

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

5. Reserve Balances

The San Diego Municipal Code authorizes the SDCERS Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the Trust Fund's reserves are a result of realized investment gains or losses and member and plan sponsor contributions received. These changes are distributed in accordance with the San Diego Municipal Code. Reserves are adjusted annually by allocating assets valued at cost.

Reserve balances valued at cost at June 30 were:

	2005	2004
Reserved for Investments in Properties	\$141,380	\$190,949
Reserved for Receivables	23,214,041	22,621,338
Reserved for Encumbrances	1,030,778	1,640,732
Reserved for Members' Contributions	538,250,574	481,069,841
<u>Reserved for Plan Sponsors' Contributions</u>	<u>474,215,383</u>	258,796,193
Reserved for Current Retired Members	1,562,088,464	1,690,624,783
Plan Continuation Liability	1,409,993,000	1,192,746,102
Fund Deficit - Equivalent to Plan Continuation Liability	(1,409,993,000)	(1,192,746,102)
Reserved for Post-Employment Healthcare Benefit Plan	-	7,910,366
Reserved for Supplemental COLA	19,579,118	21,739,416
Reserved for Members' Contribution Rate Increase Payments	8,562,815	21,391,905
<u>Undistributed Earnings Reserve</u>	<u>344,884,797</u>	163,616,059
Reserved for Liabilities	167,178,942	91,926,143
Total Reserves¹	\$3,139,146,292	\$2,761,527,725

¹ Reserves are established using cash, receivables, and other assets added to invested assets valued on a cost basis of \$3,230,513,047 as of June 30, 2005 and \$2,854,597,336 as of June 30, 2004. Total Reserves will differ from Plan Net Assets Held in Trust for Payment of Benefits in the audited financial statements as investments are stated at fair value (market value) which, at June 30 of each year, can be higher or lower than the cost basis of the investments.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Reserved for Investments in Properties - Undepreciated cost of SDCERS office equipment.

Reserved for Receivables - Balance of receivables expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

Reserved for Encumbrances - Balance of contractual liabilities incurred but not yet paid at year-end.

Reserved for Members' Contributions - Funds representing the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

Reserved for Plan Sponsors' Contributions - Funds representing the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

Reserved for Current Retired Members - Funds sufficient, based upon advice of the actuary, to pay present and future benefits of current retired members. Upon retirement, members' funds are transferred from Reserved for Members' Contributions to this reserve, along with sufficient funds from the Plan Sponsors' Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Plan Continuation Liability - Represents the dollar amount of a traditional indicator of funded status. It is calculated from the ratio of actuarial value of assets to the actuarial present value of credited projected benefits and totaled for all three plan sponsors; this is the same as the Unfunded Actuarial Accrued Liability (UAAL) totaled for all three plan sponsors. Values are based on the June 30, 2005 actuarial valuation.

Fund Deficit - Equivalent to Plan Continuation Liability - Represents the dollar amount not reserved for the portion of UAAL of the City's, Port's, and Airport's plans. The City's UAAL is being amortized over a closed 30-year period reset per the Gleason settlement to begin July 1, 2003 with 28 years remaining as of the June 30, 2005 actuarial valuation. The Port's UAAL is being amortized over a closed 30-year period with 16 years remaining as of the June 30, 2005 actuarial valuation. The Airport's UAAL is being amortized over a closed 18.5-year period with 16 years remaining as of the June 30, 2005 actuarial valuation.

Reserved for Post-Employment Healthcare Benefit Plan - Funds set aside in a 401(h) trust to provide health benefits to health eligible and non-health eligible retirees.

Reserved for Supplemental COLA - Funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1983 for the rest of their lives or until this reserve is depleted, which ever comes first.

Reserved for Members' Contribution Rate Increase Payments - Funds sufficient to satisfy the 0.49% contribution rate increase (beginning July 1, 1998) to active members associated with benefit enhancements adopted by the City Council, effective January 1, 1997. Effective July 1, 2002, this reserve was also used to pay for an additional 1.70% of the safety member contribution offset. Effective July 1, 2003, this reserve was also used to pay for an additional 1.60% of the general member (employee) contribution offset, and an additional 1.00% safety member contribution offset. This reserve is projected to be depleted during FY 2006.

Undistributed Earnings Reserve - Represents the balance of earnings remaining after the annual distribution to the members' and plan sponsors' reserve accounts in accordance with SDCERS' Board established assumed rate of interest. At the beginning of each fiscal year, SDCERS' Board credits all Surplus Undistributed Earnings to the Reserve for Employers' Contributions in order to reduce SDCERS' current liabilities.