THE CITY OF SAN DIEGO
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: February 11, 2009

TO: Honorable Mayor Jerry Sanders, Council President Hueso and Members of the City Council

FROM: Jay M. Goldstone, Chief Operating Officer

SUBJECT: Monthly Pension Update

Given the current market volatility and out of an abundance of caution, I will be providing you with a monthly update regarding the impact changes in SDCERS plan assets are having on the City's Pension Plan and the potential budget implications. This information is for illustrative purposes only and is not required to be disclosed. To the best of my knowledge no other public agency is doing this; however, so long as the market continues to show large swings in gains and loses I will provide you with this information.

This will provide you with a general guide as to trends and possible budget impacts and will be distributed approximately 14 days following the end of each month in order to provide SDCERS with time to obtain market and actuarial information.

I want to stress that the actual budget impact to the City will be based upon the market value of plan assets as of June 30 of each year.

This information will also be posted on the City's website under the Investor web page.

Attachment

Cc: Jan Goldsmith, City Attorney
Mary Lewis, Chief Financial Officer
Lakshmi Kommi, Director of Debt Management
Andrea Tevlin, Independent Budget Analyst
Stan Keller, SEC Consultant

Monthly Pension Update

Global financial markets have experienced significant volatility over the last several months, with a significant decline in market value since September 2008. This volatility has had a negative impact on the San Diego City Employees' Retirement System's (SDCERS) portfolio. Although the actual impact on the *actuarial* value of SDCERS' plan assets cannot be determined without an official actuarial valuation, which occurs as of June 30 each year, SDCERS will be providing to the City the unaudited *market* values of plan assets and the recalculated pro forma actuarial value as of the end of each month. The market value represents, as of the date specified, the value of the plan assets if they were to be liquidated on that date. Unlike the market value, the actuarial value of plan assets is used to smooth the impact of annual investment return performance over multiple years, thereby reducing the impact of annual investment volatility on the City's Annual Required Contribution ("ARC"). Investment earnings is one component that impacts the ARC each year. Because the actuarial value as of June 30, 2009 will be used in determining the City's ARC for fiscal year 2011 (July 1, 2010 through June 30, 2011), the intervening market values are not determinative to that calculation. Nevertheless, the City believes that it may be useful to the investment community to be apprised of the monthly market values during this period of market instability. The chart that follows shows, for the City's portion of the SDCERS' plan, (i) information as of June 30, 2007 and June 30, 2008 (the date of the latest available actuarial information), including the funded ratio of plan assets to the actuarial liability, (ii) the market value of plan assets as of January 31, 2009, (iii) the actuarial valuation of plan assets as recalculated by SDCERS' actuary had the January 31, 2009 market value been the market value as of June 30, 2008, and (iv) the funded ratio as if this recalculated actuarial value had been the actuarial value on June 30, 2008.

UAL and Funded Ratio
($ in billions)

	Jun. 30, 2007[1]	Jun. 30, 2008[2]	Jan. 31, 2009
Actuarial Liability	$5.598	$5.964	$5.964[3]
Actuarial Value of Assets	$4.413	$4.663	$3.955
Market Value of Assets	$4.641	$4.420	$3.296[4]
Unfunded Actuarial Liability	$1.184	$1.301	$2.009
Funded Ratio[5]	78.8%	78.2%	66.3%

1. Source: June 30, 2007 Actuarial Valuation for the City of San Diego, Produced by Cheiron (Feb. 2008).
2. Source: June 30, 2008 Actuarial Valuation for the City of San Diego, Produced by Cheiron (Dec. 2008).
3. For illustrative purposes only and because the Actuarial Liability is only updated as of June 30 each year, the City is carrying forward the June 30, 2008 amount to January 31, 2009.
4. This is an approximation of the City of San Diego's portion of total plan assets.
5. Funded Ratio, within the meaning of Governmental Accounting Standards Board No. 27 (Nov. 1994), is equal to Actuarial Value of Assets divided by Actuarial Liability.

A decline in the market value of SDCERS' plan assets would have the effect of increasing the ARC. For example (all other factors being constant), if the market value at January 31, 2009 shown in the table above had been the market value as of June 30, 2008, the ARC forecast for fiscal year 2010 would increase by an approximate range of $22.8 million to $61.7 million from the $154.2 million that has been calculated by the SDCERS' actuary (this excludes the portion of employee contributions the City is contractually obligated to pay, which was approximately $18.27 million in fiscal year 2007). The difference in the range of increase depends on the actuarial method of smoothing used by SDCERS. The actual ARC in any year will depend on various factors, such as approved salary increases, mortality experience, retirement experience and actual market performance measured as of June 30 of the applicable year.

Actuarial Assumptions. The following are the principal actuarial assumptions used by SDCERS' actuary in preparing the valuation as of June 30, 2008 (as modified to reflect the adoption by SDCERS' Board of new actuarial assumptions effective June 30, 2008 based upon an experience study prepared by SDCERS' actuary):

1. Investment Return Rate: 7.75% a year, net of administrative expenses, compounded annually. The rate is comprised of two elements: a 4.00% inflation rate and a 3.75% real rate of return.

2. Inflation Rate: 4.00% a year, compounded annually.

3. Interest credited to member contributions: 7.75%, compounded annually.

4. Salary increase rates: 4.50% a year, comprised of a 4.00% inflation rate and a 0.50% merit and longevity component.

5. Annual Cost-of-Living Adjustment: 2% per year, compounded annually.

6. Additional Assumptions: additional assumptions were used regarding rates of separation from active membership, post-retirement mortality, active member mortality, and rates of retirement.