied to the then existing member rates.

Elected Officers (General) contribute 9.05% of total salary, regardless of entry age.

13. Internal Revenue Code Limitation

Benefits provided by the Plan are subject to the limitations set forth in Section 415 of the Internal Revenue Code in accordance with the "grandfather" election in Section 415(b)(10) of the Code.

Starting with the June 30, 2006 valuation, Section 415 of the Internal Revenue Code will be reflected.

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the SDCERS staff should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

**APPENDIX D
GLOSSARY OF TERMS**

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the “accrued liability” or “actuarial liability”.

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the System which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Cost Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the “actuarial funding method”.

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

**APPENDIX D
GLOSSARY OF TERMS**

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SDCERS-City of San Diego's computed contribution rate for FY 2007 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method.

11. Set back/set forward

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for Set forward. A system would use set backs or set forwards to compensate for mortality experience in their work force.

12. Unfunded Actuarial Liability (UAL)

The difference between actuarial liability and valuation assets. Sometimes referred to as "unfunded actuarial accrued liability".

Most retirement systems have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial accrued liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).