Summary and Frequently Asked Questions about the June 30, 2010 Actuarial Valuation for the San Diego Unified Port District

SUMMARY

The June 30, 2010 Actuarial Valuation for the San Diego Unified Port District (the "2010 Valuation") incorporates the same actuarial methods and assumptions used in the Port's June 30, 2009 actuarial valuation. With the actuarial method and assumption changes that were implemented in prior valuations, SDCERS has completed the transition to using the most widely accepted, industry-standard actuarial methods used by public pension plans.

FREQUENTLY ASKED QUESTIONS

1. Based on the June 30, 2010 Actuarial Valuation for the San Diego Unified Port District (the "2010 Valuation") what is the Port's 2010 Unfunded Actuarial Liability (UAL)?

Using the Entry Age Normal ("EAN") funding method, the Port's UAL as of June 30, 2010 was $76.7 million. *[See the 2010 Valuation Letter of Transmittal.]*

2. How does the 2010 UAL compare to the 2009 UAL?

It is $11.9 million higher. The primary cause of the increase was that the actuarial assets continued to phase-in the significant investment loss experienced during FY 2009. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 4.]*

3. What is the Port's 2010 funding ratio?

As of June 30, 2010, the Port's funding ratio, which is the ratio of the actuarial value of assets (after smoothing) over total actuarial liabilities, was 75.3%. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 3.]*

4. How does this compare to the Port's 2009 funding ratio?

It is 2.2% lower. As of June 30, 2009, the Port's funding ratio was 77.5%. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 3.]*

5. What is the Port's Annual Required Contribution (ARC) for FY 2012? (The ARC is the amount the Port will have to contribute to SDCERS on or after July 1, 2011.)

If paid in full in July 2011 as expected, the Port's ARC for FY 2012 will be $12.6 million (approximately 31.9% of payroll). If the Port pays the ARC evenly throughout FY 2012, the contribution will be $13.1 million (approximately 33.2% of payroll). *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 5.]*

6. What was the Port's ARC payment for FY 2011?

The Port's FY 2011 ARC was $11.5 million, and it was paid in full on July 1, 2010. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at page 5.]*

7. How is the Port's FY 2012 ARC calculated?

The Port's employer contributions are comprised of two components: the Normal Cost contribution and the UAL contribution.

Normal Cost represents, for each active Port employee, the present value (as of June 30, 2010) of the portion of the employee's projected retirement benefit assigned to FY 2012. By paying the Normal Cost, the Port pays a fixed percentage of salary to fund SDCERS for the value of benefits over each participant's career. If paid at the beginning of FY 2012, the Port's Normal Cost is $5.7 million.

The UAL portion of the employer contribution is an amount the Port pays each year to pay down any unfunded liabilities accrued over past years. The UAL is paid off ("amortized") over a period of years. The Port's total June 30, 2010 UAL of $76.7 million is split into several tiers, each using a different amortization period. These tiers are comprised of:

1. the $15.7 million remaining balance of the Port's June 30, 2007 UAL, now amortized over 11 years ($1.6 million of the FY 2012 ARC);

2. the $4.1 million UAL due to the impact of 2008 changes in actuarial assumptions that is amortized over 28 years ($0.2 million of the FY 2012 ARC);

3. the $0.9 million UAL due to the FY 2008 experience loss that is amortized over 13 years ($0.1 million of the FY 2012 ARC);

4. the $47.2 million UAL due to the FY 2009 experience loss that is amortized over 14 years ($4.2 million of the FY 2012 ARC); and

5. the $8.8 million UAL due to the FY 2010 experience loss that is amortized over 15 years ($0.8 million of FY 2012 ARC).

Adding the amortization amounts of each tier together results in an FY 2012 UAL amortization payment of $6.9 million. *[See the 2010 Valuation Letter of Transmittal and the 2010 Valuation at pages 5 and 24.]*

8. What was the market value of SDCERS' Trust Fund on June 30, 2010, and what was the Port's portion of this amount?

The market value of the assets in SDCERS' Trust Fund on June 30, 2010 was $4.177 billion. The Port's portion of this amount was $211.9 million. *[See the 2010 Valuation at page 15.]*

9. How does this compare to the June 30, 2009 market values?

The June 30, 2010 values are higher. The June 30, 2009 market value for the SDCERS Trust Fund was $3.715 billion, and the Port's portion of the Trust Fund was $186.6 million ($25.3 million less than at June 30, 2010). This increase is almost entirely due to an increase in the market value of investments, plus investment income, of $25.5 million. This reflects an investment return of 13.4% for the year. *[See the 2010 Valuation at page 15.]*

10. What is the actuary's assumed investment return for the SDCERS Trust Fund?

For the 2010 Valuation, SDCERS' actuary assumes a long-term average investment return of 7.75% for Trust Fund assets. *[See the 2010 Valuation at page 37.]*

11. What were the annualized investment returns of Trust Fund assets?

SDCERS' annualized investment returns at market value for the one, three, five and ten-year periods ended June 30, 2010, as reported by Hewitt EnnisKnupp, SDCERS' investment consultant, were 13.4%, -4.4%, 2.8%, and 4.5%, respectively. Annualized investment returns are different from the actuarial rate of return calculated by the actuary (e.g., 4.47% for the year ending June 30, 2010) because the actuary computes the actuarial return using the Expected Value of Assets smoothing method. *[See the 2010 Valuation at page 17.]*

12. How does the Expected Value of Assets smoothing method work?

The Expected Value of Assets smoothing method dampens the volatility in asset values that can occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

The actuarial value of assets each year is equal to 100% of the expected actuarial value of assets plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. In no event will the actuarial value of assets ever be less than 80% of the market value of assets nor greater than 120% of the market value of assets. This asset smoothing corridor did not apply in the June 30, 2010 valuation, as the Port's actuarial value of assets of $233.8 million was 110% of the Port's market value of assets of $211.9 million. *[See the 2010 Valuation at page 16.]*