



DAVID B. WESCOE
Retirement Administrator

March 21, 2007

Honorable Mayor Jerry Sanders
The City of San Diego
202 C Street, MS #11A
San Diego, CA 92101

BY HAND

Dear Honorable Mayor Sanders:

Given your interest in SDCERS' actuarial soundness, I am enclosing the "Expert Report" written by Joseph Esuchanko, who was retained by the City to provide expert testimony in the San Diego Police Officers Association (POA) case against the City, SDCERS and others.

The conclusions Mr. Esuchanko reaches in his Expert Report include the following:

1. "SDCERS is actuarially sound" according to the definition of actuarial soundness used by the U.S. Government Accountability Office. (p. 5)
2. "[SDCERS'] 97.1% funded ratio on this basis meets this definition of actuarial soundness, even though the system is not going to terminate." (p. 6)

[In his Expert Report, Mr. Esuchanko does not use SDCERS' funding ratio of 79.9% to evaluate SDCERS' actuarial soundness because he does not believe it is an appropriate measure to do so. (p. 4) Rather, he uses other definitions of actuarial soundness, including the FASB 35 ratio that focuses on how SDCERS' assets compare to its liabilities if contributions stopped and accrued benefit claims had to be satisfied - basically, what the picture would be if SDCERS closed its doors. Cheiron calculated this ratio in its June 30, 2006 Actuarial Valuation for the City at 98.87% (Cheiron Valuation at p. 36), while Mr. Esuchanko calculated it at 97.1% (Expert Report at p. 5).]

3. "Under the Pension Protection Act of 2006, one of the tests to determine if a plan is 'at-risk' is determining if the funded ratio of assets to present value of accrued benefits falls below 80%, using standard assumptions. At 97.1%, SDCERS is clearly not at risk." (p. 6)

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Honorable Mayor Jerry Sanders

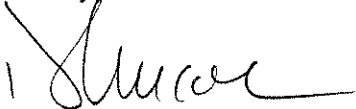
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4. "Assuming that the City continues to fund SDCERS with the amounts reported as the ARC in SDCERS actuarial valuation reports and assuming further that such reports are prepared in accordance with generally accepted actuarial methods and assumptions, as was the current actuarial valuation report prepared by the SDCERS actuary for the fiscal year ended June 30, 2008 [the City's June 30, 2006 actuarial valuation prepared by Cheiron], there is no material risk that SDCERS will be unable to pay the pension benefits which the City has agreed to pay its existing retirees, terminees entitled to future benefits and current employees." (p. 7, emphasis added)
5. "Also, it is my understanding that the Board of SDCERS has managed the plan in compliance with the San Diego Municipal Code." (p. 14)
6. "[The POA's actuary] acknowledges that the City is currently funding SDCERS on an actuarially sound basis. I concur with that conclusion." (p. 15)
7. "I disagree with [the POA actuary's] assertion that SDCERS and the City 'conspired to use an unsound scheme to fund certain non-retirement benefits by using investment earnings of the Plan's trust.'...it is quite common in the public sector for retirement systems to provide benefits such as the 13th check out of excess earnings." (p. 16)

If you have any questions about SDCERS, please call me.

Sincerely,



David B. Wescoe

Enclosure

cc: Ronne Froman, Chief Operating Officer
Jay Goldstone, Chief Financial Officer
Kris Michell, Deputy Chief
Fred Sainz, Director of Communications
Julie Dubick, Policy Advisor