



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 200

Pension Plan Experience Study

On November 7, 2011 the San Diego City Employees' Retirement System (SDCERS) will present the City Council with an informational item – Item 200, entitled, "San Diego City Employees' Retirement System Study of Plan Experience July 1, 2007 through June 30, 2010."

The pension plan experience study, prepared by SDCERS actuary, Cheiron, was completed in June 2011. The experience study involves historical analysis of pension plan assumptions, including the rate of investment return, salary inflation and retirement and mortality rates. The plan experience study is the basis for Cheiron's recommended changes to the plan's actuarial assumptions.

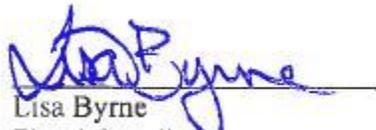
On September 30, 2011 the SDCERS Board voted to adopt Cheiron's recommended assumption changes. Those changes include lowering the investment return assumption from 7.75% to 7.50% and lowering the inflation assumption from 4.00% to 3.75% after a two-year freeze on inflationary pay increases. These and other approved assumptions will be used by Cheiron to prepare the June 30, 2011 actuarial valuation, which provides the City with the FY 2013 Annual Required Contribution (ARC). This is the ARC number that will be incorporated into the FY 2013 budget. The impact of the approved assumption changes to the ARC is anticipated to be provided when the June 30, 2011 valuation is released in January 2012.

The SDCERS Board has the responsibility to administer the pension system, including preparing annual actuarial valuations and, at least once every five years, conducting an experience study. The Board's responsibilities and authority are pursuant to the San Diego City Charter (Article IX), the San Diego Municipal Code (Chapter 2, Article 4, Division 9), and the California Constitution (Article 16, Section 17). Municipal Code §24.0902 provides an example of the Board's authority, including reference to certain pension plan actuarial assumptions:

Based upon its investigations, valuations, and determinations of the Actuary, the Board will adopt by Rule the mortality, service and other tables and interest rates it deems proper, and will revise by Rule the Members' contribution rates as it deems necessary, to provide the benefits of the Plan. The Board's decisions on matters covered by this section

are conclusive, if arrived at in good faith, and the Rules adopted under this section are incorporated into this Article as part of the Plan document and are effective beginning July 1, 1989, in accordance with their terms.

The experience study presentation to the City Council on November 7 is informational only. No decision is required or requested of the Council regarding its content or implementation. Per the City Charter, Municipal Code and the California Constitution, this authority rests solely with the SDCERS Board. As stated above, the SDCERS Board has previously taken action regarding the results of the experience study, including the adoption of actuarial assumption changes which will apply to the June 30, 2011 actuarial valuation.


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