

**Attachment A:
Excerpts from the Milliman report adopted by the Retirement Board**



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January 25, 2008

Mr. Oscar Peters
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Re: Actuarial Impact of New General Plan 5C

Dear Oscar:

The purpose of this letter is to present an estimate of the actuarial impact of the new General tier. The figures presented in this report have been estimated based upon our June 30, 2007 actuarial valuation. Note that the Board has not yet received, nor approved, the 2007 valuation. Therefore, the 2007 valuation base should be considered preliminary information. However, the relative change in costs from the current Plan 5B benefits to the new Plan 5C benefits is appropriate for the County to use for purposes of implementing the new plan tier.

Summary of New Tier

It is our understanding that many of the General members currently covered by General Plan 5B will be moving to General Plan 5C. The differences between General Plan 5B and General Plan 5C are summarized as follows:

	<u>General Plan 5B</u>	<u>General Plan 5C</u>
Final Average Salary (FAS) Calculation period:	12 months	36 months
Member Contribution Code Section:	31621.2	31621.5
Member Contribution Annuity Formula:	1/100 th of FAS at age 60	1/200 th of FAS at age 60

The service retirement, death, and disability benefit formulas are identical between the two tiers, although the final average salary used in the formula will be different as specified above.

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Data, Methods and Assumptions

Except as otherwise noted, we used the data, methods, and assumptions from the preliminary actuarial valuation of the System performed as of June 30, 2007.

Membership in General Plan 5C was based upon the Bargaining Unit field in the actuarial data file provided by Russell Doherty on July 19, 2007.

In particular, all members in General Plan 5B as of June 30, 2007 with the following Bargaining Units were assumed to move to General Plan 5C:

Bargaining Units

21-29, 32

As of June 30, 2007, there were 1,972 active employees in General Plan 5B with one of those codes for Bargaining Unit. It was assumed that all terminated and retired members would not be impacted by the new tier.

We made the following assumptions with respect to this calculation:

- We assumed that this is the only change in benefits and member contributions being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
- We have not made any adjustment for actuarial gains or losses that may have emerged since June 30, 2007.
- We assumed the changes in FAS calculation and member contribution rates associated with the new tier will not impact future patterns of retirement, termination of employment or any other actuarial assumption.

Fiscal Impact

Based on our understanding of this new tier and the data, methods and assumptions outlined above, we have developed an estimated impact on the funding of the System based on the 2007 Actuarial Valuation as shown in the attached exhibits.

Exhibit 1 summarizes the valuation results for the 1,972 members who are expected to move from General Plan 5B to General Plan 5C. There are 429 members remaining with General Plan 5B.

Exhibit 2 summarizes the normal cost rates from our preliminary June 30, 2007 valuation before and after the addition of General Plan 5C. The total normal cost rate is reduced due to the change in the salary averaging period and the lower refunds of contributions due to the lower member contribution levels. However, the employer normal cost is the difference between the total normal cost rate and the member contributions. The member contribution rates are decreasing more than the total normal cost rate and thus, there is an increase in the employer normal cost.

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Exhibit 3 has a comparison of the Unfunded Actuarial Accrued Liability (UAAL) rates with the new tier to the employer contribution rates from our preliminary 2007 valuation.

For our 2007 asset calculations, we followed the asset method used in the 2006 valuation. First, a five-year smoothing method is applied to determine the actuarial value of assets.

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Note that SBCERS calculates one UAAL rate for all General members. Due to the change from one-year final average salary to three-year final average salary, there is a decrease in the actuarial accrued liability. This will lower the employer UAAL contribution rate for all General members.

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SANTA BARBARA COUNTY EMPLOYEES RETIREMENT SYSTEM

**Exhibit 1: Financial Impact of Members Moving from General Plan 5B to General Plan 5C
(All Dollar Amounts in Millions)**

	Financial Values Under <u>General Plan 5B</u>	Financial Values Under <u>General Plan 5C</u>	<u>Decrease</u>
A. Count	1,972	1,972	0
B. Present Value of Benefits	\$ 282.4	\$ 268.5	\$ 13.9
C. Present Value of Future Normal Cost	<u>\$ 145.7</u>	<u>\$ 134.4</u>	<u>\$ 11.3</u>
D. Actuarial Accrued Liability [B. - C.]	\$ 136.7	\$ 134.1	\$ 2.6
E. Present Value of Future Employee Contributions	\$ 58.1	\$ 27.8	\$ 30.3

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Exhibit 2: Calculated Employer Normal Cost Contribution Rates - June 30, 2007

	Prior to New Tier				
	<u>5A</u>	<u>5B</u>	<u>5C</u>	<u>Plan 2</u>	<u>Total</u>
A. Normal Cost Contribution Rate					
Service Retirement	10.85%	12.64%		2.12%	11.92%
Disability Retirement	0.96%	1.03%		0.14%	1.00%
Death while Active	0.32%	0.33%		0.03%	0.32%
Termination (No Refund)	1.94%	1.71%		0.29%	1.78%
Refund of Member Contributions	0.55%	1.23%		0.00%	0.98%
Total	14.62%	16.94%		2.58%	16.00%
B. Member Contributions	(3.07)%	(6.71)%		0.00%	(5.36)%
C. Net Employer Normal Cost as of June 30, 2007 (A) + (B)	11.55%	10.23%		2.58%	10.64%
	Including New Tier				
	<u>5A</u>	<u>5B</u>	<u>5C</u>	<u>Plan 2</u>	<u>Total</u>
A. Normal Cost Contribution Rate					
Service Retirement	10.85%	13.78%	11.77%	2.12%	11.70%
Disability Retirement	0.96%	1.11%	0.96%	0.14%	0.98%
Death while Active	0.32%	0.36%	0.30%	0.03%	0.32%
Termination (No Refund)	1.94%	1.59%	1.66%	0.29%	1.74%
Refund of Member Contributions	0.55%	1.27%	0.58%	0.00%	0.68%
Total	14.62%	18.11%	15.27%	2.58%	15.41%
B. Member Contributions	(3.07)%	(7.05)%	(3.16)%	0.00%	(3.75)%
C. Net Employer Normal Cost as of June 30, 2007 (A) + (B)	11.55%	11.06%	12.11%	2.58%	11.67%

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Exhibit 3: Calculated UAAL Amount – June 30, 2007
 (All Dollar Amounts in Millions)

	General Before Plan 5C	General After Plan 5C
A. Actuarial present value of all future benefits for contributing members, former contributing members, and their survivors	\$ 1,443.1	\$ 1,429.2
B. Actuarial present value of total future Normal Costs for current members	\$ 273.1	\$ 261.8
C. Actuarial Accrued Liability [A-B]	\$ 1,170.0	\$ 1,167.4
D. Valuation Assets	\$ 929.2	\$ 929.2
E. UAAL or Surplus Funding [C-D]	\$ 240.8	\$ 238.2
F. Funded Ratio [D/C]	79.4%	79.6%
G. UAAL Contribution Rate - 15-year amortization	11.11%	11.00%
H. UAAL Contribution Rate - 30-year amortization	6.36%	6.29%

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**Exhibit 4: Total Employer Contributions using 15-yr UAAL Amortization
(All Dollar Amounts in Thousands)**

	Prior to New Tier				
	<u>5A</u>	<u>5B</u>	<u>5C</u>	<u>Plan 2</u>	<u>Total</u>
A. Employer Normal Cost Rate	11.55%	10.23%		2.58%	10.64%
B. UAAL Contribution Rate	11.11%	11.11%		11.11%	11.11%
C. Total June 30, 2007 Contribution Rate (A) + (B)	22.66%	21.34%		13.69%	21.75%
D. Estimated Payroll for fiscal year beginning July 1, 2008	\$ 81,299	\$ 144,755		\$ 1,674	\$ 227,728
E. Estimated Annual Contribution (C x D)*	\$ 18,422	\$ 30,891		\$ 229	\$ 49,542

	Including New Tier				
	<u>5A</u>	<u>5B</u>	<u>5C</u>	<u>Plan 2</u>	<u>Total</u>
A. Employer Normal Cost Rate	11.55%	11.06%	12.11%	2.58%	11.67%
B. UAAL Contribution Rate	11.00%	11.00%	11.00%	11.00%	11.00%
C. Total June 30, 2007 Contribution Rate (A) + (B)	22.55%	22.06%	23.11%	13.58%	22.67%
D. Estimated Payroll for fiscal year beginning July 1, 2008	\$ 81,299	\$ 37,671	\$ 107,084	\$ 1,674	\$ 227,728
E. Estimated Annual Contribution (C x D)*	\$ 10,333	\$ 8,310	\$ 24,747	\$ 227	\$ 51,617

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Exhibit 6: General Member Contribution Rates effective July 1, 2008

Entry Age	One Year FAS 1/200 @ Age 60 Plan 5A	One Year FAS 1/100 @ Age 60 Plan 5B	Three Year FAS 1/200 @ Age 60 Plan 5C
20	2.39%	4.77%	2.29%
21	2.45%	4.89%	2.35%
22	2.50%	5.00%	2.40%
23	2.56%	5.12%	2.46%
24	2.62%	5.24%	2.51%
25	2.68%	5.36%	2.57%
26	2.74%	5.48%	2.63%
27	2.81%	5.61%	2.69%
28	2.87%	5.74%	2.75%
29	2.94%	5.87%	2.82%
30	3.01%	6.01%	2.88%
31	3.07%	6.14%	2.95%
32	3.14%	6.28%	3.01%
33	3.21%	6.42%	3.08%
34	3.29%	6.57%	3.15%
35	3.36%	6.71%	3.22%
36	3.43%	6.86%	3.29%
37	3.51%	7.01%	3.36%
38	3.58%	7.16%	3.43%
39	3.66%	7.31%	3.50%
40	3.74%	7.47%	3.58%
41	3.81%	7.62%	3.65%
42	3.89%	7.78%	3.73%
43	3.98%	7.95%	3.80%
44	4.06%	8.11%	3.88%
45	4.14%	8.27%	3.96%
46	4.22%	8.44%	4.03%
47	4.31%	8.61%	4.11%
48	4.39%	8.77%	4.19%
49	4.47%	8.94%	4.27%
50	4.56%	9.12%	4.35%
51	4.65%	9.29%	4.43%
52	4.74%	9.47%	4.50%
53	4.83%	9.65%	4.58%
54	4.91%	9.81%	4.64%
55	4.98%	9.96%	4.68%
56	5.04%	10.08%	4.71%
57	5.08%	10.16%	4.71%
58	5.10%	10.19%	4.90%
59 and Over	5.10%	10.19%	5.10%

Assumptions:

Interest:

8.16%

Salary:

Adopted (Service Based)

Unisex Mortality:

RP 2000 (Male, Setback 4 years)