

GE&O APR 11 2005 #1

SAN DIEGO CITY

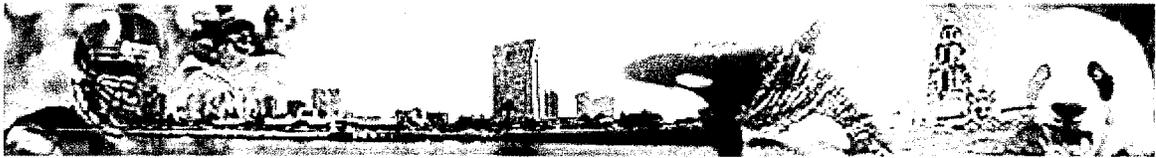
EMPLOYEES' RETIREMENT SYSTEM

ANNUAL ACTUARIAL VALUATION

June 30, 2004

GABRIEL, ROEDER, SMITH & COMPANY
ACTUARIES & CONSULTANTS

SAN DIEGO CITY
EMPLOYEES' RETIREMENT SYSTEM
ANNUAL ACTUARIAL VALUATION
June 30, 2004



Submitted to
THE RETIREMENT BOARD
San Diego City Employees' Retirement System
San Diego, California

San Diego City Employees' Retirement System
June 30, 2004 Actuarial Valuation

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GABRIEL, ROEDER, SMITH & COMPANY
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January 14, 2005

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

Dear Members of the Board:

Submitted in this report are results of the regular Annual Actuarial Valuation as of June 30, 2004 of the City of San Diego defined benefit pension fund. The City is one of three employers in the San Diego City Employees' Retirement System. The valuation is intended to provide a measure of the funding status of the pension fund and actuarially computed contribution rates. These rates are consistent with our understanding of the 2004 "Gleason" legal settlement. The settlement mandates updated actuarial assumptions and 29-year amortization used for the fiscal year 2006 contribution.

Beginning of Year Contributions	June 30, 2004	June 30, 2003
General Members	20.33%	21.24%
Safety Members	39.42%	41.44%
Weighted City Total	26.86%	27.94%

The member statistical data on which the valuation was based was furnished by the Retirement Office, together with pertinent data on financial operations. Data was reviewed for reasonableness, but was not audited by the actuary.

Valuation results indicate that there was an experience loss of \$58.1 million. This loss represents 1.6% of actuarial accrued liabilities as of the previous valuation date of June 30, 2003.

The cooperation of the Retirement Office in furnishing materials requested for this valuation is deeply acknowledged with appreciation.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

Rick A. Roeder, E.A., F.S.A., M.A.A.A.

San Diego City Employees' Retirement System

Comments & Recommendations

June 30, 2004

COMMENT A: The computed actuarial rate changed from 27.94% to 26.86%. The 2004 legal settlement of "Gleason" mandates a 29-year amortization period and certain updated assumptions for the City's contribution in fiscal year 2006. Manager's Proposal II calculations have become obsolete with this settlement. The settlement mandates updated actuarial assumptions and 29-year amortization used for the fiscal year 2006 contribution.

Beginning of Year Contributions	New Assumptions June 30, 2004	Old Assumptions June 30, 2004	Old Assumptions June 30, 2003
Amortization Period (Years)	29	17	18
General Members	20.33%	24.28%	21.24%
Safety Members	39.42%	46.01%	41.44%
Weighted City Total	26.86%	31.69%	27.94%

COMMENT B: The funded ratio decreased slightly from 67.2% to 65.8%. The decrease was primarily due to added purchase service losses, changes in actuarial assumptions, reflecting the application of employee COLA contributions and retirement incidence. The aggregate actuarial loss was \$58 million dollars, which reflects 1.6% of accrued liabilities as of June 30, 2003.

Assumption changes related to lower employee turnover, increased longevity for Safety disabled retirees, a higher percentage of assumed Safety disabilities classified as non-duty and higher retirement incidence for certain Safety members with at least 30 years of service.

Explicit reflection of a relatively small additional liability relating to the annuitization of employee COLA contributions has been incorporated into this valuation. Such recognition increased accrued liabilities by \$46.7 million. This is a result of a recent benefit calculation audit by GRS which was requested by SDCERS staff. One of the impacts of the large volume of recent service purchases was to greatly increase this benefit due to the significant influx of employee contributions.

Based on the June 30, 2003 valuation rates, there was a City contribution, under Manager's Proposal II, which was \$68.6 million less than the computed contribution rate in the 2003 valuation. We do not consider this as a part of actuarial loss since contribution levels do not relate to assumed demographic or investment experience. However, contributing less than the computed rate has the same impact on increasing unfunded liabilities as would an actuarial loss.

San Diego City Employees' Retirement System
Comments & Recommendations
June 30, 2004

COMMENT C: The unfunded liability increased from \$1.16 billion to \$1.37 billion.

Even if all actuarial assumptions were exactly met for the year and there were no assumption changes, there still would have been an increase in the unfunded liability to \$1.23 billion from last year's \$1.16 billion figure. This would have been caused by the interest on the unfunded liability of \$91 million exceeding the City contributions of \$19 million to pay down the unfunded liability.

Due to the Gleason settlement, this year's City contribution of \$130 million will allow for roughly \$50-\$60 million dollars to apply to the unfunded liability.

COMMENT D: Using the actuarial value of assets, there were investment gains of \$34.0 million. For this purpose, gains are calculated relative to the 8% investment assumption NOT zero. On an actuarial basis, the City's investment return was 9.4% due to five-year smoothing.

The City's apportioned share of the market value of assets (assets are commingled with Unified Port District and Airport Authority) exceeds the actuarial value of assets by \$218 million. Based on market value, the funded ratio is 71% -- a significant increase over last year's 66% market value ratio.

COMMENT E: City pick ups of employee contributions (See page 8) increased on July 5, 2003. This is the third year of a City is phase in, over a four-year period, of a reduction in the discounts applied to pick ups due to anticipated saved refunds. Over the four years, the discount will be reduced from 22% to 5% for General members and 7% to 1% for Safety members.

COMMENT F: At direction from the Retirement Board, we continue to NOT include any Corbett contingent liabilities in the valuation. The residual Corbett liability is significantly smaller due to the availability of an Undistributed Earnings Reserve as of June 30, 2004. The City has earmarked a Corbett payment liability of \$16,266,920 which we have included as a payable.

COMMENT G: We made a recommendation last summer to modify the manner in which excludable assets were apportioned among the three employers. Since some of the excludables are City-specific, we wanted to ensure equitable treatment for the other two employers. However, we have since been advised that, as part of the mechanics of the "earnings credit waterfall", that such equity occurs at the time of the transfer. If this is the case, we are satisfied with the status quo.

San Diego City Employees' Retirement System

Comments & Recommendations

June 30, 2004

(continued)

COMMENT H: One of the many complexities of the System is a reserve for an Employee Contribution Rate Increase pursuant to Manager's Proposal I, currently \$21.4 million. As such, a small part of this reserve account should be transferred into the Member Deposit Reserve each year to pay for such increase. Our calculations reflect the entire employee contribution amount and are also reflected in the member rates included in the back of the report. We add 0.65% to the rates on the data provided us, based on our understanding of the negotiations, pursuant to the Manager's Proposal and Corbett.

In addition, this reserve has been used to help defray the recently increased offset amounts, 2.7% for Safety members and 1.6% for General members, which are also paid from this reserve into the Employer's Contribution Reserve. The total amount transferred from the Employee Contribution Rate Increase Reserve for Plan Year Ending June 30, 2004 was \$13.1 million.

COMMENT I: The active member number count decreased by 3.5% from 10,100 to 9,749. This is largely explained by a reclassification of approximately 225 active members to deferred vested who had been coded on the City's data tape as actives in the 2004 valuation. This also explains the increase in the liability for the deferred vested liability from \$81 to \$100 million in this valuation.

The average age of active members increased from 42.4 to 42.8 years. This is due to the relatively low number of new hires and low employee turnover.

COMMENT J: Overall valuation payroll increased by 1.2% to \$540 million in this valuation. In the City Audit office's budget forecasting for fiscal year 2004, they projected payroll amounts much closer to \$600 million. To ensure the quality of the valuation data received, we strongly recommend that staff work with the Audit office so that such differences are fully understood and are justified.

San Diego City Employees' Retirement System

Comments & Recommendations

June 30, 2004

(continued)

COMMENT K: The popularity of the "permissive" purchase service program again had an impact on liabilities. 3,247 General members (active, inactive, and retired) have purchased a total of 15,047 years of service. 722 Safety members have purchased a total of 2,253 years of service. There were 7,345 years purchased by 1,769 members during the Plan Year Ended June 30, 2003. The actuarial accrued liability increased by \$92.4 million, but the plan received \$65.3 million in employee contributions, a \$27.1 million loss. Our understanding is that there will be one additional year of significant actuarial losses before the effect of the new rate structure takes place.

The SDCERS financials show purchase service contributions of \$73.8 million made by City employees. These contributions include all different types of purchase service while our service purchase analysis only includes the "permissive" purchase service program.

COMMENT L: We have been requested to complete an Entry Age Normal valuation annually. This year's Entry Age rate is 28.03% based on 29-year amortization and 34.73% based on 17-year amortization. The funded ratio is 62.3%.

COMMENT M: The actuarial value of assets is 135% of liabilities for those currently in benefit receipt status and active DROP members. This comment is a response to the concern of some retirees who are worried about the security of their benefits.

**FINANCIAL PRINCIPLES
AND
OPERATIONAL TECHNIQUES**

San Diego City Employees' Retirement System
Financial Principles and Operational Techniques
of the Retirement System

Promises Made, and To Be Paid For. As each year is completed, the Retirement System, in effect, hands an "IOU" to each member then acquiring a year of service credit -- the "IOU" says: "The San Diego City Employees' Retirement System owes you one year's worth of retirement benefits, payments in cash commencing when you qualify for retirement."

The related key financial questions are:

Which generation of taxpayers contributes the money to cover the IOU?

The present taxpayers, who receive the benefit of the member's present year of service?

Or the future taxpayers, who happen to be in San Diego at the time the IOU becomes a cash demand, years and decades later?

The principle of level percent of payroll financing intends that this year's taxpayers contribute the money to cover the IOUs being handed out this year. By following this principle, the employer contribution rate will remain approximately level from generation to generation -- our children and our grandchildren will contribute the same percents of active payroll we contribute now.

(There are systems which have a design for deferring contributions to future taxpayers, lured by a lower contribution rate now and putting aside the consequence that the contribution rate must then relentlessly grow much greater over decades of time.)

An inevitable by-product of the level-cost design is the accumulation of reserve assets, for decades, and income produced when the assets are invested. Invested assets are a by-product and not the objective. Investment income becomes the 3rd contributor for benefits to employees, and is interlocked with the contribution amounts required from employees and employer.

(Concluded on next page)

San Diego City Employees' Retirement System
Financial Principles and Operational Techniques
of the Retirement System

(Concluded)

Translated to actuarial terminology, this level-cost objective means that the contribution rates must total at least the following:

Current Cost (the cost of members' service being rendered this year)

. . . plus . . .

Interest on Unfunded Accrued Liabilities (unfunded accrued liabilities are the difference between liabilities for service already rendered, and the accrued assets of the Retirement System).

Computing Contributions To Support System Benefits. From a given schedule of benefits and from the employee data and asset data furnished, the actuary determines the contribution rates to support the benefits, by means of an actuarial valuation and a funding method.

An actuarial valuation has a number of ingredients such as: the rate of investment return which plan assets will earn; rates of withdrawal of active members who leave covered employment; rates of mortality; rates of disability; rates of pay increases; and the assumed age or ages at actual retirement.

In an actuarial valuation the actuary must assume what the above rates will be for the next year and for decades in the future. Only the subsequent actual experience of the plan can indicate the degree of accuracy of the assumptions.

Reconciling Differences Between Assumed Experience and Actual Experience. Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience, regardless of the skill of the actuary and the many calculations made. Most retirement systems cope with such differences by having annual actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continuing adjustments in financial position.

THE ACTUARIAL VALUATION PROCESS

The financing diagram on the following page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program) which is an increasing contribution method; and the level contribution method which equalizes contributions between the generations.

~ ~ ~ ~ ~ ~

The actuarial valuation is the mathematical process by which the level contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

A. Covered people data, furnished by plan administrator, including:

- Retired lives now receiving benefits
- Former employees with vested benefits not yet payable
- Active employees

B. + Asset data (cash & investments), furnished by plan administrator

C. + Assumptions concerning future experience in various risk areas, which are established by the Retirement Board after consulting with the actuary

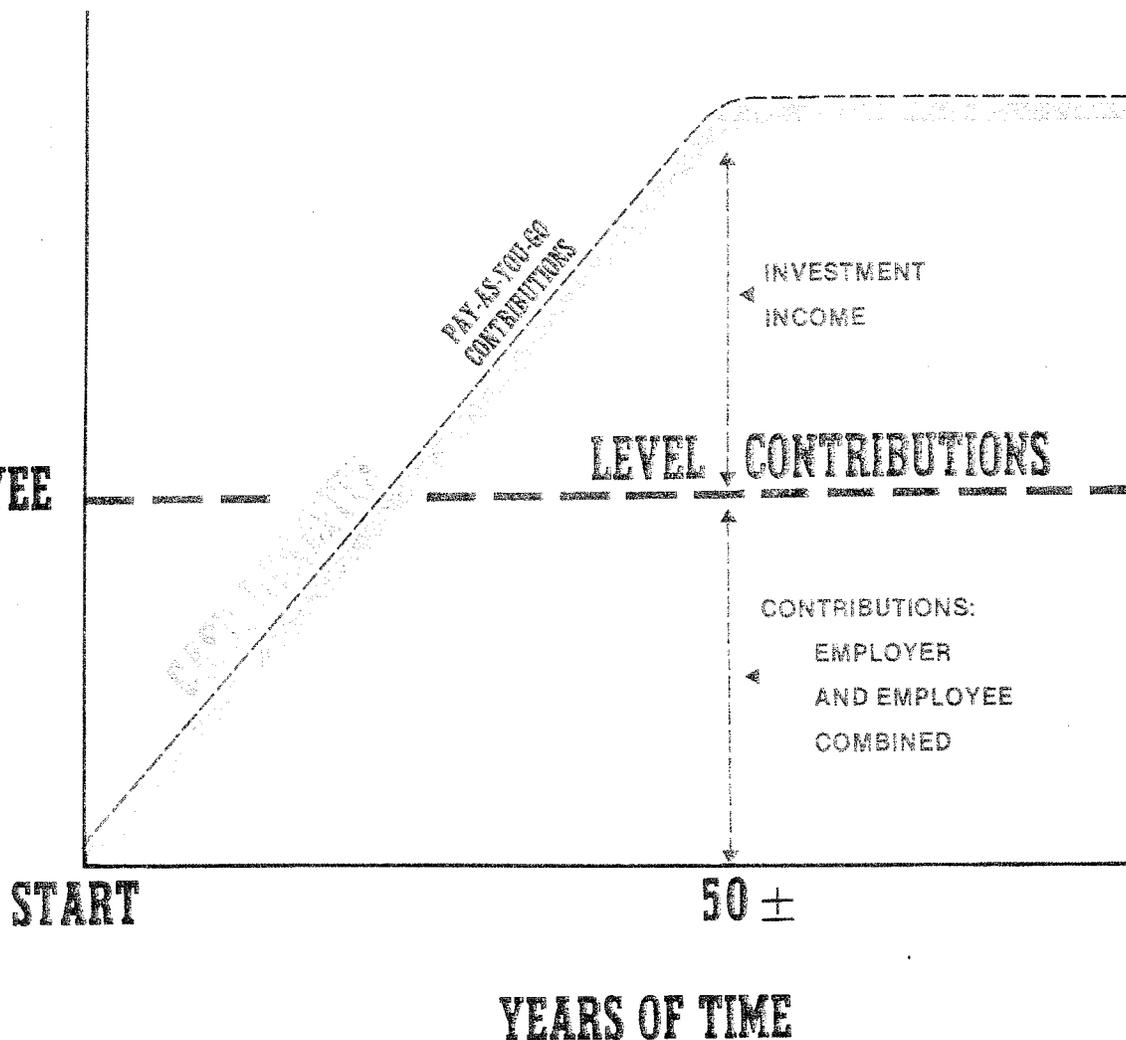
D. + The funding method for employer contributions (the long-term, planned pattern for employer contributions)

E. + Mathematically combining the assumptions, the funding method, and the data

F. = Determination of:

- Plan Financial Position and/or
- New Employer Contribution Rate

**% OF
ACTIVE
EMPLOYEE
PAYS**



LEVEL CONTRIBUTION LINE. This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).

LEVEL CONTRIBUTION LINE. Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:

Economic Risk Areas

- Rates of investment return
- Rates of pay increase
- Changes in active member group size

Non-Economic Risk Areas

- Ages at actual retirement
- Rates of mortality
- Rates of withdrawal of active members (turnover)
- Rates of disability

VALUATION RESULTS

San Diego City Employees' Retirement System

June 30, 2004

FUNDING OBJECTIVE

The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens.

CONTRIBUTION RATES

The Retirement System is supported by member contributions, City contributions, and investment income from Retirement System assets.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to:

- (1) cover the actuarial present value of benefits allocated to the current year by the actuarial cost method (the normal cost); and
- (2) finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).

Computed contributions as of June 30, 2004 relate to the fiscal year beginning July 1, 2005.

San Diego City Employees' Retirement System

Computed City Contribution Rates

(Expressed as Percents of Active Payroll)

June 30, 2004

GENERAL

General Contributions Based on <u>Valuation of</u>	June 30, 2004			June 30, 2003		
	<u>General</u>	<u>Elected Officers</u>	<u>Weighted Totals</u>	<u>General</u>	<u>Elected Officers</u>	<u>Weighted Totals</u>
Normal Cost *	10.72%	20.11%	10.74%	9.76%	18.32%	9.78%
Amortization Payment *	10.32%	39.33%	10.39%	12.21%	49.18%	12.29%
SUBTOTAL	21.04%	59.44%	21.13%	21.97%	67.50%	22.07%
Adjusted for payment at beginning of year	20.25%	57.20%	20.33%	21.14%	64.95%	21.24%

SAFETY

TOTAL CITY

Safety Contributions Based on <u>Valuation of</u>	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	<u>Weighted Totals</u>	<u>Weighted Totals</u>	<u>Weighted Totals</u>	<u>Weighted Totals</u>
Normal Cost *	19.21%	17.70%	13.65%	12.42%
Amortization Payment *	21.76%	25.37%	14.26%	16.62%
SUBTOTAL	40.97%	43.07%	27.91%	29.04%
Adjusted for payment at beginning of year	39.42%	41.44%	26.86%	27.94%

For Safety members, the 2004, beginning-of-year contribution rates are 39.24% for Police, 40.00% for Fire and 38.11% for Lifeguards.

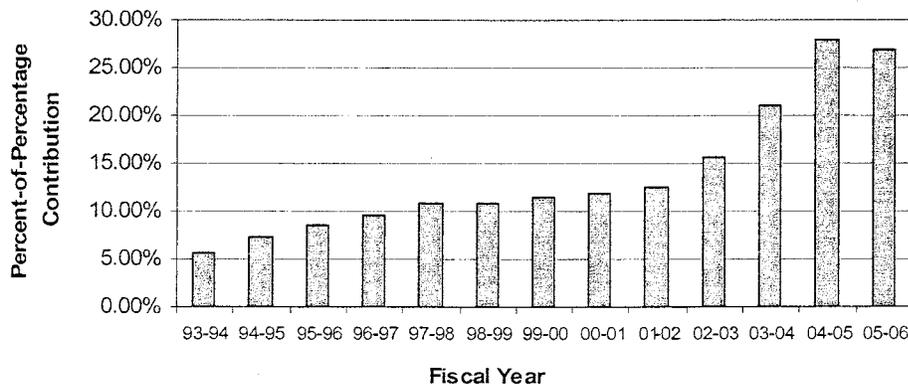
* Rates assume that contributions are made uniformly during the plan year.

San Diego City Employees' Retirement System
Computed City Contributions - Historic Comparison

Expressed as Percents of Payroll¹

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>General Members</u>	<u>Safety Members</u>	<u>Weighted Total</u>	<u>Valuation Payroll</u>
93-94	6/30/92 ²	2.08%	11.37%	5.67%	\$313,176,024
94-95	6/30/93 ³	3.15%	14.19%	7.39%	\$320,623,685
95-96	6/30/94 ⁴	4.34%	15.42%	8.60%	\$338,440,247
96-97	6/30/95	5.28%	16.42%	9.55%	\$350,583,835
97-98	6/30/96	4.81%	15.20%	8.71%	\$365,088,750
97-98	6/30/96 ⁵	7.35%	16.74%	10.87%	\$365,088,750
98-99	6/30/97	7.52%	16.46%	10.86%	\$382,715,084
99-00	6/30/98 ⁴	7.87%	17.75%	11.48%	\$399,035,094
00-01	6/30/99	8.06%	19.05%	11.96%	\$424,515,968
01-02	6/30/00	5.65%	13.30%	8.35%	\$448,501,827
01-02 ⁶	6/30/00	8.62%	19.83%	12.58%	\$448,501,827
02-03	6/30/01	11.03%	24.48%	15.59%	\$481,863,318
03-04	6/30/02	15.50%	32.55%	21.13%	\$535,156,545
04-05	6/30/03	19.92%	41.44%	27.06%	\$533,595,405
04-05	6/30/03 ⁷	21.24%	41.44%	27.94%	\$533,595,405
05-06	6/30/04	24.28%	46.01%	31.69%	\$540,180,941
05-06	6/30/04 ⁸	20.33%	39.42%	26.86%	\$540,180,941

Weighted Average Rate for All Groups



¹ Rates shown are adjusted for payment at the beginning of the year and exclude negotiated "pick ups"

² Reflects change in benefits for certain member groups

³ Reflects changes in member contribution rates for certain member groups, early retirement incentive program activity, and methodology with regard to member refunds and employer pickup

⁴ Reflects revised actuarial and economic assumptions

⁵ After Manager's Proposal

⁶ Reflects non-contingent benefit increases

⁷ Includes change in benefits for General Members

⁸ Reflects revised actuarial assumptions and 29-year amortization of the unfunded actuarial accrued liability

San Diego City Employees' Retirement System

June 30, 2004

Elements of Normal Cost

(Expressed as Percents of Active Payroll)

	<u>General</u>	<u>Safety</u>	<u>Total</u>
Service Retirement	17.36%	25.74%	20.21%
Vested Deferred Retirement	1.24%	0.36%	0.94%
Death-in-Service	0.27%	0.56%	0.37%
Disability	2.18%	5.32%	3.25%
Contribution Refunds	<u>0.26%</u>	<u>0.11%</u>	<u>0.21%</u>
Total Normal Costs	21.31%	32.09%	24.98%
Employee Contributions	<u>10.57%</u>	<u>12.88%</u>	<u>11.33%</u>
Normal Costs	10.74%	19.21%	13.65%

(Mid-year contributions assumed for this illustration)

NOTES: In this presentation, Disability costs could be viewed as "overstated" and Service Retirement costs correspondingly "understated" since ALL costs for accrued benefit service are included and encompass those eligible to service retire at date of disability grant.

San Diego City Employees' Retirement System
Member Contributions as of June 30, 2004

In addition to City contributions, the system is also funded by employee contributions. The rate at which members contribute is expressed as a percent of pay and varies according to age of entry into the system. Please refer to Appendix A for a detailed list of these rates by member group.

Average, long-term employee contribution rates for each member group are shown below. Corbett and the Manager Proposal increases are included.

	June 30, 2004	June 30, 2003
General Members	10.57%	10.54%
Safety Members	12.88%	12.86%

All or part of the employee rate is subject to potential "offset" ("pick up") by the employer. The rates above are shown prior to any applicable offset. Please refer to page 49 for other relevant assumptions. Assumed offset amounts by member group are shown for information purposes ONLY.

Estimated Average Offsets

<u>Group</u>	<u>Offset</u>
General	
Represented	7% (formerly 5.4%)
Non-Represented	8% (formerly 6.4%)
Elected Officers	8.89%
Safety	10% (formerly 9%)

Such offset and related accumulated interest are not to be refunded to employees at termination. The City pick up, contributed to the System, is reduced by anticipated savings for reduced employee refunds prior to being contributed. See Comment E in this regard.

Increases in employee pick ups occurred as of July 5, 2003.

San Diego City Employees' Retirement System
Unfunded Actuarial Accrued Liability
 June 30, 2004

(City Only)

Derivation of Experience Gain (Loss)

The actuarial gains or losses realized in the operation of the Retirement Association provide an experience test. Gains and losses are expected to cancel each other over a period of years (in the absence of double-digit inflation) and sizable year-to-year fluctuations are common. Detail on the derivation of the actuarial gain(loss) is shown below.

1) UAAL* at beginning of year	\$1,157,194,039
2) Beginning of year accrued liability payment	(19,460,838)
3) Interest accrual ((1) + (2)) x .08	91,018,656
4) Increase due to assumption changes	35,091,437
5) Explicit recognition of COLA annuity for active members	46,681,164
6) Expected UAAL at end of year (1) + (2) + (3) + (4) + (5)	1,310,524,458
7) Actual UAAL at end of year	1,368,648,032
8) Gain(loss): (6) - (7)	(58,123,574)
9) Gain(loss) as percentage of actuarial accrued Liabilities at beginning of year \$3,532,625,521	(1.6)%

* Unfunded Actuarial Accrued Liability

Unfunded Actuarial Accrued Liability

Total actuarial liabilities	\$3,997,328,084
Assets allocated to funding	<u>\$2,628,680,052</u>
Unfunded Actuarial Accrued Liability	\$1,368,648,032

San Diego City Employees' Retirement System

Unfunded Actuarial Accrued Liability

June 30, 2004

Elements of Experience Gain (Loss)

Gain attributed to investment experience	34,002,415
(Loss) due to administrative expense "true-up" to UPD and Airport Authority	(3,715,128)
Estimated (Loss) attributed to the "permissive" service purchased during the 2004 plan year.	(27,100,000)
Estimated (Loss) due to new retirements	(27,200,000)
(Loss) due to contingent benefits	(23,525,467)
Estimated (Loss) due to administrative expenses	(9,900,000)
Estimated Gain due to reclassification of approximately 225 active members to deferred vested/inactive status	9,300,000
Estimated (Loss) attributed to post-retirement mortality and miscellaneous retiree data changes	(6,300,000)
(Loss) due to retiree liability for new retirees for the COLA annuity.	(6,607,180)
Estimated Gain attributed to pay increases	\$2,700,000
Estimated Gain from employee turnover, pre-retirement mortality and miscellaneous factors	<u>221,786</u>
Total Estimated Experience (Loss)	(\$58,123,574)

Experience Gain(Loss) - Comparative Schedule

Valuation <u>Date</u>	<u>Gain (Loss)</u>	Beginning-of-Year <u>Accrued Liabilities</u>	Gain (Loss) <u>Percentage</u>
6/30/92	\$57,952,320	\$1,006,299,729	5.8%
6/30/93	(42,605,778)	1,057,238,917	(4.0)
6/30/94	(6,744,850)	1,220,830,059	(0.6)
6/30/95	(11,370,990)	1,338,279,541	(0.8)
6/30/96	59,592,960	1,476,710,662	4.0
6/30/97	38,473,993	1,682,604,532	2.3
6/30/98	31,086,010	1,822,432,018	1.7
6/30/99*	29,750,299	1,979,668,038	1.5
6/30/00	286,639,160	2,181,547,453	13.1
6/30/01	(193,168,984)	2,528,773,900	(7.6)
6/30/02	(364,815,155)	2,809,537,745	(13.0)
6/30/03	(303,699,305)	3,168,921,175	(9.6)
6/30/04	(58,123,874)	3,532,625,521	(1.6)

* Beginning with June 30, 1999 valuation, experience schedule is City only.

San Diego City Employees' Retirement System
Actuarial Balance Sheet – June 30, 2004

(\$ in Millions)

PRESENT VALUE AND EXPECTED FUTURE RESOURCES

	<u>General</u>	<u>Safety</u>	<u>Total</u>
A. Actuarial value of system assets	1332.5	1296.2	2,628.7
B. Present value of expected future contributions			
1. For normal costs	484.7	381.2	865.9
2. For unfunded actuarial accrued liability	<u>658.8</u>	<u>709.8</u>	<u>1368.6</u>
3. Total	1,143.5	1,091.0	2,234.5
C. Present value of expected future member Contributions	<u>379.9</u>	<u>224.3</u>	<u>604.2</u>
D. Total Present and Expected Future Resources	2,855.9	2,611.5	5,467.4

PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVE

	<u>General</u>	<u>Safety</u>	<u>Total</u>
A. To retirants and beneficiaries ¹	833.4	1,113.3	1,946.7
B. To vested and terminated members	74.7	25.6	100.3
C. To present active members			
1. Allocated to service rendered prior to valuation date	1,083.2	867.1	1,950.3
2. Allocated to service likely to be rendered after valuation date	<u>864.6</u>	<u>605.5</u>	<u>1,470.1</u>
3. Totals	1,947.8	1,472.6	3,420.4
D. Total Present Value of Expected Future Benefit Payments	2,855.9	2,611.5	5,467.4

¹ DROP members included

San Diego City Employees' Retirement System

Funding Progress Indicators

June 30, 2004

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability -- a measure that is influenced by the choice of actuarial cost method.

We believe a better understanding of funding progress and status can be achieved using the following indicators which are independent of the actuarial cost method.

(1) The ratio of assets to the actuarial present value of credited projected benefits allocated in the proportion accrued service is to projected total service -- a plan continuation indicator. The ratio is expected to increase in the absence of benefit improvements or strengthening of actuarial assumptions.

(2) The ratio of the unfunded actuarial present value of credited projected benefits to member payroll - a plan continuation indicator. In a soundly financed retirement system, the amount of the unfunded actuarial present value of credited projected benefits will be controlled and prevented from increasing in the absence of benefit improvements or strengthening of actuarial assumptions. However, in an inflationary environment, it is seldom practical to impose this control on dollar amounts which are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ratio is expected to decrease in the absence of benefit improvements or strengthening of actuarial assumptions.

San Diego City Employees' Retirement System
Funding Process Indicators - Historic Comparison

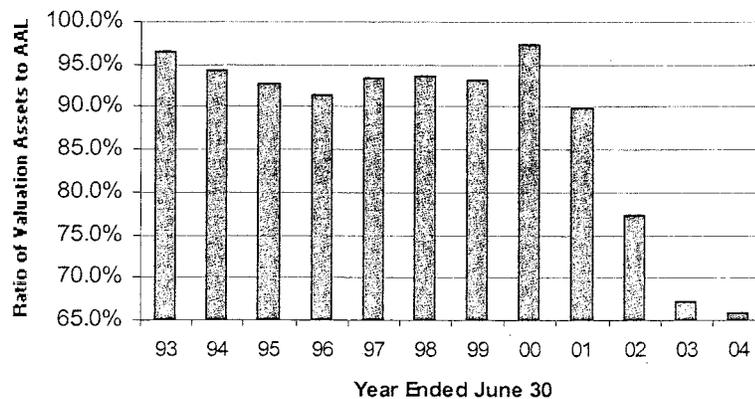
(\$ in Thousands)

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	Ratio to Payroll
6/30/93	\$1,137,019	\$1,178,311	96.5%	\$41,292	\$320,624	12.9%
6/30/94 ¹	\$1,216,063	\$1,290,927	94.2%	\$74,864	\$338,440	22.1%
6/30/95	\$1,316,903	\$1,421,150	92.7%	\$104,247	\$350,584	29.7%
6/30/96 ²	\$1,480,772	\$1,620,373	91.4%	\$139,602	\$365,089	38.2%
6/30/97	\$1,632,361	\$1,748,868	93.3%	\$116,507	\$382,715	30.4%
6/30/98 ¹	\$1,852,151	\$1,979,668	93.6%	\$127,517	\$399,035	32.0%
6/30/99	\$2,033,153	\$2,181,547	93.2%	\$148,394	\$424,516	35.0%
6/30/00	\$2,459,815	\$2,343,400	105.0%	(\$116,414)	\$448,502	(26.0)%
6/30/00 ³	\$2,459,815	\$2,528,774	97.3%	\$68,959	\$448,502	15.4%
6/30/01	\$2,525,645	\$2,809,538	89.9%	\$283,893	\$481,864	58.9%
6/30/02	\$2,448,208	\$3,168,921	77.3%	\$720,713	\$535,157	134.7%
6/30/03	\$2,375,431	\$3,484,832	68.2%	\$1,109,401	\$533,595	207.9%
6/30/03 ⁴	\$2,375,431	\$3,532,626	67.2%	\$1,157,194	\$533,595	216.9%
6/30/04	\$2,628,680	\$3,962,237	66.3%	\$1,333,557	\$540,181	246.9%
6/30/04 ⁵	\$2,628,680	\$3,997,328	65.8%	\$1,368,648	\$540,181	253.4%

AAL - Actuarial Accrued Liability

UAAL - Unfunded Actuarial Accrued Liability

Historic Comparison of Funded Ratio



¹ Reflects revised actuarial and economic assumptions

² Reflects Manager's Proposal

³ Reflects Corbett non-contingent benefit increases

⁴ Includes change in benefits for General Members

⁵ Reflects revised actuarial assumptions

SUMMARY OF BENEFIT PROVISIONS
AND
VALUATION DATA SUBMITTED BY RETIREMENT SYSTEM

San Diego City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated

June 30, 2004

Section references refer to Article 4 of the Municipal Code, unless otherwise noted.

1. Membership Requirements

Salaried Employees - immediate eligibility upon employment (compulsory). (§24.0105)

2. Monthly Salary Base for Benefits

Highest one-year average. (§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 Requirement

A. Eligibility

- 1) General Members - Age 62 with 10 years of service, or age 55 with 20 years of service. (§141 of City Charter)
- 2) Safety Members - Age 55 with 10 years of service, or age 50 with 20 years of service. (§141 of City Charter)
- 3) Elected Officers - Age 55 with 4 years of service. Reduced retirement with 8 years of service regardless of age. (§24.0545)

B. Benefit Formula Per Year of Service

- 1) 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 B.
- 2) 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.

C. Maximum Benefit

- 1) Safety Members
90% of Final Average Compensation (subject to 10% increase).
- 2) General
90% of Final Average Compensation if Option 3 is chosen.
- 3) Elected Officers - None

D. 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 CERS service for the purpose of benefit calculation (i.e., the above formulas will apply to 1981 Pension System service).

(Continued on Next Page)

San Diego City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated

June 30, 2004

(Continued)

4. Non-industrial Disability

A. Eligibility - Ten years of service. (§24.0501)

B. Benefit Formula Per Year of Service

- 1) General Members - Greater of 1.5% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit. (§24.0502, §34.0505.1)
- 2) Safety Members - Greater of 1.8% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit. (§24.0502, §24.0503.1)

5. Industrial Disability

A. Eligibility - No age or service requirement. (§24.0501)

B. Benefit

- 1) General Members - Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit. (§24.0502, §24.0504.1)
- 2) Safety Members - Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit. (§24.0502, §24.0503)
- 3) 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 month's salary. (§24.0703)

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

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

(Continued on Next Page)

San Diego City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated

June 30, 2004

(Continued)

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, §24.0306)
 - A. Pre-12/8/76 Hires - If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.
 - B. Post-12/7/76 Hires
 - 1) Less than ten years of service - Refund of accumulated employee contributions with interest, or may keep deposits in the System and earn additional interest.
 - 2) 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 Benefits
 - A. General Members and Safety - Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.0531)

12. Computed Contribution Rate
Determined by the Projected Unit Credit Funding Method with a 30-year amortization (§24.0801) of Unfunded Actuarial Accrued Liability beginning on July 1, 1991.

(Concluded on Next Page)

San Diego City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated

June 30, 2004

(Concluded)

13. Member Contributions - Vary by age at time of entrance into the system. (§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.

14. Internal Revenue Code Compliance

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

NOTE: The summary of major plan provisions is designed to outline principal plan benefits. If City or SDCERS staff finds the plan summary not in accordance with the actual provisions, the actuary should be alerted IMMEDIATELY so all parties can be sure the proper provisions are valued.

San Diego City Employees' Retirement System

Summary of Reported Asset Information

Submitted for the June 30, 2004 Valuation

	<u>Market Value of Reported Assets</u>		<u>Reserves</u>
Cash/Short-term	\$343,851,225	Member Deposit Reserve	\$481,069,841
Stocks	1,296,359,749	Drop Reserve	185,107,857
International Stocks	531,526,719	Employer Reserve	258,796,193
Bonds	617,720,971	Retired Members Reserve	1,690,624,783
Mortgages	17,022	Undistributed Reserve	164,876,711
Real Estate ²	277,859,857	Encumbrance Reserve	1,640,732
Receivables	86,500,203	Receivables Reserve	20,919,415
Short Term Investments	214,401,018	Fixed Assets Reserve	190,949
		Retiree Health 401(h) Reserve	7,910,366
Miscellaneous	<u>2,522</u>	Supplemental COLA Reserve	21,739,416
		Employee Cont. Rate Inc. Reserve	21,391,905
Total Market Value ¹	\$3,368,239,286	Payables	<u>90,665,490</u>
		Total Reserves	\$2,944,933,658
		Unrealized Appreciation	<u>423,305,625</u>
		Total Market Value ¹	\$3,368,239,286

¹ Excluding \$323,718,683 "wash" item for Securities Lending Collateral.

² We are using this value per the auditor's office. Another figure of \$275,358,276 was also reflected in the financials.

(Continued on Next Page)

San Diego City Employees' Retirement System
Summary of Reported System Asset Information
Submitted for the June 30, 2004 Valuation

(Continued)

Revenues and Disbursements in Fund Balances

Total Reserves - Beginning of year	\$2,648,086
Revenues	
Employees' Contributions	91,315,004
Employees' DROP Contributions	1,571,007
Employer Contributions	87,861,650
Employer DROP Contributions	1,587,629
Offset Contributions	33,951,427
DROP Monthly Pension Allowances	40,767,049
DROP Supplemental Benefits	(334)
Income - Investment	260,239,046
Change in Liability Reserve	(10,365,104)
	\$506,927,374
Total Revenues to Liability Reserve	
 Disbursements	
Monthly Retirement Allowances	\$116,288,006
Monthly Retirement Allowances - DROP	40,767,049
Monthly Retirement Allowances - Supp. COLA	3,986,604
Health Insurance Payments	12,829,903
Supplemental Benefit Payments	14,374
Corbett Retro Payment	1,453
Andrecht Retro Payments	-
DROP Payments to Members	8,293,504
Death Benefits	602,603
Refunds of Member Contributions	2,108,909
Administrative, Operating Expenses & Investment Expenses	25,236,206
Depreciation Expense	75,644
	\$210,202,802
Total Disbursements	\$210,202,802
 Total Reserves - End of Year	 \$2,944,933,658
Net Unrealized Appreciation	423,305,628
	\$3,368,239,286
Total Market Value	\$3,368,239,286

San Diego City Employees' Retirement System

Development of Actuarial Value of Assets

Year Ending June 30, 2004

The actuarial valuation of the System as of June 30, 2004 was based on the unaudited Statement of Assets and Liabilities and additional reconciliations provided by the Retirement Office.

The total book value of applicable assets for the valuation of the System as of June 30, 2004 was determined as follows:

	<u>Book Value</u>	<u>Market Value</u> ¹
1. Total value of assets	\$2,944,933,658	\$3,368,239,286
2. Less reserves and liabilities excluded from valuation		
a. Liabilities (other than PPE Conversion Liability)	90,665,490	90,665,490
b. Contingent benefits payable from Undistributed Earnings Reserve	23,817,425	23,817,425
c. Reserve for Retiree Health Insurance	0	0
d. Reserve for Post-Retirement Health Care	7,910,366	7,910,366
e. Reserve for DROP contributions	185,107,857	185,107,857
f. Reserve for Employee Contribution Rate Increase	21,391,905	21,391,905
g. Reserve for Supplemental Cola	<u>21,739,416</u>	<u>21,739,416</u>
h. Total Excludables: Sum of a. through g.	350,632,459	350,632,459
Net value as of June 30, 2004: 1.-2.h.	\$2,594,301,199	\$3,017,606,827

¹ Excluding \$323,718,683 "wash" item for Securities Lending Collateral

The net applicable assets (book value) along with the corresponding market value was used to determine an actuarial value of assets, as shown on the following page.

(Concluded on Next Page)

San Diego City Employees' Retirement System

Development of Actuarial Value of Assets

Year Ending June 30, 2004

(Concluded)

	(a) Net Market <u>Value</u>	(b) <u>Net Book Value</u>	<u>(a)/(b)</u>
1. Market value as a percentage of book value of assets:			
a. June 30, 2004	\$3,017,606,827	\$2,594,301,199	116.32%
b. June 30, 2003	2,463,926,769	2,332,055,458	105.65%
c. June 30, 2001	2,326,417,315	2,348,350,495	99.07%
d. June 30, 2000	2,433,217,521	2,341,407,593	103.92%
e. June 30, 1999	2,514,858,618	2,245,019,575	112.02%
2. Average Percentage for most recent 5-year period			107.40%
3. Current net book value of assets			\$2,594,301,199
4. Preliminary actuarial value of assets: (2)*(3)			\$2,786,279,488
5. Actuarial value of assets: item (4) adjusted to be within 20% of market value			\$2,786,279,488

Valuation assets, for purposes of cost development, were allocated among groups in accordance with their relative proportions of applicable reserves reported at book value.

<u>Member Group</u>	<u>Book Value of Reserves</u>	<u>Valuation Assets Used</u>
General	\$1,257,626,921	\$1,329,072,202
Elected Officers	3,204,788	3,386,851
Safety	<u>1,226,541,658</u>	<u>1,296,220,999</u>
Total City	<u>\$2,487,373,367</u>	<u>\$2,628,680,052</u>
Unified Port District	133,775,172	141,374,886
Airport Authority	<u>15,352,387</u>	<u>16,224,550</u>
Total	\$2,636,500,926	\$2,786,279,488

San Diego City Employees' Retirement System

Retirants and Beneficiaries June 30, 2004

General Members

Allowances Being Paid as of July 1, 2004

<u>Type of Allowance</u>	<u>Annual No.</u>	<u>Annual Allowances</u>
Age & Service Pensions		
Straight Life Pension - Benefit terminating at death of retirant	684	18,328,404
Option I – 100% Joint & Survivor Pension	153	5,212,168
Option II – 50% Joint & Survivor Pension	1,481	38,925,318
Survivor Beneficiaries	<u>644</u>	<u>4,489,193</u>
Total Age and Service Pensions	2,962	66,955,083
Casualty Pensions		
Disability	435	5,635,700
Death	<u>2</u>	<u>43,998</u>
Total Casualty Pensions	437	5,679,698
Total Pensions	3,399	72,634,781

San Diego City Employees' Retirement System

Retirants and Beneficiaries June 30, 2004

Safety Members

Allowances Being Paid as of July 1, 2004

<u>Type of Allowance</u>	<u>Annual No.</u>	<u>Annual Allowances</u>
Age & Service Pensions		
Straight Life Pension - Benefit terminating at death of retirant	167	9,005,167
Option I – 100% Joint & Survivor Pension	114	6,103,376
Option II – 50% Joint & Survivor Pension	881	46,100,718
Survivor Beneficiaries	<u>321</u>	<u>4,190,282</u>
Total Age and Service Pensions	1,483	65,399,543
Casualty Pensions		
Disability	812	22,715,392
Death	<u>29</u>	<u>544,902</u>
Total Casualty Pensions	841	23,260,294
Total Pensions	2,324	88,659,837

San Diego City Employees' Retirement System

Retirants and Beneficiaries June 30, 2004

Total Members

Allowances Being Paid as of July 1, 2004

<u>Type of Allowance</u>	<u>Annual No.</u>	<u>Annual Allowances</u>
Age & Service Pensions		
Straight Life Pension - Benefit terminating at death of retirant	851	27,333,571
Option I – 100% Joint & Survivor Pension	267	11,315,544
Option II – 50% Joint & Survivor Pension	2,362	85,026,036
Survivor Beneficiaries	<u>965</u>	<u>8,679,475</u>
Total Age and Service Pensions	4,445	132,354,626
Casualty Pensions		
Disability	1,247	28,351,092
Death	<u>31</u>	<u>588,900</u>
Total Casualty Pensions	1,278	28,939,992
Total Pensions	5,723	161,294,618

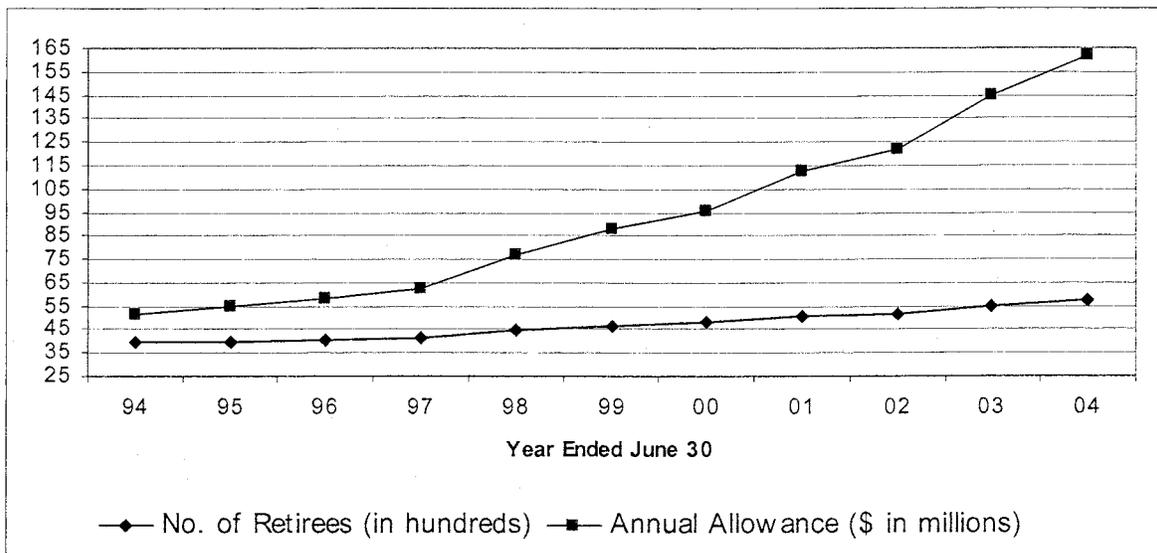
San Diego City Employees' Retirement System
Retirants and Beneficiaries - Comparative Statement

<u>Valuation Date</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>Average Allowance</u>	<u>Percent Increase</u>	<u>Present Value of Allowances</u>	<u>Percent Increase</u>
6/30/94 ¹	3,920	\$51,503,636	\$13,139	3.4%	\$565,913,075	5.2%
6/30/95	3,966	\$54,404,975	\$13,718	4.4%	\$605,776,749	7.0%
6/30/96	4,052	\$58,224,674	\$14,369	4.7%	\$647,228,431	6.8%
6/30/97	4,123	\$62,672,105	\$15,201	5.8%	\$699,534,837	8.1%
6/30/98 ^{1,2}	4,419	\$76,507,181	\$17,313	13.9%	\$885,585,652	26.6%
6/30/99 ²	4,657	\$87,823,437	\$18,858	8.9%	\$1,026,394,505	15.9%
6/30/00	4,789	\$95,348,751	\$19,910	5.6%	\$1,114,872,745	8.6%
6/30/00	4,789	\$95,348,751	\$19,910	5.6%	\$1,170,074,966 ³	14.0%
6/30/01	5,012	\$112,637,558	\$22,474	12.9%	\$1,337,799,454	14.3%
6/30/02	5,143	\$121,554,577	\$23,635	5.2%	\$1,440,392,422	7.7%
6/30/03	5,467	\$144,916,588	\$26,508	12.2%	\$1,741,489,957	20.9%
6/30/04	5,723	\$161,294,618	\$28,184	6.3%	\$1,946,660,328	11.8%

¹ Reflects revised actuarial assumptions

² Reflects increased activity due to DROP program

³ Reflects non-contingent Corbett benefit increase, estimated value of retroactive payments and increased DROP payments



San Diego City Employees' Retirement System
Retirants and Beneficiaries June 30, 2004
Tabulated by Attained Ages and Benefit Effective Date¹

General Members

<u>Plan Year</u>	<u>0-49</u>	<u>50-59</u>	<u>60-64</u>	<u>65-69</u>	<u>70-74</u>	<u>75-79</u>	<u>80-89</u>	<u>90+</u>	<u>Totals</u>
Before									
1985	2	20	15	18	27	52	319	98	551
1985	2	2	1	4	3	14	36	0	62
1986	1	1	2	0	4	29	41	1	79
1987	0	2	1	2	7	17	38	2	69
1988	0	3	2	2	19	20	30	4	80
1989	0	0	1	3	17	29	26	3	79
1990	2	5	2	3	27	47	31	3	120
1991	2	5	0	4	22	38	19	1	91
1992	3	3	2	12	20	41	17	1	99
1993	7	3	8	24	44	45	20	0	151
1994	5	10	5	18	18	16	13	0	85
1995	10	6	2	20	26	13	15	2	94
1996	6	9	13	25	26	11	18	6	114
1997	10	10	22	25	34	11	11	2	125
1998	12	11	45	57	16	16	18	2	177
1999	7	10	68	54	20	13	10	4	186
2000	13	17	66	42	15	13	15	2	183
2001	10	61	74	56	21	8	15	1	246
2002	7	49	28	23	13	8	18	3	149
2003	3	192	101	47	17	9	17	2	388
2004	5	142	64	28	8	5	17	2	271
TOTALS	107	561	522	467	404	455	744	139	3,399

¹ Surviving Spouses Benefit Effective Date no longer based on member's original date of retirement.

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age at
Retirement/Disability: 57.8
Attained Age: 69.9
Annual Pension: \$21,369

San Diego City Employees' Retirement System
Retirants and Beneficiaries June 30, 2004
Tabulated by Attained Ages and Benefit Effective Date¹

Safety Members

<u>Plan Year</u>	<u>0-49</u>	<u>50-59</u>	<u>60-64</u>	<u>65-69</u>	<u>70-74</u>	<u>75-79</u>	<u>80-89</u>	<u>90+</u>	<u>Totals</u>
Before									30
1985	2	82	58	58	65	111	150	26	552
1985	2	8	0	5	8	6	1	0	30
1986	1	6	7	5	11	9	3	0	42
1987	1	7	4	7	10	5	3	2	39
1988	2	4	3	5	2	0	4	0	20
1989	1	9	5	22	18	4	6	0	65
1990	5	11	5	17	18	2	3	1	62
1991	5	9	5	16	12	0	5	1	53
1992	5	10	6	11	3	1	2	0	38
1993	13	15	23	80	24	3	6	3	167
1994	17	15	6	9	2	1	5	1	56
1995	9	9	17	12	0	2	1	2	52
1996	16	13	20	7	6	2	9	0	73
1997	12	32	83	21	7	0	5	0	160
1998	11	35	59	8	1	1	4	2	121
1999	16	69	53	6	2	1	7	0	154
2000	12	73	25	1	1	2	8	1	123
2001	14	110	12	2	1	4	1	1	145
2002	7	87	10	2	1	1	0	3	111
2003	6	112	12	1	3	2	7	0	143
2004	7	89	8	5	2	1	6	0	118
TOTALS	164	805	421	300	197	158	236	43	2,324

¹ Surviving Spouses Benefit Effective Date no longer based on member's original date of retirement.

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age at
Retirement/Disability: 49.2
Attained Age: 63.2
Annual Pension: \$38,150

San Diego City Employees' Retirement System
 Retirants and Beneficiaries June 30, 2004
 Tabulated by Attained Ages and Benefit Effective Date¹

Total Members

<u>Plan Year</u>	<u>0-49</u>	<u>50-59</u>	<u>60-64</u>	<u>65-69</u>	<u>70-74</u>	<u>75-79</u>	<u>80-89</u>	<u>90+</u>	<u>Totals</u>
Before									
1985	4	102	73	76	92	163	469	124	1,103
1985	4	10	1	9	11	20	37	0	92
1986	2	7	9	5	15	38	44	1	121
1987	1	9	5	9	17	22	41	4	108
1988	2	7	5	7	21	20	34	4	100
1989	1	9	6	25	35	33	32	3	144
1990	7	16	7	20	45	49	34	4	182
1991	7	14	5	20	34	38	24	2	144
1992	8	13	8	23	23	42	19	1	137
1993	20	18	31	104	68	48	26	3	318
1994	22	25	11	27	20	17	18	1	141
1995	19	15	19	32	26	15	16	4	146
1996	22	22	33	32	32	13	27	6	187
1997	22	42	105	46	41	11	16	2	285
1998	23	46	104	65	17	17	22	4	298
1999	23	79	121	60	22	14	17	4	340
2000	25	90	91	43	16	15	23	3	306
2001	24	171	86	58	22	12	16	2	391
2002	14	136	38	25	14	9	18	6	260
2003	9	304	113	48	20	11	24	2	531
2004	12	231	72	33	10	6	23	2	389
TOTALS	271	1,366	943	767	601	613	980	182	5,723

¹ Surviving Spouses Benefit Effective Date no longer based on member's original date of retirement.

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age at
 Retirement/Disability: 54.2
 Attained Age: 67.2
 Annual Pension: \$28,184

Active Members June 30, 2004
by Attained Ages and Years of Service

GENERAL MEMBERS (Excludes DROP members)

Age Group	Years of Accrued Service													Total		
	0-1	1-2	2-3	3-4	4-5	5-9	10-14	15-19	20-24	25-29	30-34	35 & Up				
20-24 NO.	29	23	30	8	3	1	0	0	0	0	0	0	0	0	0	94
TOT PAY	893,766	773,831	889,481	245,014	87,870	38,220	0	0	0	0	0	0	0	0	0	2,928,180
AVG PAY	30,820	33,645	29,649	30,627	29,290	38,220	0	0	0	0	0	0	0	0	0	31,151
25-29 NO.	57	63	94	93	56	59	3	0	0	0	0	0	0	0	0	425
TOT PAY	2,081,733	2,483,971	3,824,328	3,943,526	2,459,165	2,517,200	135,325	0	0	0	0	0	0	0	0	17,445,248
AVG PAY	36,522	39,428	40,684	42,404	43,914	42,664	45,108	0	0	0	0	0	0	0	0	41,048
30-34 NO.	36	60	99	104	70	223	99	1	0	0	0	0	0	0	0	692
TOT PAY	1,471,536	2,376,833	4,181,512	4,863,464	3,370,707	11,061,664	4,585,381	52,728	0	0	0	0	0	0	0	31,983,824
AVG PAY	40,876	39,614	42,237	46,764	48,153	49,604	46,317	52,728	0	0	0	0	0	0	0	46,190
35-39 NO.	27	44	85	82	89	301	294	132	4	0	0	0	0	0	0	1,058
TOT PAY	973,043	1,781,042	3,432,697	3,615,811	4,079,358	14,729,270	15,396,916	7,226,335	167,742	0	0	0	0	0	0	51,402,212
AVG PAY	36,039	40,478	40,385	44,095	45,835	48,934	52,370	54,745	41,936	0	0	0	0	0	0	48,584
40-44 NO.	32	30	67	74	46	285	360	333	136	14	0	0	0	0	0	1,377
TOT PAY	1,295,996	1,186,677	2,938,612	3,208,145	2,113,968	13,971,185	18,174,178	18,675,475	8,014,881	779,116	0	0	0	0	0	70,358,233
AVG PAY	40,500	39,556	43,860	43,353	45,956	49,022	50,484	56,083	58,933	55,651	0	0	0	0	0	51,095
45-49 NO.	21	24	57	52	55	219	297	307	270	110	10	2	0	0	0	1,424
TOT PAY	702,570	915,433	2,596,830	2,292,741	2,413,268	10,305,050	14,773,450	16,278,784	15,749,997	6,296,063	617,769	131,968	0	0	0	73,073,921
AVG PAY	33,456	38,143	45,558	44,091	43,878	47,055	49,742	53,025	58,333	57,237	61,777	65,984	0	0	0	51,316
50-54 NO.	13	14	39	39	21	156	195	255	229	164	119	29	0	0	0	1,273
TOT PAY	582,685	613,856	1,808,441	1,669,965	995,648	7,911,630	10,197,170	13,518,486	13,390,209	9,729,178	7,295,332	1,488,115	0	0	0	69,200,716
AVG PAY	44,822	43,847	46,370	42,820	47,412	50,716	52,293	53,014	58,473	59,324	61,305	51,314	0	0	0	54,360
55-59 NO.	9	6	14	25	20	87	79	151	61	57	35	11	0	0	0	555
TOT PAY	355,202	299,545	638,288	1,078,819	962,318	4,065,857	3,902,240	8,124,330	3,665,320	3,184,619	2,337,123	700,665	0	0	0	29,314,326
AVG PAY	39,467	49,924	45,592	43,153	48,116	46,734	49,395	53,804	60,087	55,871	66,775	63,697	0	0	0	52,819
60-64 NO.	4	3	6	4	3	30	41	51	11	11	8	2	0	0	0	174
TOT PAY	178,568	160,888	299,125	197,680	110,063	1,504,387	2,192,753	2,607,344	650,501	654,649	589,844	90,917	0	0	0	9,236,720
AVG PAY	44,642	53,629	49,854	49,420	36,688	50,146	53,482	51,124	59,136	59,514	73,731	45,459	0	0	0	53,085
65-99 NO.	1	0	4	1	1	12	9	10	3	2	2	0	0	0	0	45
TOT PAY	38,480	0	153,858	33,696	36,816	523,099	242,033	471,095	70,814	80,496	76,856	0	0	0	0	1,727,242
AVG PAY	38,480	0	38,465	33,696	36,816	43,592	26,893	47,110	23,605	40,248	38,428	0	0	0	0	38,383
TOT NO.	229	267	495	482	364	1,373	1,377	1,240	714	358	174	44	0	0	0	7,117
TOT AMT	8,573,577	10,592,075	20,763,170	21,148,861	16,629,182	66,627,562	69,599,446	66,954,577	41,709,463	20,724,121	10,916,924	2,411,664	0	0	0	356,650,622
AVG AMT	37,439	39,671	41,946	43,877	45,685	48,527	50,544	53,996	58,417	57,889	62,741	54,811	0	0	0	50,112

Active Members June 30, 2004
by Attained Ages and Years of Service

SAFETY MEMBERS (Excludes DROP members)

Age Group	Years of Accrued Service											Total			
	0-1	1-2	2-3	3-4	4-5	5-9	10-14	15-19	20-24	25-29	30-34		35 & Up		
20-24 NO.	12	7	3	4	1	0	0	0	0	0	0	0	0	0	27
TOT PAY	487,744	330,631	123,540	238,185	64,224	0	0	0	0	0	0	0	0	0	1,244,322
AVG PAY	40,645	47,233	41,180	59,546	64,224	0	0	0	0	0	0	0	0	0	46,086
25-29 NO.	23	31	43	41	23	36	1	0	0	0	0	0	0	0	198
TOT PAY	871,533	1,548,374	2,536,293	2,572,558	1,544,017	2,264,690	64,224	0	0	0	0	0	0	0	11,401,690
AVG PAY	37,893	49,948	58,984	62,745	67,131	62,908	64,224	0	0	0	0	0	0	0	57,584
30-34 NO.	14	21	33	50	52	200	31	0	0	0	0	0	0	0	401
TOT PAY	568,292	1,055,793	1,961,260	3,180,054	3,382,629	13,293,280	2,114,060	0	0	0	0	0	0	0	25,555,367
AVG PAY	40,592	50,276	59,432	63,601	65,051	66,466	68,195	0	0	0	0	0	0	0	63,729
35-39 NO.	5	6	13	21	23	175	204	94	0	0	0	0	0	0	541
TOT PAY	200,596	297,419	771,680	1,294,948	1,475,658	11,738,372	14,464,684	6,738,981	0	0	0	0	0	0	36,982,338
AVG PAY	40,119	49,570	59,360	61,664	64,159	67,076	70,905	71,691	0	0	0	0	0	0	68,359
40-44 NO.	7	1	5	8	11	78	186	280	91	2	0	0	0	0	669
TOT PAY	318,365	64,224	291,992	487,272	690,955	5,272,619	13,182,851	20,801,616	6,970,488	139,156	0	0	0	0	48,219,537
AVG PAY	45,481	64,224	58,398	60,909	62,814	67,598	70,876	74,291	76,599	69,578	0	0	0	0	72,077
45-49 NO.	0	1	3	5	4	21	51	158	225	93	0	0	0	0	561
TOT PAY	0	47,154	173,493	314,452	262,301	1,382,220	3,489,029	11,570,133	17,540,815	7,358,127	0	0	0	0	42,137,724
AVG PAY	0	47,154	57,831	62,890	65,575	65,820	68,412	73,229	77,959	79,120	0	0	0	0	75,112
50-54 NO.	1	0	2	3	0	8	20	31	75	59	6	0	0	0	205
TOT PAY	62,504	0	219,917	196,766	0	535,708	1,417,342	2,259,909	5,725,520	4,759,158	555,959	0	0	0	15,732,783
AVG PAY	62,504	0	109,959	65,589	0	66,964	70,867	72,900	76,340	80,664	92,660	0	0	0	76,745
55-59 NO.	0	0	1	0	0	1	3	4	7	8	2	0	0	0	26
TOT PAY	0	0	62,566	0	0	69,821	197,476	274,531	531,055	639,964	99,824	0	0	0	1,875,236
AVG PAY	0	0	62,566	0	0	69,821	65,825	68,633	75,865	79,996	49,912	0	0	0	72,124
60-64 NO.	1	0	0	0	0	1	0	1	1	0	0	0	0	0	4
TOT PAY	174,614	0	0	0	0	70,450	0	66,498	69,759	0	0	0	0	0	381,320
AVG PAY	174,614	0	0	0	0	70,450	0	66,498	69,759	0	0	0	0	0	95,330
65-99 NO.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOT PAY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AVG PAY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOT NO.	63	67	103	132	114	520	496	568	399	162	8	0	0	0	2,632
TOT AMT	2,683,644	3,343,596	6,140,740	8,284,234	7,419,784	34,627,160	34,929,664	41,711,669	30,837,638	12,896,405	655,783	0	0	0	183,530,318
AVG AMT	42,598	49,904	59,619	62,759	65,086	66,591	70,423	73,436	77,287	79,607	81,973	0	0	0	69,730

Active Members June 30, 2004
by Attained Ages and Years of Service

TOTAL MEMBERS (Excludes DROP members)

Age Group	Years of Accrued Service													Total		
	0-1	1-2	2-3	3-4	4-5	5-9	10-14	15-19	20-24	25-29	30-34	35 & Up				
20-24 NO.	41	30	33	12	4	1	0	0	0	0	0	0	0	0	0	121
TOT PAY	1,381,509	1,104,461	1,013,020	483,199	152,094	38,220	0	0	0	0	0	0	0	0	0	4,172,503
AVG PAY	33,695	36,815	30,698	40,267	38,023	38,220	0	0	0	0	0	0	0	0	0	34,483
25-29 NO.	80	94	137	134	79	95	4	0	0	0	0	0	0	0	0	623
TOT PAY	2,953,265	4,032,346	6,360,621	6,516,085	4,003,183	4,781,890	199,549	0	0	0	0	0	0	0	0	28,846,938
AVG PAY	36,916	42,897	46,428	48,627	50,673	50,336	49,887	0	0	0	0	0	0	0	0	46,303
30-34 NO.	50	81	132	154	122	423	130	1	0	0	0	0	0	0	0	1,093
TOT PAY	2,039,827	3,432,626	6,142,771	8,043,517	6,753,336	24,354,944	6,699,441	52,728	0	0	0	0	0	0	0	57,519,190
AVG PAY	40,797	42,378	46,536	52,231	55,355	57,577	51,534	52,728	0	0	0	0	0	0	0	52,625
35-39 NO.	32	50	98	103	112	476	498	226	4	0	0	0	0	0	0	1,599
TOT PAY	1,173,638	2,078,461	4,204,377	4,910,758	5,555,016	26,467,641	29,861,600	13,965,317	167,742	0	0	0	0	0	0	88,384,550
AVG PAY	36,676	41,569	42,902	47,677	49,598	55,604	59,963	61,793	41,935	0	0	0	0	0	0	55,275
40-44 NO.	39	31	72	82	57	363	546	613	227	16	0	0	0	0	0	2,046
TOT PAY	1,614,361	1,250,902	3,230,604	3,695,416	2,804,924	19,243,804	31,357,029	39,477,091	14,985,368	918,272	0	0	0	0	0	118,577,770
AVG PAY	41,394	40,352	44,869	45,066	49,209	53,013	57,430	64,400	66,015	57,392	0	0	0	0	0	57,956
45-49 NO.	21	25	60	57	59	240	348	465	495	203	10	2	0	0	0	1,985
TOT PAY	702,570	962,587	2,770,323	2,607,194	2,675,568	11,687,270	18,262,479	27,848,917	33,290,811	13,654,190	617,769	131,968	0	0	0	115,211,645
AVG PAY	33,456	38,503	46,172	45,740	45,349	48,697	52,478	59,890	67,254	67,262	61,777	65,984	0	0	0	58,041
50-54 NO.	14	14	41	42	21	164	215	286	304	223	125	29	0	0	0	1,478
TOT PAY	645,189	613,856	2,028,358	1,866,731	995,648	8,447,339	11,614,511	15,778,395	19,115,729	14,488,337	7,851,291	1,488,115	0	0	0	84,933,499
AVG PAY	46,085	43,847	49,472	44,446	47,412	51,508	54,021	55,169	62,881	64,970	62,810	51,314	0	0	0	57,465
55-59 NO.	9	6	15	25	20	88	82	155	68	65	37	11	0	0	0	581
TOT PAY	355,202	299,545	700,854	1,078,819	962,318	4,135,679	4,099,715	8,398,861	4,196,375	3,824,583	2,436,947	700,665	0	0	0	31,189,562
AVG PAY	39,467	49,924	46,724	43,153	48,116	46,996	49,997	54,186	61,711	58,840	65,863	63,697	0	0	0	53,683
60-64 NO.	5	3	6	4	3	31	41	52	12	11	8	2	0	0	0	178
TOT PAY	353,182	160,888	299,125	197,680	110,063	1,574,837	2,192,754	2,673,842	720,260	654,649	589,844	90,917	0	0	0	9,618,041
AVG PAY	70,636	53,629	49,854	49,420	36,688	50,801	53,482	51,420	60,022	59,514	73,731	45,458	0	0	0	54,034
65-99 NO.	1	0	4	1	1	12	9	10	3	2	2	0	0	0	0	45
TOT PAY	38,480	0	153,858	33,696	36,816	523,099	242,033	471,095	70,814	80,496	76,856	0	0	0	0	1,727,242
AVG PAY	38,480	0	38,464	33,696	36,816	43,592	26,893	47,110	23,605	40,248	38,428	0	0	0	0	38,383
TOT NO.	292	334	598	614	478	1,893	1,873	1,808	1,113	520	182	44	0	0	0	9,749
TOT AMT	11,257,222	13,935,671	26,903,911	29,433,095	24,048,966	101,254,722	104,529,111	108,666,246	72,547,100	33,620,526	11,572,707	2,411,664	0	0	0	540,180,941
AVG AMT	38,552	41,724	44,990	47,937	50,312	53,489	55,808	60,103	65,182	64,655	63,586	54,811	0	0	0	55,409

San Diego City Employees' Retirement System
Summary of Active Members
to be used in the June 30, 2004 Actuarial Valuation

	<u>No.</u>	<u>Annual Compensation</u>	<u>Averages</u>			<u>Service Without Permissive Service Purchased</u>
			<u>Annual Compensation</u>	<u>Age</u>	<u>Total Service</u>	
GENERAL MEMBERS						
General						
6/30/2004	7,107	\$355,773,501	\$50,060	43.8	12.4	10.8
6/30/2003	7,406	356,055,141	48,077	43.3	11.1	10.2
Percent Increase	-4.0%	-0.1%	4.1%			
Elected Officers						
6/30/2004	10	877,121	87,712	43.2	12.7	8.2
6/30/2003	10	842,920	84,292	42.2	10.2	7.2
Percent Increase	0.0%	4.1%	4.1%			
Total General						
6/30/2004	7,117	\$356,650,622	\$50,112	43.8	12.4	10.8
6/30/2003	7,416	356,898,061	48,125	43.3	11.1	10.2
Percent Increase	-4.0%	-0.1%	4.1%			

As of June 30, 2004

2,485 General members, currently active, have purchased 11,587 years of "permissive" service

San Diego City Employees' Retirement System
Summary of Active Members
to be used in the June 30, 2004 Actuarial Valuation

		<u>Averages</u>				<u>Service Without Permissive Service Purchased</u>
	<u>No.</u>	<u>Annual Compensation</u>	<u>Annual Compensation</u>	<u>Age</u>	<u>Total Service</u>	
SAFETY MEMBERS						
Police						
6/30/2004	1,810	\$126,412,609	\$69,841	40.1	13.4	13.0
6/30/2003	1,852	121,161,429	65,422	39.7	12.7	12.5
Percent Increase	-2.3%	4.3%	6.8%			
Fire						
6/30/2004	733	51,821,682	70,698	40.5	13.9	12.8
6/30/2003	746	50,509,743	67,707	40.4	13.3	12.6
Percent Increase	-1.7%	2.6%	4.4%			
Lifeguard						
6/30/2004	89	5,296,027	59,506	38.5	10.1	9.1
6/30/2003	86	5,026,172	58,444	37.8	8.8	8.7
Percent Increase	3.5%	5.4%	1.8%			
Total Safety						
6/30/2004	2,632	183,530,318	69,730	40.2	13.4	12.8
6/30/2003	2,684	176,697,344	65,834	39.8	12.7	12.4
Percent Increase	-1.9%	3.9%	5.9%			
Grand Total						
6/30/2004	9,749	\$540,180,941	\$55,409	42.8	12.7	11.3
6/30/2003	10,100 ¹	533,595,405	52,831	42.4	11.5	10.8
Percent Increase	-3.5%	1.2%	4.9%			

¹Approximately 225 active members were reclassified as inactive for 2004.

As of June 30, 2004

498 Safety members, currently active, have purchased 1,715 years of "permissive" service
2,983 City members, currently active, have purchased 13,302 years of "permissive" service

San Diego City Employees' Retirement System
Summary of Inactive Members
to be used in the June 30, 2004 Actuarial Valuation

	Inactive Members	Inactives - < 10 years of service	Member Contribution Balance	Averages			Age at Termination
				Contribution Balance	Age	Service	
General Members							
6/30/2004	1,651	1,218	\$30,964,222	\$18,755	44.1	6.5	38.3
6/30/2003	1,513	1,135	25,009,506	16,530	44.0	6.3	38.5
Percent Increase	9.1%	7.3%	23.8%	13.5%			
Safety Members							
6/30/2004	233	146	8,087,545	34,710	40.9	7.7	35.0
6/30/2003	210	139	6,475,243	30,834	40.6	7.2	34.8
Percent Increase	11.0%	5.0%	24.9%	12.6%			
Total City							
6/30/2004	1,884 ¹	1,364	\$39,051,767	\$20,728	43.7	6.7	37.9
6/30/2003	1,723	1,274	31,484,749	18,273	43.7	6.4	38.1
Percent Increase	9.3%	7.1%	24.0%	13.4%			

¹ Approximately 225 active members were reclassified as inactive for 2004.

As of June 30, 2004

There are 139 inactive members who have purchased 564 years of "permissive" service.

San Diego City Employees' Retirement System
Summary of Retired Members and Beneficiaries Included
to be used in the June 30, 2004 Actuarial Valuation
(City Only)

The following include DROP Retirements

	<u>No.</u>	<u>Annual Allowance</u>	<u>Annual Allowance</u>	<u>Attained Age</u>	<u>Averages</u>		<u>Service at Retirement</u>	<u>New Retirees²</u>	
					<u>Age at¹ Retirement</u>	<u>Age at Retirement</u>		<u>No.</u>	<u>Age</u>
General Members									
6/30/2004	3,399	\$72,634,781	\$21,369	69.9	57.8	23.1	226	58.1	\$36,719
6/30/2003	3,223	63,212,711	19,613	70.2	57.9	22.8	332	58.6	43,399
Percent Increase	5.5%	14.9%	9.0%						
Safety Members									
6/30/2004	2,324	88,659,837	38,150	63.2	49.2	22.7	87	52.2	64,018
6/30/2003	2,244	81,703,877	36,410	62.9	49.1	22.5	138	52.8	62,011
Percent Increase	3.6%	8.5%	4.8%						
6/30/04 Grand Total	5,723	\$161,294,618	\$28,184	67.2	54.2	22.9	313	56.5	\$44,307
6/30/03 Grand Total	5,467	144,916,588	26,508	67.2	54.2	22.7	470	56.9	\$48,864
Percent Increase	4.7%	11.3%	6.3%						

As of June 30, 2004

640 General retirees have purchased 2,942 years of "permissive" service before retirement.

207 Safety retirees have purchased 492 years of "permissive" service before retirement.

¹ Retirees and disabilities only; beneficiaries excluded

² DROP members who retire are not included as new retirees.

San Diego City Employees' Retirement System
Summary of DROP Members
to be used in the June 30, 2004 Actuarial Valuation

	DROP Averages						New DROPS		
	No.	Annual Allowance	Annual Allowance	Attained Age	Age at Drop	Service at Drop	No.	Age	Annual Allowance
DROP General									
6/30/2004	410	\$17,347,798	\$42,312	60.0	58.5	27.9	150	58.4	\$40,107
6/30/2003	347	14,809,595	42,679	59.7	58.4	28.7	231	58.5	47,375
Percent Increase	18.2%	17.1%	-0.9%						
DROP Lifeguard									
6/30/2004	3	229,613	76,538	51.8	50.2	32.4	1	50.5	121,937
6/30/2003	2	105,565	52,783	51.4	50.0	30.5	1	50.1	55,704
Percent Increase	50.0%	117.5%	45.0%						
DROP Police									
6/30/2004	194	12,293,665	63,369	55.1	52.7	25.7	42	52.3	63,230
6/30/2003	209	12,995,578	62,180	55.3	53.0	25.9	53	53.0	61,947
Percent Increase	-7.2%	-5.4%	1.9%						
DROP Fire									
6/30/2004	174	12,025,060	69,110	55.7	53.3	28.2	29	53.3	74,830
6/30/2003	174	11,543,187	66,340	55.5	53.4	28.5	63	53.2	66,796
Percent Increase	0.0%	4.2%	4.2%						
DROP Grand Total									
6/30/2004	781	\$41,896,136	\$53,644	57.8	55.9	27.4	222	56.6	\$49,386
6/30/2003	732	39,453,925	53,899	57.4	55.6	27.9	348	56.7	53,134
Percent Increase	6.7%	6.2%	-0.5%						

ACTUARIAL COST METHODS, ACTUARIAL ASSUMPTIONS

AND

DEFINITIONS OF TECHNICAL TERMS

San Diego City Employees' Retirement System

Actuarial Cost Methods - June 30, 2004

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using the Projected Unit Credit actuarial cost method.

Financing of Unfunded Actuarial Accrued Liability. The balance of unfunded actuarial accrued liabilities was amortized by level (principal & interest combined) percent of payroll contributions over a 29-year period as mandated by the "Gleason" legal settlement.

Active member payroll in aggregate was assumed to increase 4.25% a year for the purpose of determining the level percent contributions, although individual annual compensation increase rates will increase by at least 4.75% per year for the purpose of projecting individual benefits.

Deferred Member Actuarial Accrued Liability. Typically, data provided includes date of hire, date of birth, date of termination, and last pay. Based on the data reported, 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, accumulated member contribution balances, with interest, were used as the actuarial accrued liability.

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

The contribution requirements and benefit values of the Fund are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described on the previous page.

The principal areas of financial risk which require assumptions about future experiences are:

- (i) long-term rates of investment return to be generated by the assets of the Fund.
- (ii) patterns of pay increases to members.
- (iii) rates of mortality among members, retirants, and beneficiaries.
- (iv) rates of withdrawal of active members (without entitlement to a retirement benefit).
- (v) rates of disability among members.
- (vi) the age patterns of actual retirements.

In making a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives -- a period of time which can be as long as a century.

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Actual experience of the system will not coincide exactly with assumed experience, 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).

(Continued on Next Page)

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

The investment return rate used for the actuarial valuation calculations was 8.0% a year, net of administrative expenses, compounded annually. This assumption is used to equate the value of payments due at different points in time. The rate is comprised of two elements:

Inflation	4.25%
Real Rate of Return	<u>3.75%</u>
Total	8.00%

Administrative expenses have averaged 0.3% over the last three valuations. Since the 8.0% assumed rate of return is currently net of administrative expenses, the comparable gross rate would be 8.3%. Currently, no administrative expenses are explicitly recognized in the valuation.

The Inflation rate used for the actuarial valuation calculations was 4.25% per year compounded annually. It represents the difference between the investment return rate and the assumed real rate of return.

Inflation actually experienced, as measured by the Consumer Price Index for urban wage earners, has been as follows:

Consumer Price Index	
Urban Wage Earner and Clerical Workers Before 1978	
All Urban Consumers After 1977	
<u>10 Year Moving Averages</u>	
June 30, 1964	1.4%
June 30, 1974	4.7%
June 30, 1984	7.8%
June 30, 1994	3.6%
June 30, 2004	2.5 %
 50-Year Average 4.0%	

Interest credited to member contributions is 8.0%, compounded annually.

Salary increase rates used to project current pays to those upon which a benefit will be based are represented by the following table. Rates do not vary by age, but do reflect an added merit component, starting with the 1998 valuation, for those with 0-4 years of service at the valuation date.

Inflation	4.25%
Merit and Longevity	<u>0.50%</u>
Total	4.75%

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

(Continued)

The additional merit component is:

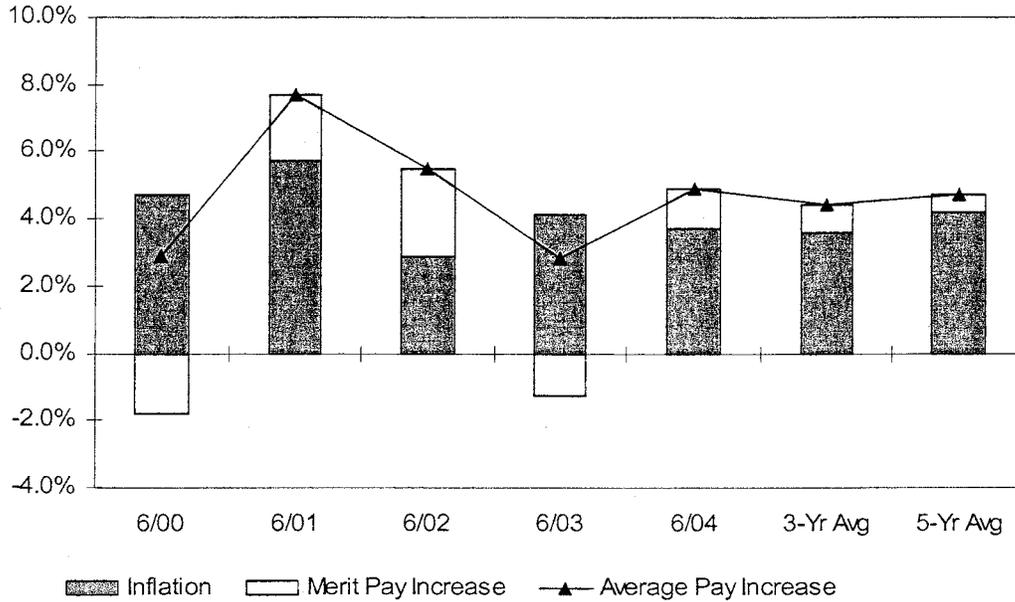
Years of Service at Valuation <u>Date</u>	<u>General</u>	<u>Safety</u>	
		<u>Old</u> <u>Assumptions</u>	<u>New Assumptions</u>
0	4.5%	6.5%	7.5%
1	3.5%	5.5%	6.5%
2	2.5%	4.5%	5.5%
3	1.5%	3.0%	3.0%
4	0.5%	1.5%	1.5%

The assumed, annual cost-of-living adjustment is generally 2% per annum, compounded. There is a closed group of 102 special safety officers whom we assume an annual adjustment equal to inflation (4.25% per year).

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

(Continued)

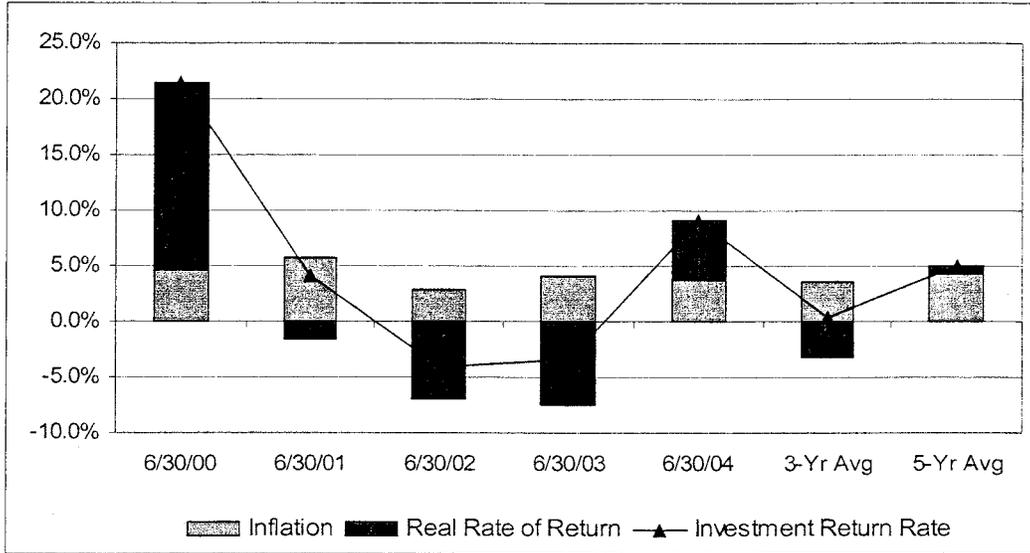
Salary Increase Analysis



<u>Valuation Date</u>	<u>No.</u>	<u>Total Payroll</u>	<u>Percent Increase</u>	<u>Average Salary</u>	<u>Percent Increase</u>
6/30/92	8,991	\$312,490,764	9.2%	\$34,756	3.9%
6/30/93	8,615	\$320,623,685	2.6%	\$37,217	7.1%
6/30/94	8,893	\$338,440,247	5.6%	\$38,057	2.2%
6/30/95	9,060	\$350,583,835	3.6%	\$38,696	1.7%
6/30/96	9,198	\$365,088,750	4.1%	\$39,692	2.6%
6/30/97	9,312	\$382,715,084	4.8%	\$41,099	3.5%
6/30/98	9,359	\$399,035,094	4.3%	\$42,637	3.7%
6/30/99	9,654	\$424,515,969	6.4%	\$43,973	3.1%
6/30/00	9,913	\$448,501,827	5.7%	\$45,244	2.9%
6/30/01	9,892	\$481,863,319	7.4%	\$48,712	7.7%
6/30/02	10,409	\$535,156,545	11.1%	\$51,413	5.5%
6/30/03	10,100	\$533,595,405	-0.3%	\$52,831	2.8%
6/30/04	9,749	\$540,180,941	1.2%	\$55,409	4.9%

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

(Continued)



San Diego City Employees' Retirement Association
Comparison of Selected Actuarial Assumptions To Actual Experience

(Continued)

The salary increase assumptions project annual increases in total member payroll of 4.25%, the inflation portion of the individual pay increase assumptions. In effect, this assumes no change in the number of active members. Changes actually experienced in areas related to these assumptions have been as follows:

	Year Ended					3-year Average	5-year Average
	<u>6/30/04</u>	<u>6/30/03</u>	<u>6/30/02</u>	<u>6/30/01</u>	<u>6/30/00</u>		
Inflation ¹	3.7%	4.1%	2.9%	5.7%	4.7%	3.6%	4.2%
Assumed						4.25 ²	4.25 ²
Average Pay Increase	4.9	2.8	5.5	7.7	2.9	4.4	4.7
Assumed						4.25 ²	4.25 ²
Merit & Longevity Increase	1.2	(1.3)	2.6	2.0	(1.8)	0.8	0.5
Assumed						0.5	0.5
Total Payroll	1.2	(0.3)	11.1	7.4	5.7	3.9	4.9
Assumed						4.25 ²	4.25 ²
Investment Return Rate ⁴	9.4	(3.4)	(4.1)	4.1	21.4	0.4	5.1
Assumed						8.0	8.0
Real Rate of Investment Return	5.7	(7.5)	(7.0)	(1.6)	16.7	(3.1)	0.9
Assumed						3.75 ³	3.75 ³
Administrative Expenses ⁵	0.4	0.3	0.3	0.2	0.2	0.3	0.3
(Percentage of total assets)							
Assumed						0.0	0.0

¹ Based on Consumer Price Index for San Diego, All Items, 1982-84=100.

² Reduced from 4.5% for 1998 valuation.

³ Increased from 3.5% for 1998 valuation.

⁴ Based on actuarial value of assets NOT market value or book value.

⁵ Excluding Investment Fees.

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

(Continued)

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

		% of Active Members Separating Within Next Year						
		Disability ¹			Other ²			
					<u>Old Assumptions</u>		<u>New Assumptions</u>	
Sample	Years of	<u>General</u>						
<u>Ages</u>	<u>Service</u>	<u>General</u>	<u>Safety</u>	<u>Male</u>	<u>Female</u>	<u>Safety</u>	<u>General</u>	<u>Safety</u>
All	0			4.3%	7.3%	4.4%	5.6%	2.20%
	1			4.3	7.2	4.4	5.5	2.20
	2			4.3	7.0	4.3	4.3	2.15
	3			4.3	6.9	4.1	4.3	2.05
	4			4.2	6.3	4.0	4.2	2.00
20	5 & Over	.06%	.54%	4.0	5.6	3.2	4.6	2.1
25		.08	.60	4.0	5.6	3.2	4.6	2.1
30		.10	.65	3.7	4.2	2.2	3.1	1.5
35		.16	.71	3.2	2.6	1.4	2.3	0.9
40		.22	.90	2.1	2.0	0.6	1.6	0.4
45		.33	1.15	1.7	1.6	0.3	1.3	0.2
50		.50	1.25	1.3	1.3	0.1	1.0	0.1
55		.75	1.50	0.9	1.0	0.0	0.8	0.0
60		.97	0.00	0.0	0.0	0.0	0.0	0.0

¹ 70% of the General Disabilities and 85% (Old Assumption - 100%) of the Safety Disabilities are assumed to be Industrial. Non-industrial disability is subject to service requirement.

² 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.

(Continued on Next Page)

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

(Continued)

The post-retirement mortality table used was the 1994 Uninsured Pension Mortality Table (sex distinct), set back 2 years for retirees, set forward 5 years (male table only) for General disabled retirees, and set forward 2 years (male table only) for Safety disabled retirees (Old assumptions – set forward 5 years for Safety disabled retirees). This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Related values are shown below.

Future Life Expectancy (Years)				
<u>Sample Ages</u>	<i>Retired</i>		<i>Disabled</i>	
	<u>Men</u>	<u>Women</u>	<u>General</u>	<u>Safety</u>
45	36.07	40.44	30.01	32.80
50	31.37	35.64	25.49	28.18
55	26.78	30.90	21.20	23.74
60	22.38	26.27	17.26	19.57
65	18.28	21.86	13.77	15.81
70	14.61	17.80	10.66	12.48
75	11.35	14.03	7.97	9.52
80	8.48	10.61	5.86	7.07

The active member mortality assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, service death, and death while eligible for retirement or disability.

Members Dying Within the Next Year						
Sample <u>Ages</u>	Active Members			Sample <u>Ages</u>	Service Retirants & Beneficiaries	
	<u>Men</u>	<u>Women</u>	<u>Safety</u>		<u>Men</u>	<u>Women</u>
30	.07%	.03%	.07%	45	0.15%	0.09%
35	.09	.04	.09	50	0.23	0.13
40	.09	.05	.09	55	0.39	0.21
45	.12	.08	.12	60	0.68	0.36
50	.17	.10	.17	65	1.23	0.72
55	.28	.15	.28	70	2.14	1.26

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

(Continued on Next Page)

San Diego City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2004 Valuation

(Continued)

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

Retirement Ages	Percent of Members Retiring Within the Next Year		
	Safety Members	General Members	Elected Officers
50	10%	--	--
51	10	--	--
52	10	--	--
53	10	--	15%
54	20	--	1
55	40	20%	5
56	40	10	3
57	40	10	4
58	50	15	5
59	80	15	6
60	85	20	60
61	90	25	25
62	100	50	37
63	100	40	23
64	100	25	34
65	100	50	68
66	100	40	69
67	100	40	74
68	100	40	80
69	100	40	90
70	100	100	100

New Assumption – 100% retirement at age 55 with 30 years of service for Safety.

For vested deferred members, we assume that retirement will occur provided they have 10 years of service (4 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 of 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 valued is the return of the member's employee contributions with interest.

San Diego City Employees' Retirement System

Actuarial Assumptions Used for the June 30, 2004 Valuation

(Concluded)

Member refunds. All or part of the employee contribution rate is subject to potential "pick up" by the employer. Such pick up and related accumulated interest are not to be refunded to employees at termination. The City's liability for potential refunds is reduced to reflect this.

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

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital Status: 80% of men and 50% of women were assumed married at retirement.

Spouse Census: Women were assumed to be 4 years younger than men.

Member Contributions for Spousal Continuance. Municipal Code §24.0521 dictates that all active members contribute towards a 50% survivor continuance. However, it also provides that members 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.

DEFINITIONS OF TECHNICAL TERMS

Actuarial Accrued Liability. The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Also referred to as "accrued liability" or "actuarial liability".

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.

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

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.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of retirement system benefits between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

Actuarial Gain (Loss). The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

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.

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

DEFINITIONS OF TECHNICAL TERMS

(Continued)

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

Pension Benefit Obligation. A standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

Unfunded Actuarial Accrued Liability. The difference between actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded actuarial liability" or "unfunded accrued liability".

Most retirement systems have unfunded actuarial accrued liability. They arise each time new benefits are added and each time an actuarial loss is realized.

The existence of unfunded actuarial accrued liability is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liability does not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount (after due allowance for devaluation of the dollar). Unfunded actuarial accrued liability should be controlled.

**APPENDIX A:
MEMBER CONTRIBUTION RATES**

San Diego City Employees' Retirement System

June 30, 2004 Actuarial Valuation

General Member Contribution Rates

Entry Age	Normal Plus Cost- Of-Living Rates	Entry Age	Normal Plus Cost- Of-Living Rates
16	9.18%	37	11.22%
17	9.18%	38	11.35%
18	9.18%	39	11.48%
19	9.18%	40	11.62%
20	9.18%	41	11.76%
21	9.28%	42	11.89%
22	9.39%	43	12.03%
23	9.50%	44	12.18%
24	9.60%	45	12.32%
25	9.73%	46	12.46%
26	9.85%	47	12.61%
27	9.96%	48	12.76%
28	10.08%	49	12.91%
29	10.20%	50	13.05%
30	10.32%	51	13.22%
31	10.45%	52	13.37%
32	10.57%	53	13.53%
33	10.69%	54	13.69%
34	10.81%	55	13.85%
35	10.95%	56	14.01%
36	11.08%	57	14.21%

Interest: 8.00%

Salary: 5.00%

Mortality: 83 GAM male (X-2, X-8)

Rates include cost of providing spouse's continuance and cost of funding final one-year average salary 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 contribute 9.05% of total salary, regardless of entry age.

The rates above include 0.65% currently paid from the Employee Contribution Rate Increase Reserve (See Comment H).

San Diego City Employees' Retirement System

June 30, 2004 Actuarial Valuation

Safety Member Contribution Rates

Entry Age	Normal Plus Cost-of-Living Rates					
	Police		Fire		Lifeguard	
20	11.86	%	11.55	%	11.20	%
21	12.02		11.71		11.36	
22	12.16		11.85		11.50	
23	12.32		12.01		11.66	
24	12.47		12.16		11.81	
25	12.64		12.33		11.98	
26	12.79		12.48		12.13	
27	12.96		12.65		12.30	
28	13.12		12.81		12.46	
29	13.29		12.98		12.63	
30	13.45		13.14		12.79	
31	13.62		13.31		12.96	
32	13.78		13.47		13.12	
33	13.95		13.64		13.29	
34	14.13		13.82		13.47	
35	14.31		14.00		13.65	
36	14.48		14.17		13.82	
37	14.66		14.35		14.00	
38	14.85		14.54		14.19	
39	15.03		14.72		14.37	
40	15.22		14.91		14.56	
41	15.41		15.10		14.75	
42	15.59		15.28		14.93	
43	15.79		15.48		15.13	
44	15.99		15.68		15.33	
45	16.17		15.86		15.51	
46	16.40		16.07		15.72	
47	16.58		16.27		15.92	
48	16.77		16.46		16.11	
49	16.97		16.66		16.31	

Interest: 8.00%

Salary: 5.00%

Mortality: 83 GAM male (X-2, X-8)

Rates include cost of providing spouse's continuance and cost of funding final one-year average salary 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.

The rates above include 0.65% currently paid from the Employee Contribution Rate Increase Reserve (See Comment H).

**APPENDIX B:
RETIREMENT AGE FACTORS**

San Diego City Employees' Retirement System

June 30, 2004 Actuarial Valuation

**Retirement Age Factors as Contained in
Article 4 of the San Diego Municipal Code**

(Selected Values Shown)

Multipliers For Active Members which reflect the "Corbett" settlement, including those who become Vested Deferred.

<u>Age</u>	<u>Police & Fire Option 1</u>	<u>Lifeguard Option 1</u>	<u>Safety Option 2</u>	<u>General Option 1</u>	<u>General Option 2</u>	<u>General Option 3</u>
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	2.99	2.77	3.00	2.00%	2.25%	2.50%
56	2.99	2.77	3.00	2.00	2.25	2.50
57	2.99	2.77	3.00	2.00	2.25	2.50
58	2.99	2.77	3.00	2.00	2.25	2.50
59	2.99	2.77	3.00	2.08	2.25	2.50
60	2.99	2.77	3.00	2.16	2.30	2.55
61	2.99	2.77	3.00	2.24	2.35	2.60
62	2.99	2.77	3.00	2.31	2.40	2.65
63	2.99	2.77	3.00	2.39	2.45	2.70
64	2.99	2.77	3.00	2.47	2.50	2.75
65+	2.99	2.77	3.00	2.55	2.55	2.80

Final average compensation shall be increased by 10% for Option 1 retirees.

Vested Deferred Members

<u>Termination Date</u>	<u>Retirement Age Factor</u>
Before January 1, 1997	See Page 53
January 1, 1997 to June 30, 2000	Option 1 (without 10% increase in FAC)
<i>Safety</i>	
July 1, 2000 and after	Option 1 with 10% increase in FAC; or Option 2
<i>General</i>	
July 1, 2000 to June 30, 2002	Option 1 with 10% increase in FAC; or Option 2
July 1, 2002 and after	Option 3

San Diego City Employees' Retirement System

June 30, 2004 Actuarial Valuation

**Retirement Age Factors as Contained in
Article 4 of the San Diego Municipal Code**

(Selected Values Shown)

Multipliers - Pre-1/1/97 Deferred Vested Terminations

<u>Age</u>	<u>Safety</u>			<u>General</u>
	<u>Police</u>	<u>Fire</u>	<u>Lifeguard</u>	
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	2.70	2.77	2.62	1.48%
56	2.77	2.77	2.62	1.55
57	2.77	2.77	2.62	1.63
58	2.77	2.77	2.62	1.72
59	2.77	2.77	2.62	1.81
60	2.77	2.77	2.62	1.92
61	2.77	2.77	2.62	1.99
62	2.77	2.77	2.62	2.09
63	2.77	2.77	2.62	2.20
64	2.77	2.77	2.62	2.31
65+	2.77	2.77	2.62	2.43