

San Diego City Employees' Retirement System



Results of the June 30, 2022 Actuarial Valuation

March 21, 2023

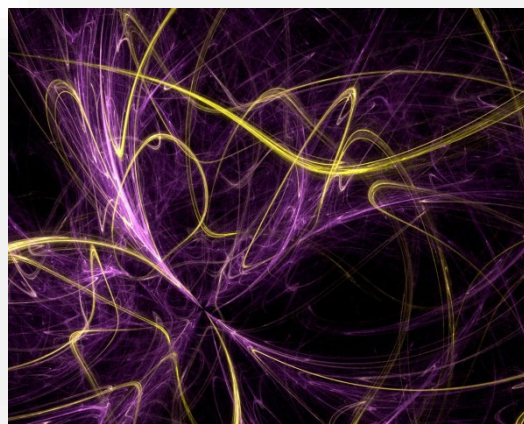
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Anne Harper, FSA, EA, MAAA

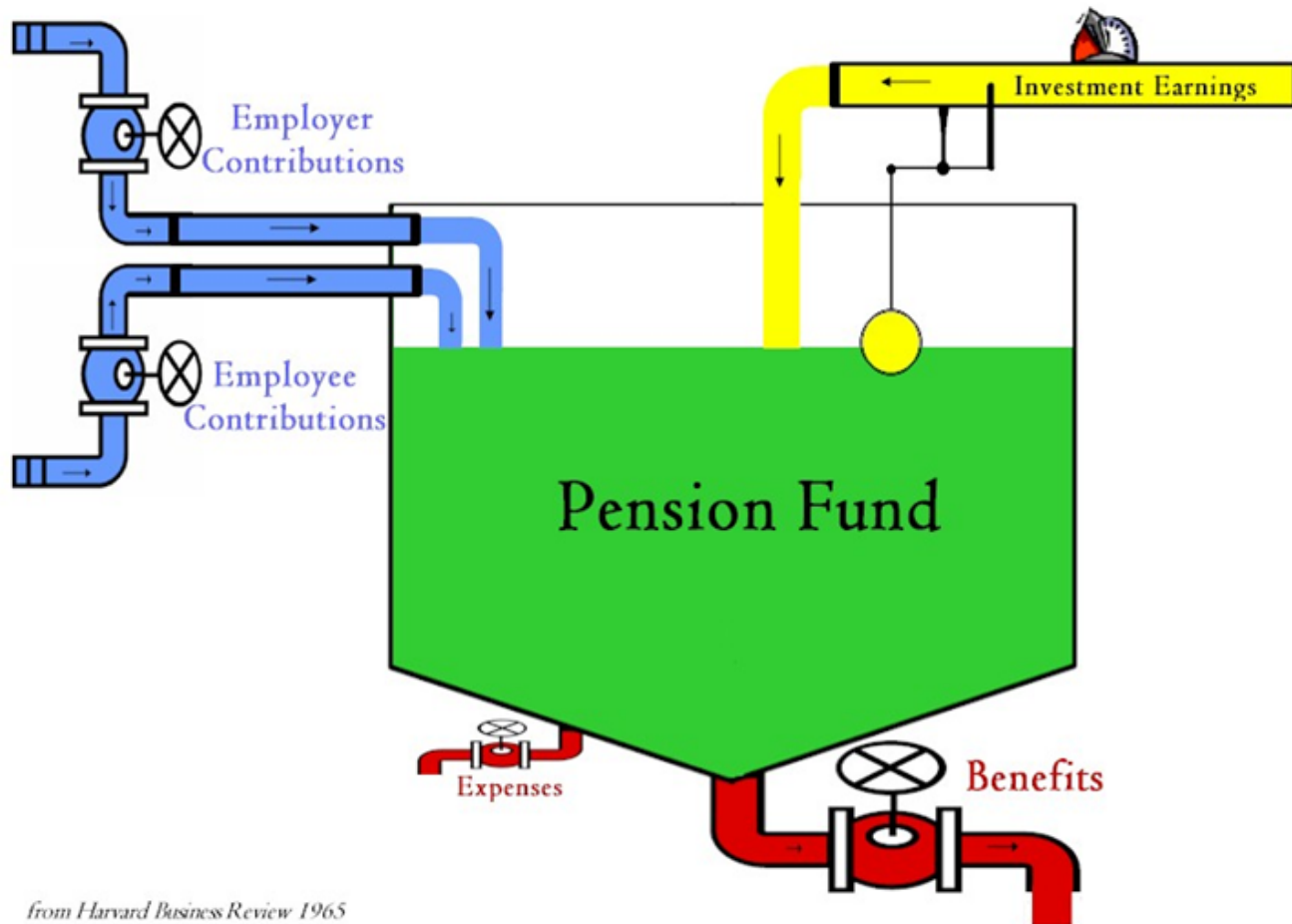


- Background
- Historical Trends
- June 30, 2022 Valuation
 - Summary of Key Results
 - Sources of Change
- Proposition B Funding Methods
- A Look Ahead

Background



The Valuation Process

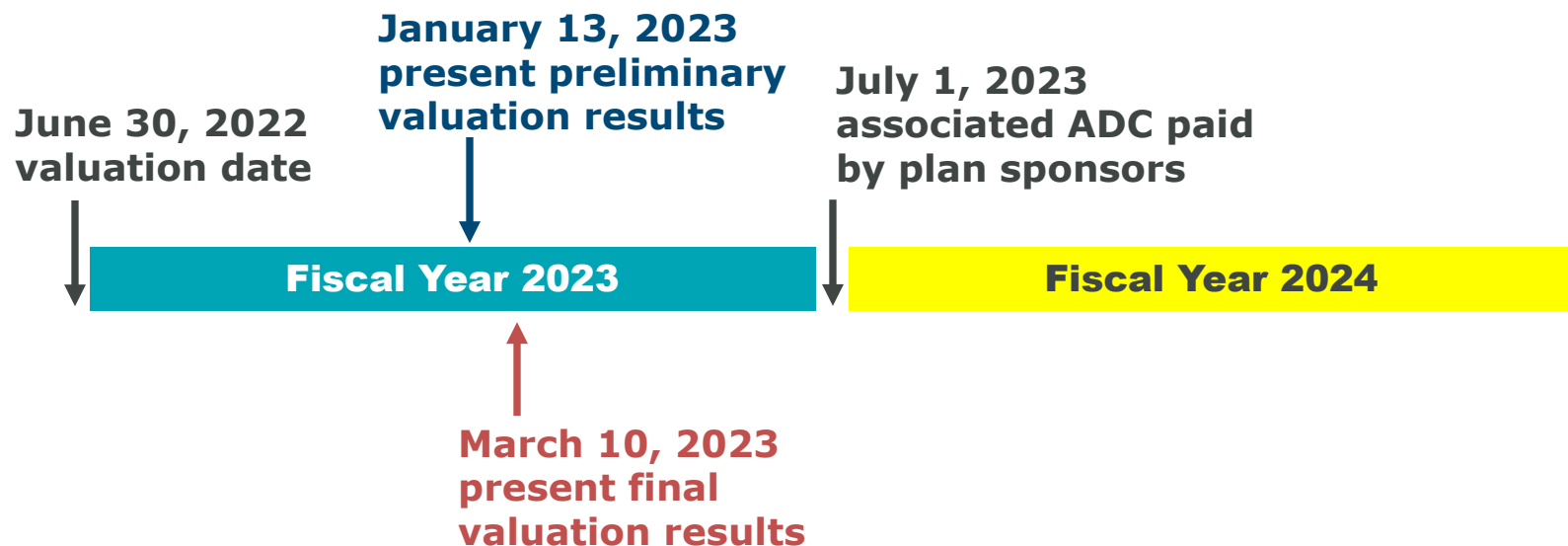


from Harvard Business Review 1965

Timing

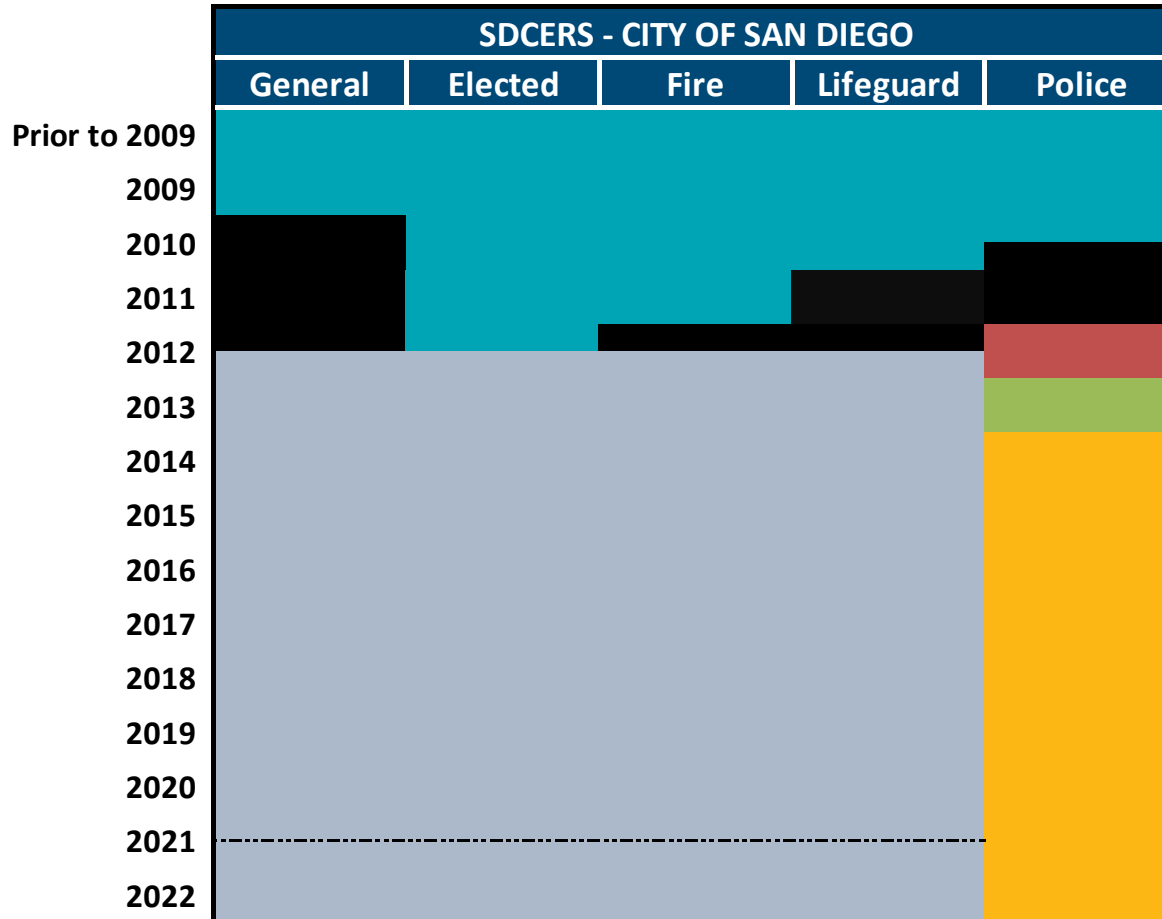


June 30, 2022 Actuarial Valuation results determine the FY 2024 Actuarially Determined Contribution (ADC)



The SDCERS' Board normal process is to consider the January valuation results as preliminary and then vote at the March meeting

Plan Effective Dates

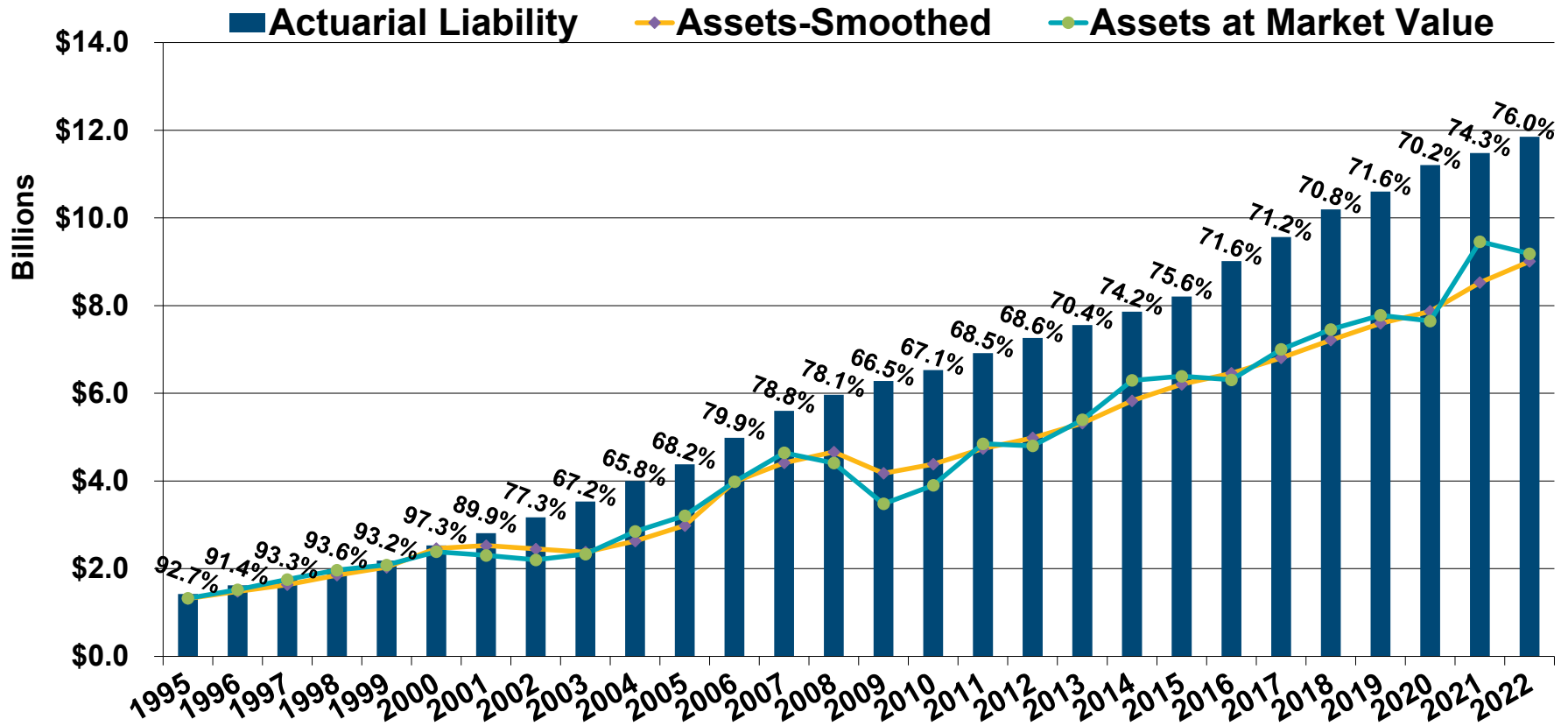




Historical Trends

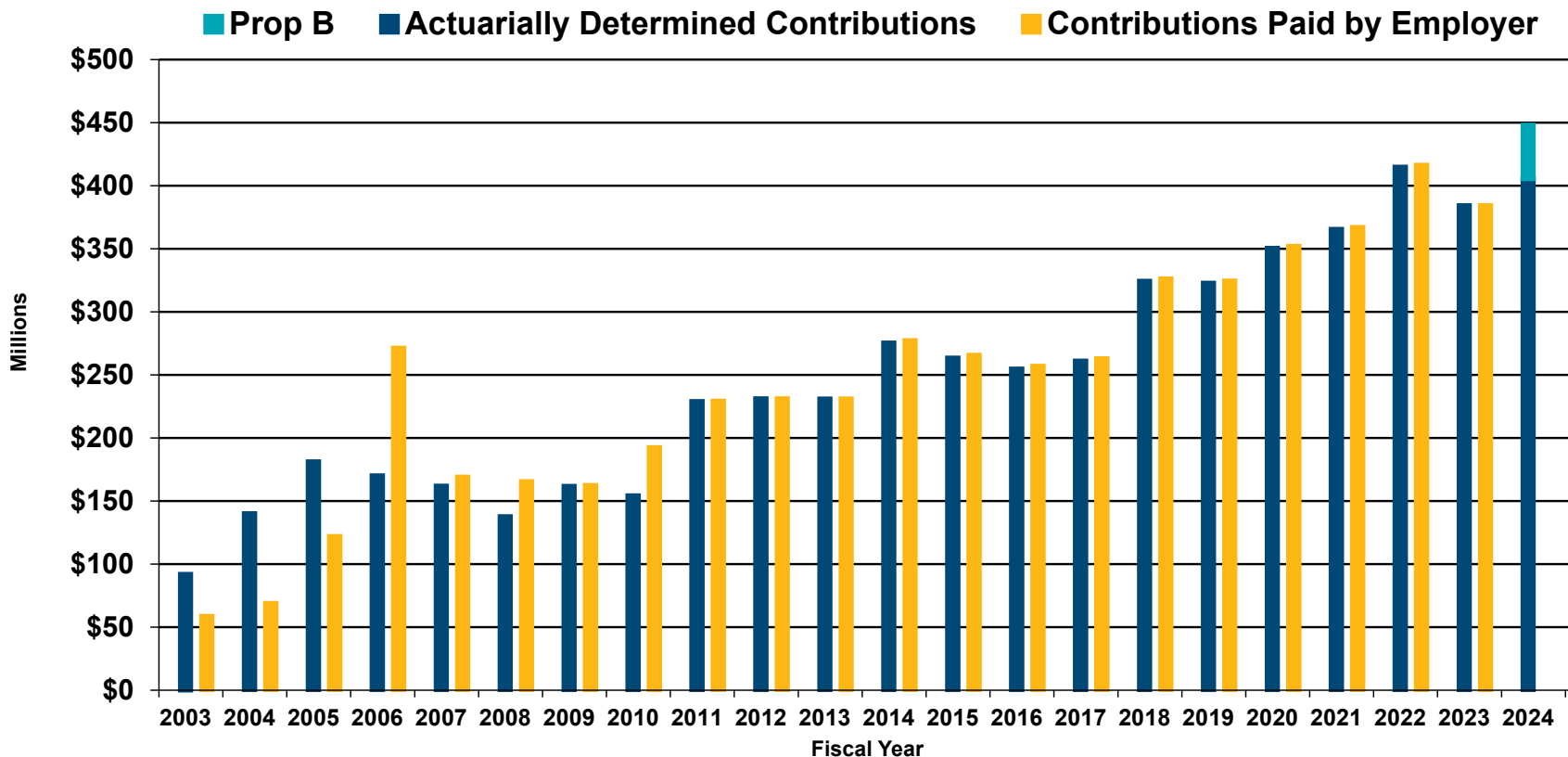


Assets and Liabilities – City of San Diego

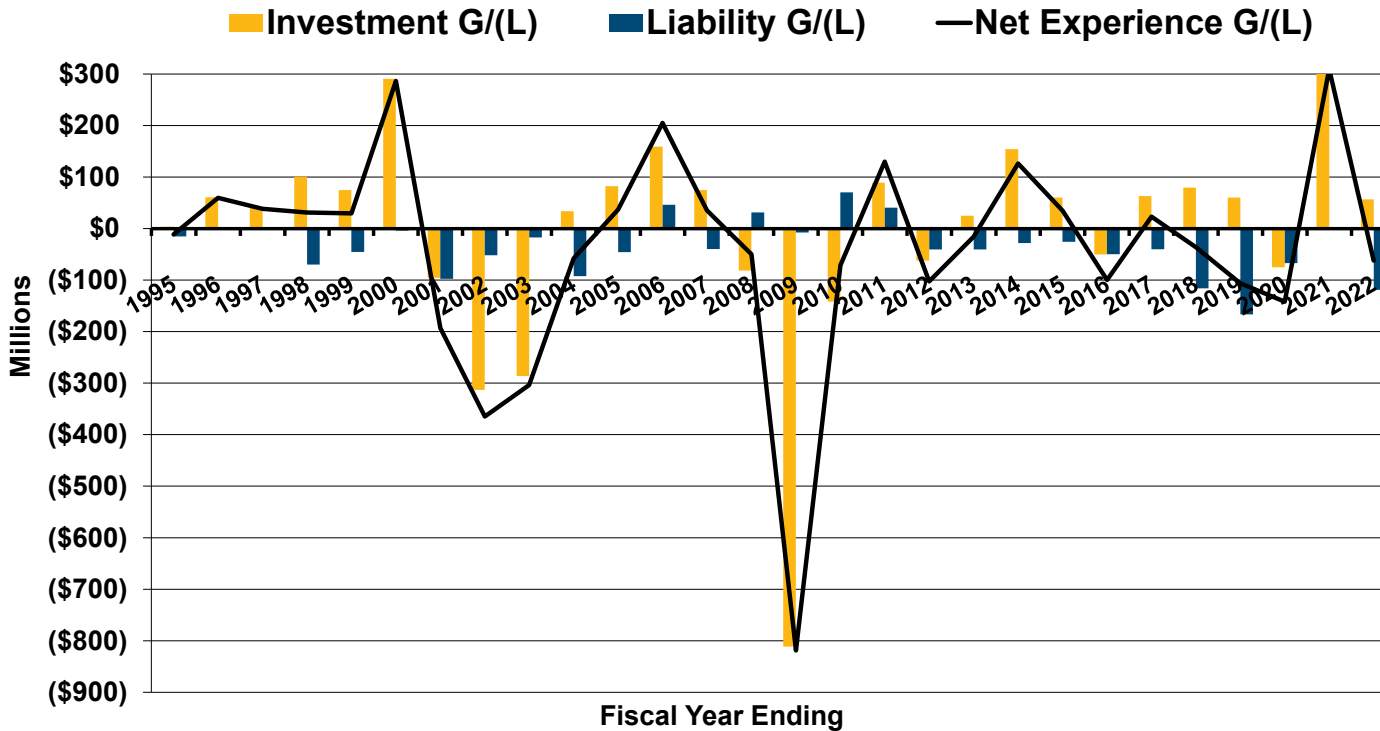


The percentage shown at the top of each bar is the ratio of the Actuarial Value of Assets to the Actuarial Liability (the funded ratio).

Contributions – City of San Diego



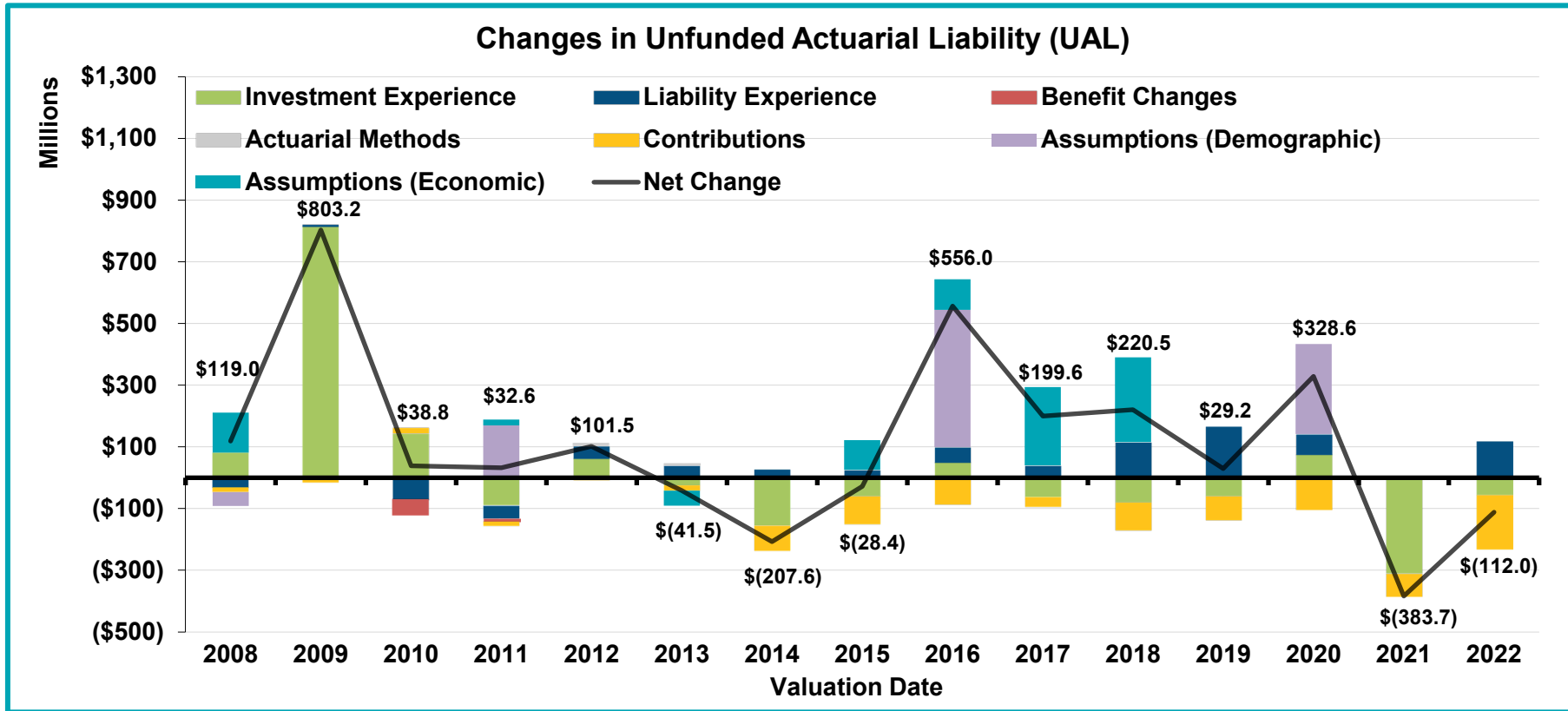
Gains and Losses – City of San Diego



FYE	G/(L) as % Investment	G/(L) as % Liability
1996	4.1%	-0.1%
1997	2.5%	-0.1%
1998	5.5%	-3.5%
1999	3.7%	-2.1%
2000	11.8%	-0.2%
2001	-3.8%	-3.5%
2002	-12.8%	-1.6%
2003	-12.1%	-0.5%
2004	1.3%	-2.3%
2005	2.8%	-1.0%
2006	4.0%	0.9%
2007	1.7%	-0.7%
2008	-1.7%	0.5%
2009	-19.4%	-0.1%
2010	-3.2%	1.1%
2011	1.9%	0.6%
2012	-1.2%	-0.6%
2013	0.5%	-0.5%
2014	2.6%	-0.4%
2015	1.0%	-0.3%
2016	-0.8%	-0.6%
2017	0.9%	-0.4%
2018	1.1%	-1.1%
2019	0.8%	-1.6%
2020	-1.0%	-0.6%
2021	3.6%	0.0%
2022	0.6%	-1.0%

March 21, 2023

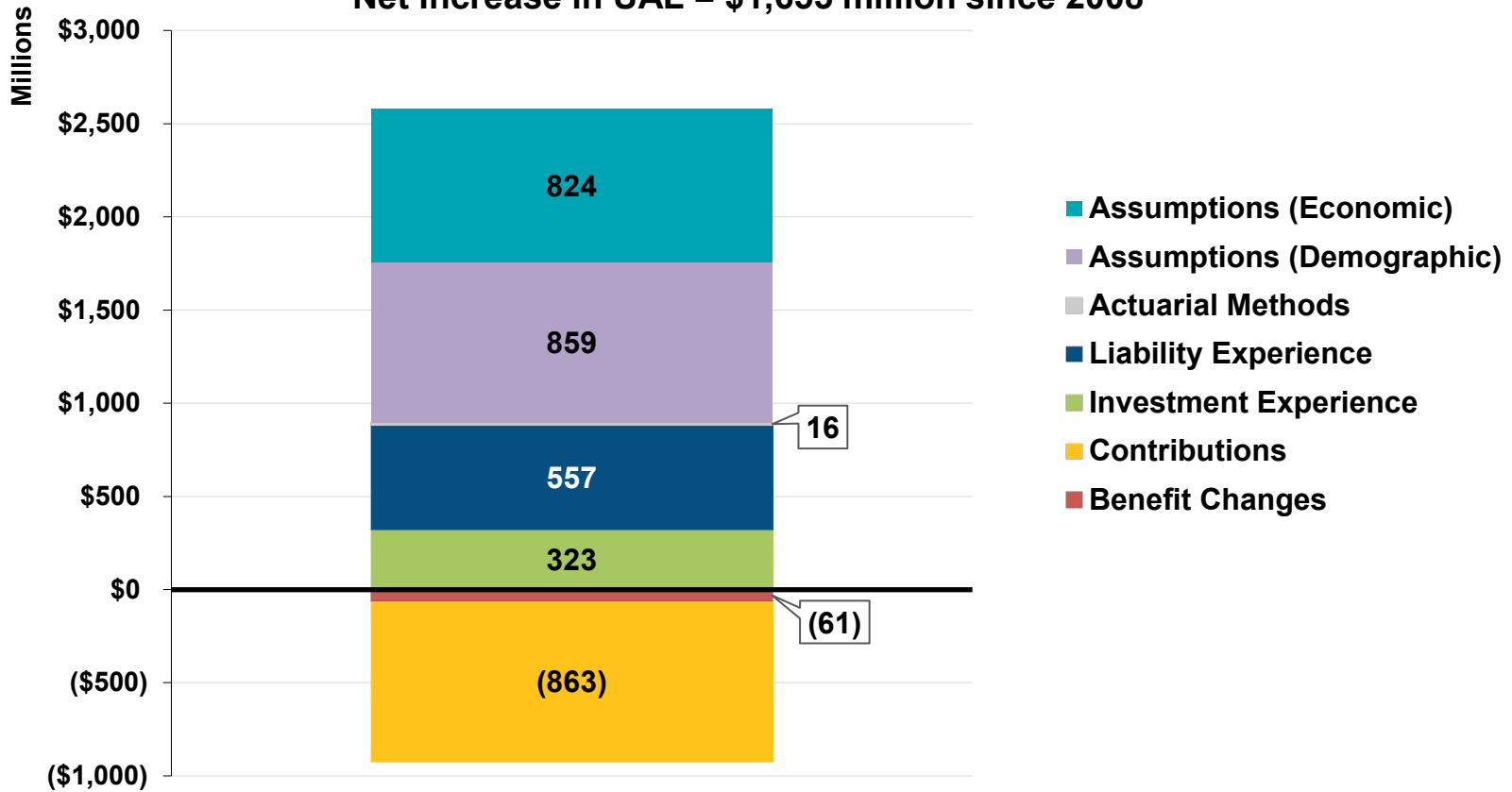
Factors Contributing to UAL Changes



Net UAL Changes Since 2008 – City of San Diego



Changes in Unfunded Actuarial Liability (UAL)
Net Increase in UAL = \$1,655 million since 2008





June 30, 2022 Actuarial Valuation Results





- Unwinding of Proposition B
 - Reopened to all non-police employees hired on or after 7/10/2021
 - Non-police employees hired during the time the plan was closed are not included in the results of this valuation
 - Projections do include future normal costs for these employees, as well as all new hires
- Projected salary increases for City General and Safety Members
 - General Members: 4.75% on 7/1/2022
 - Elected Members: 5.00% on 7/1/2022
 - Police Members: 5.00% on 7/1/2022
 - Fire Members: 3.05% on 7/1/2022, 1.00% on 1/1/2023
 - Lifeguard Members: 4.50% on 7/1/2022, 3.50% on 1/1/2023

Proposition B Funding Methods



Pay the FY22 Missed Normal Cost for Members hired in FY22 with the FY24 ADC

FY22 NC	7/1/2023 \$2.7 million	PAID February 2023 (\$2.7 million, interest adjusted)
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Pay the FY23 and FY24 Normal Costs for Prop B Members with the FY24 ADC

FY23 NC	7/1/2023 \$35.7 million	PAID February 2023 (\$34.8 million, interest adjusted)
FY24 NC	7/1/2023 \$36.8 million	Payable FY24 ADC

Amortize the liability shortfall for Prop B Members over 20 years starting with the FY24 ADC

FY24 Amort Payment	7/1/2023 \$10.8 million	Payable FY24 ADC
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Valuation Results – City of San Diego



Valuation as of June 30,				
		2021	2022	
<u>Membership</u>				Change
Actives		5,068	5,555	9.6%
Payroll (\$ in millions)	\$	466.9	\$ 526.0	12.7%
Average Salary	\$	92,120	\$ 94,689	2.8%
In Pay Status		10,858	11,029	1.6%
Total Annual Benefits (\$ in millions)	\$	574.9	\$ 595.8	3.6%
Average Benefit	\$	52,944	\$ 54,018	2.0%
<u>Assets and Liabilities (\$ in millions)</u>				
Actuarial Liability	\$	11,478.1	\$ 11,848.5	3.2%
Actuarial Value Assets	\$	8,526.1	\$ 9,008.5	5.7%
Market Value Assets	\$	9,457.4	\$ 9,182.7	-2.9%
Unfunded Actuarial Liability (UAL)	\$	2,952.0	\$ 2,840.0	-3.8%
Actuarial Value Funding Ratio		74.3%	76.0%	1.7%
Market Value Funding Ratio		82.4%	77.5%	-4.9%
<u>Contributions (ADC in \$millions)</u>				
Employer Normal Cost	\$	69.8	\$ 77.3	10.7%
UAL Payment	\$	302.9	\$ 311.4	2.8%
Administrative Expenses	\$	11.6	\$ 11.9	2.5%
Proposition B Funding	\$	-	\$ 47.6	
Total ADC (BOY)	\$	384.3	\$ 448.1	16.6%

Numbers in table may not add due to rounding.

Sources of Change – City of San Diego



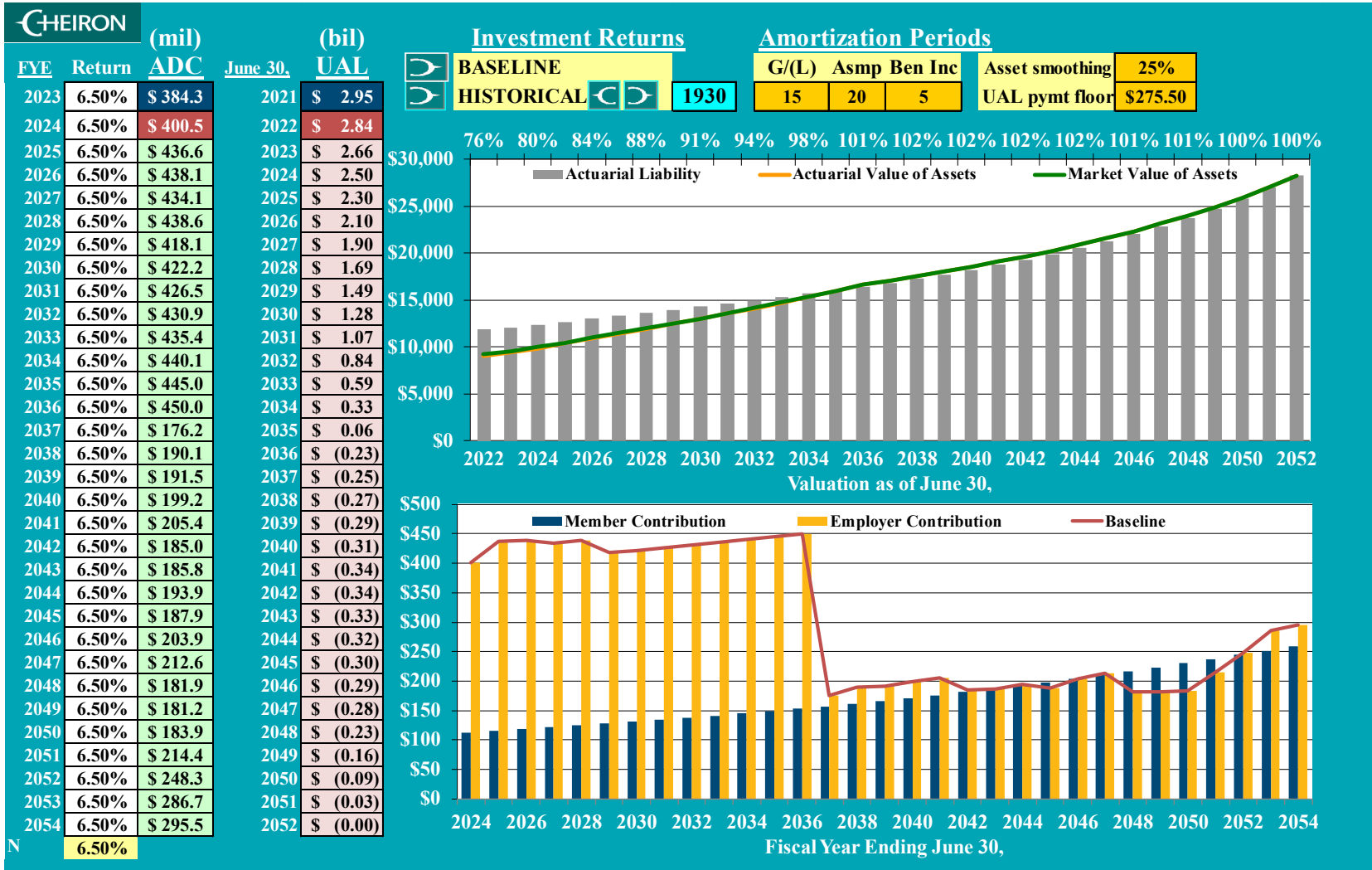
	<u>Actuarial</u> <u>Liability</u>	<u>Actuarial</u> <u>Assets</u>	(\$ in millions)	
			<u>UAL</u>	<u>ADC</u>
2021 actual results	\$ 11,478.1	\$ 8,526.1	\$ 2,952.0	\$ 384.3
2022-expected (no changes)	\$ 241.3	\$ 662.7	\$ (421.4)	\$ (19.4)
FYE 2022 asset experience	\$ -	\$ (190.6)	\$ 190.6	\$ 19.2
FYE 2022 liability experience	\$ 118.7	\$ -	\$ 118.7	\$ 16.4
change in assumptions or methods	\$ -	\$ -	\$ -	\$ -
other misc (includes PSC, DROP)	\$ 10.3	\$ 10.3	\$ -	\$ -
2022 actual results	\$ 11,848.5	\$ 9,008.5	\$ 2,840.0	\$ 400.5
FY24 normal cost for Prop B members				\$ 36.8
FY24 shortfall pmt for Prop B members				\$ 10.8
Total FY24 ADC with Prop B funding				\$ 448.1

Numbers in table may not add due to rounding.

A Look Ahead



Projections – City of San Diego



FYE2024 ADC shown here does not include \$36.8 mil for FY24 Prop B normal cost or \$10.8 mil shortfall payment. Beginning with the FYE2025 ADC, projections include future normal costs for Prop B members but not the 20-year shortfall payment.

Required Disclosures



The purpose of this presentation is to report on the actuarial valuation results for the San Diego City Employees' Retirement System – City of San Diego. This presentation is for the use of the San Diego City Council and its auditors.

In preparing our presentation, we relied on information, some oral and some written, supplied by the San Diego City Employees' Retirement System. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

The actuarial assumptions, data, and methods are those used in the preparation of the actuarial valuation reports as of June 30, 2022.

The assumptions reflect our understanding of the likely future experience of the System, and the assumptions as a whole represent our best estimate for the future experience of the System. Future results may differ significantly from the current results presented in this presentation due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

Deterministic projections in this presentation were developed using P-Scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the System. P-Scan uses standard roll-forward techniques that implicitly assume a stable active population. Because P-Scan does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This presentation was prepared exclusively for the San Diego City Council and the San Diego City Employees' Retirement System for the purpose described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

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