April 7, 2009
Board of Supervisors and
Board of Retirement
Informational Workshop on Pension Funding

Retirement Workshop

SBCERS

SYSTEM PRESENTERS

Harvey Leiderman, Reed Smith
Fiduciary Counsel

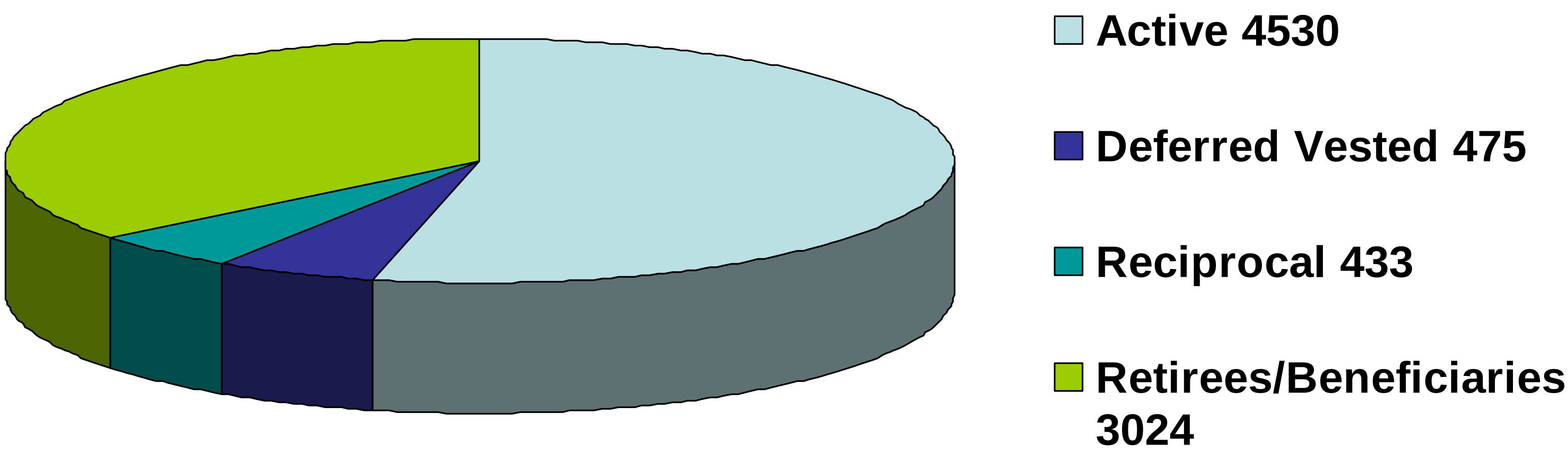
&

Karen Steffen, Milliman
Actuary

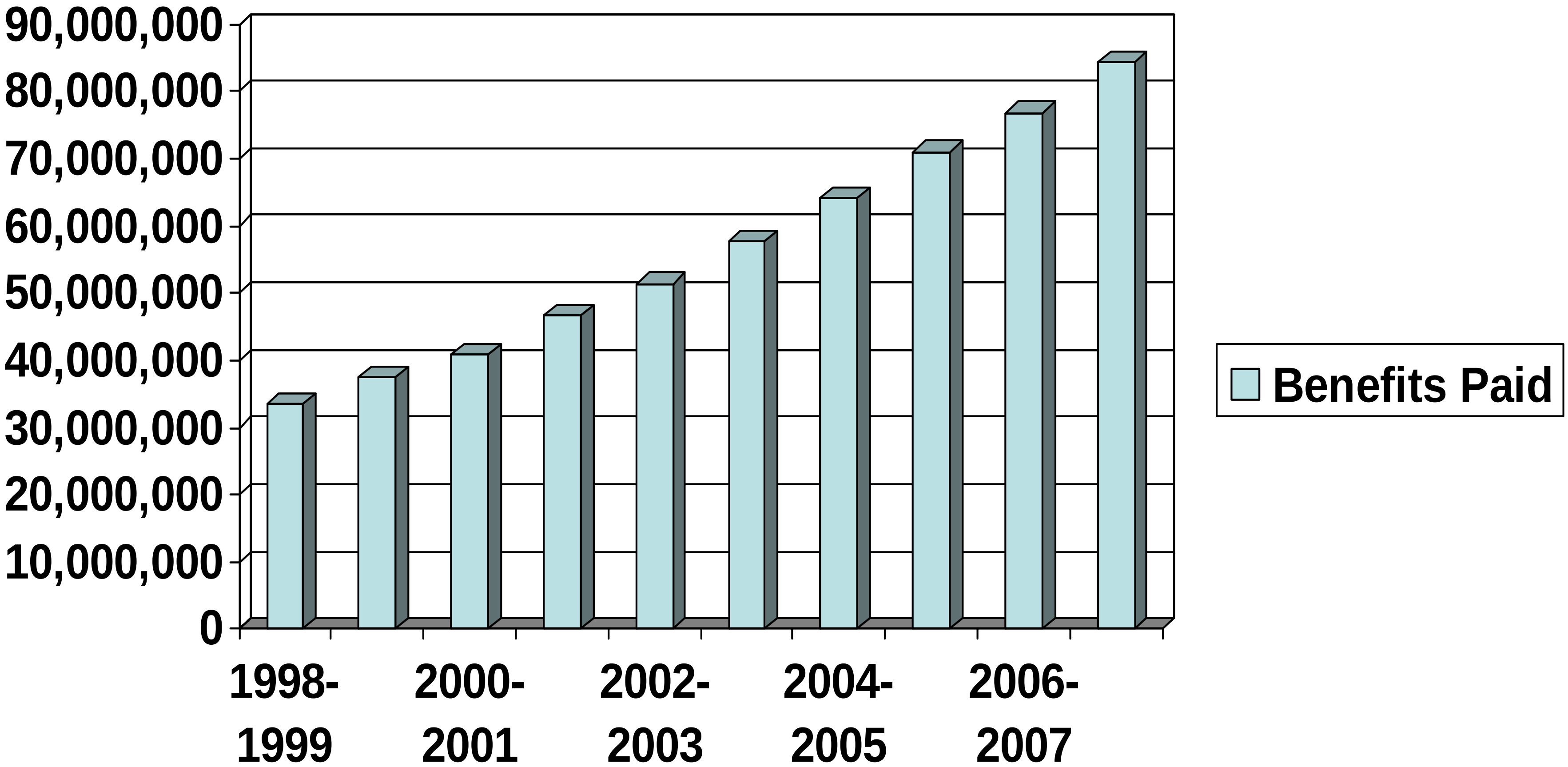
SBCERS has 11 plan Sponsors:

- **County of Santa Barbara**
- **Carpinteria Cemetery District**
- **Carpinteria-Summerland Fire Protection District**
- **Goleta Cemetery District**
- **Mosquito & Vector Management District of Santa Barbara County**
- **Oak Hill Cemetery District**
- **Santa Barbara County Air Pollution Control District**
- **Santa Barbara County Association of Governments**
- **Santa Barbara County Superior Court**
- **Santa Maria Cemetery District**
- **Summerland Sanitary District**

SBCERS serves approximately 8500 members, of which approximately 92% are or were County employees

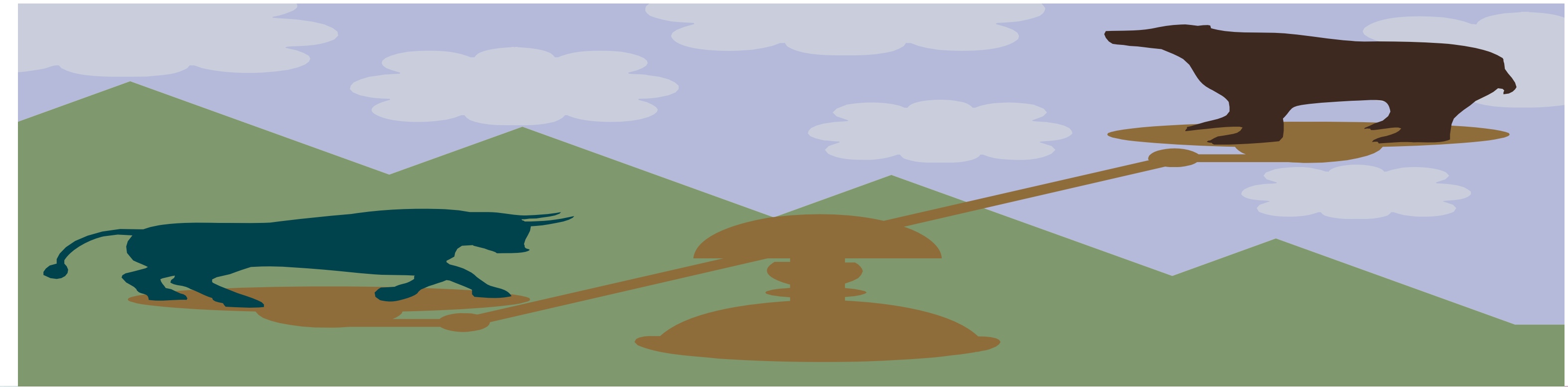


Annual benefit payments by SBCERS now exceed $85 million



FINANCIAL MARKETS

- 53% plunge in stock market since October 2007
- $10 trillion of investment market vanished
- Credit debt has rendered trusted market indicators useless
- Pessimism is winning the day
- Bear Market Rally or Return of the Bulls?



Fiduciary Responsibility

SBCERS

The SBCERS Board of Retirement: Duties and Opportunities

**Presentation on behalf of the Board of Retirement
Santa Barbara County Employees' Retirement System
to the
Santa Barbara County Board of Supervisors**

**Harvey L. Leiderman
SBCERS' Fiduciary Counsel**
April 7, 2009

ReedSmith

The business of relationships.℠

An Independent Board Created by the State Constitution and by Statute

- Article XVI, sec. 17 of the Constitution:
  - sole and exclusive responsibility to administer the system…to assure prompt delivery of benefits
  - sole and exclusive fiduciary duty over the assets of the retirement system
  - sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the system
- Government Code Section 31595 is the same

Composition of the Retirement Board

- Created by state Constitution and statute
- Four appointed members
  - Four members appointed by the Board of Supervisors, not connected with county government, except one may be a Supervisor
- One *ex officio* member – County Treasurer
- Four elected members
  - Two elected by active general employees
  - One elected by active safety employees (plus an alternate)
  - One elected by retired members (plus an alternate)
- Number and manner of selection cannot be changed except by the Legislature and a majority vote of the County's electorate

The Retirement Board's Fundamental Fiduciary Duties

- Created by state Constitution and statute
- Exclusive benefit rule
- Duty of loyalty
- Duty of skill, prudence and diligence "under the circumstances then prevailing"
  - Funding
  - Investments
- Primary duty – to participants and beneficiaries Subordinate duty – to minimize employer contributions

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The Retirement Board's Exclusive Responsibility for System Funding

- Created by state Constitution and statute
- Invest the trust funds of the system to meet short term cash flow needs and long term growth
- Diversify the investments to minimize the risk of loss and maximize the rate of return
- Provide for actuarial services to assure assets are there when needed to pay benefits over the long term

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The Retirement Board's Exclusive Responsibility for System Funding

- Purpose of engaging an actuary
  - to evaluate the system's assets and liabilities
  - to recommend *assumptions* about projected hiring patterns, salary, inflation and benefit growth, cost-of-living increases, retirement and mortality rates, long term rates of return
  - to recommend *methodologies* to assess impact of projections and experience on assets and liabilities and set employer and employee contributions necessary to fund the promised benefits

  Assumptions and methodologies must meet actuarial standards of practice

The Retirement Board's Exclusive Responsibility for System Funding

- Make final decisions on actuarial assumptions and methodologies
- Make final decisions on normal cost and amortization of UAAL
- Make final decisions on annual employee and employer contributions
- Make final decisions on crediting interest to reserves and use of earnings permitted by statute

Contrast: The Exclusive Powers of the Board of Supervisors

- Adopt key provisions of law establishing benefit levels
  - available benefit formulas
  - available COLA rates
  - available retiree health programs, death benefits
- Collectively bargain vested retirement benefit formulas
- Obtain subventions from federal and state mandated programs
- Request one-time 30 year amortization of UAAL
- Implement funding techniques (e.g., POBs)

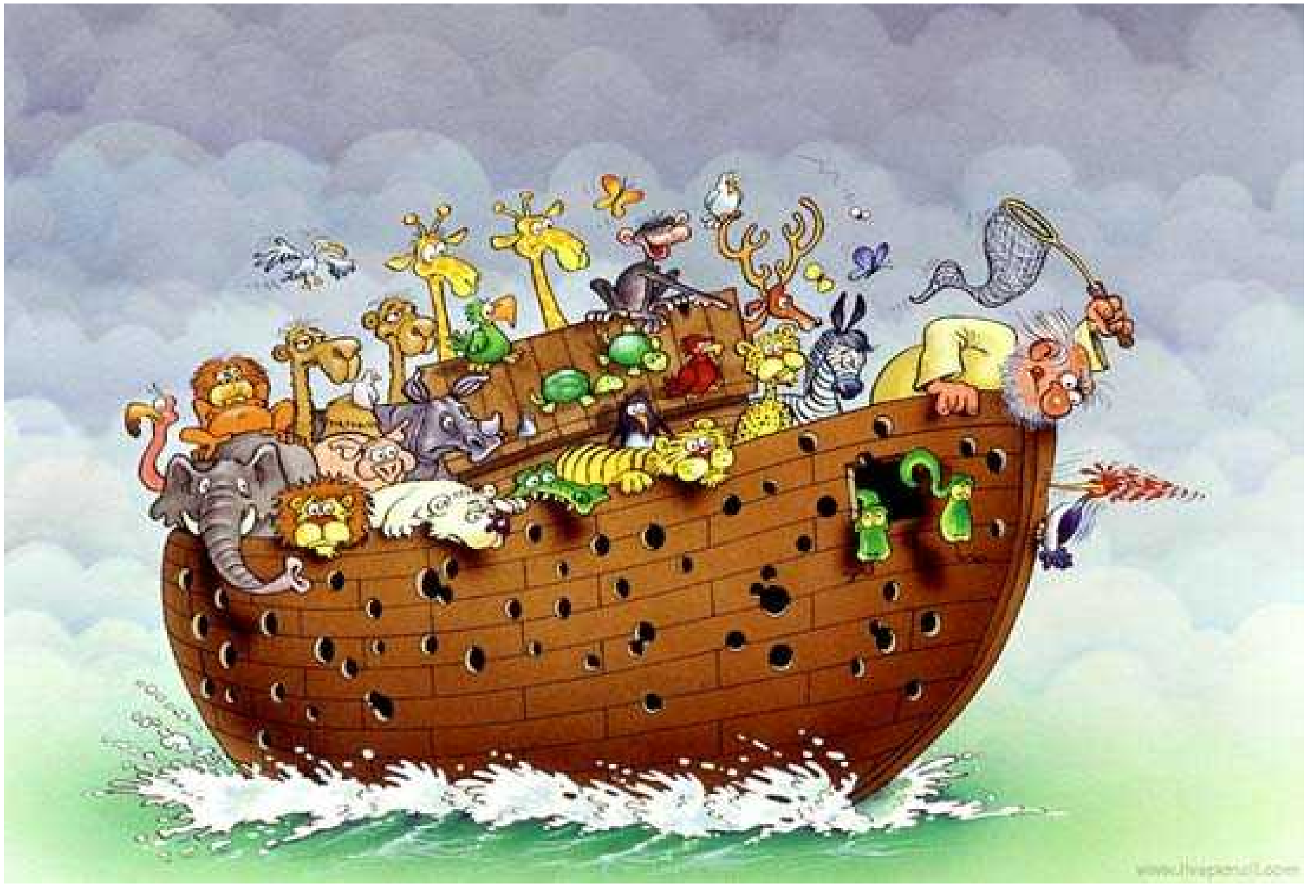
The “Circumstances Now Prevailing” Create Opportunities for Cooperation

- Mutual concerns over impact of recent extraordinary economic events
  - County and district revenue sources
  - Employee job stability
  - Retiree benefit security
  - Retirement system investment returns, cash flow
- Retirement Board may consider evidence of substantial plan sponsor hardship
- Retirement Board may consider evidence of employee job losses, furloughs
- Retirement Board *must* consider sound actuarial funding of the promised benefits

Framework for Cooperation

- Conduct an open and public process
- Include all stakeholders – County, districts, active members, retirees, public
- Avoid actual or perceived conflicts of interest
- Avoid “negotiating” deals over benefits and contributions

WE'RE IN THIS THING TOGETHER!



Actuarial Process

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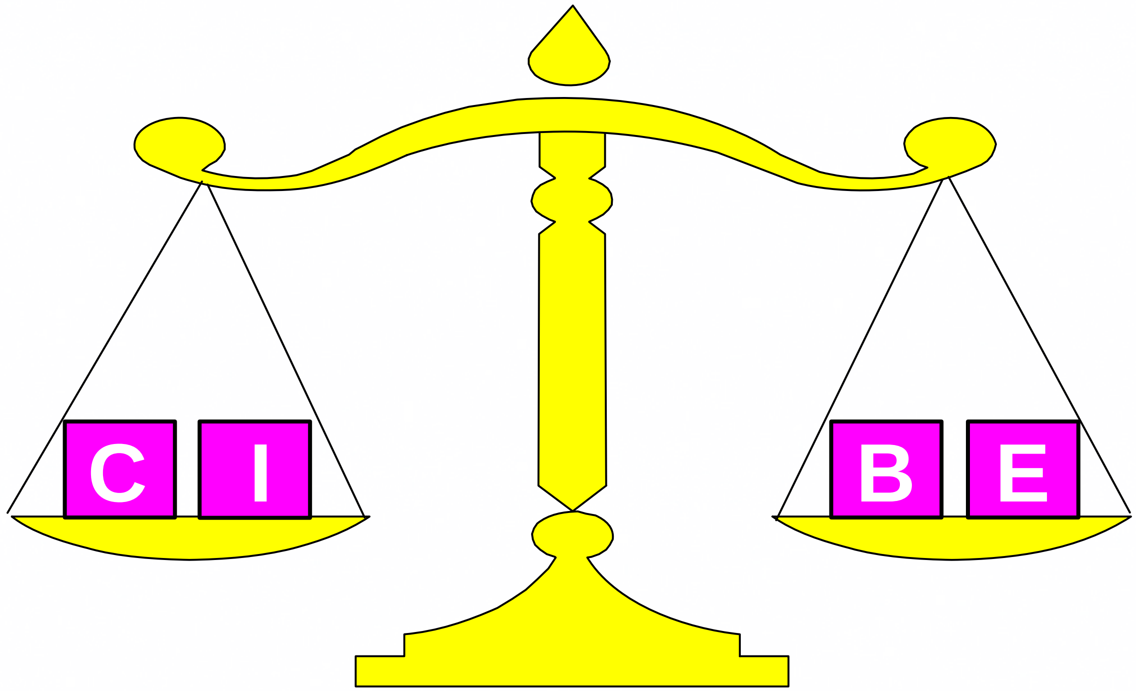
Board of Supervisors and Retirement Board Joint Meeting Discussion of Pension Costs

by Karen Steffen and Daniel Wade

April 7, 2009

Basic Actuarial Valuation Concepts

Universal Funding Equation



C = Contributions
I = Investment Income

B = Benefits
E = Expenses

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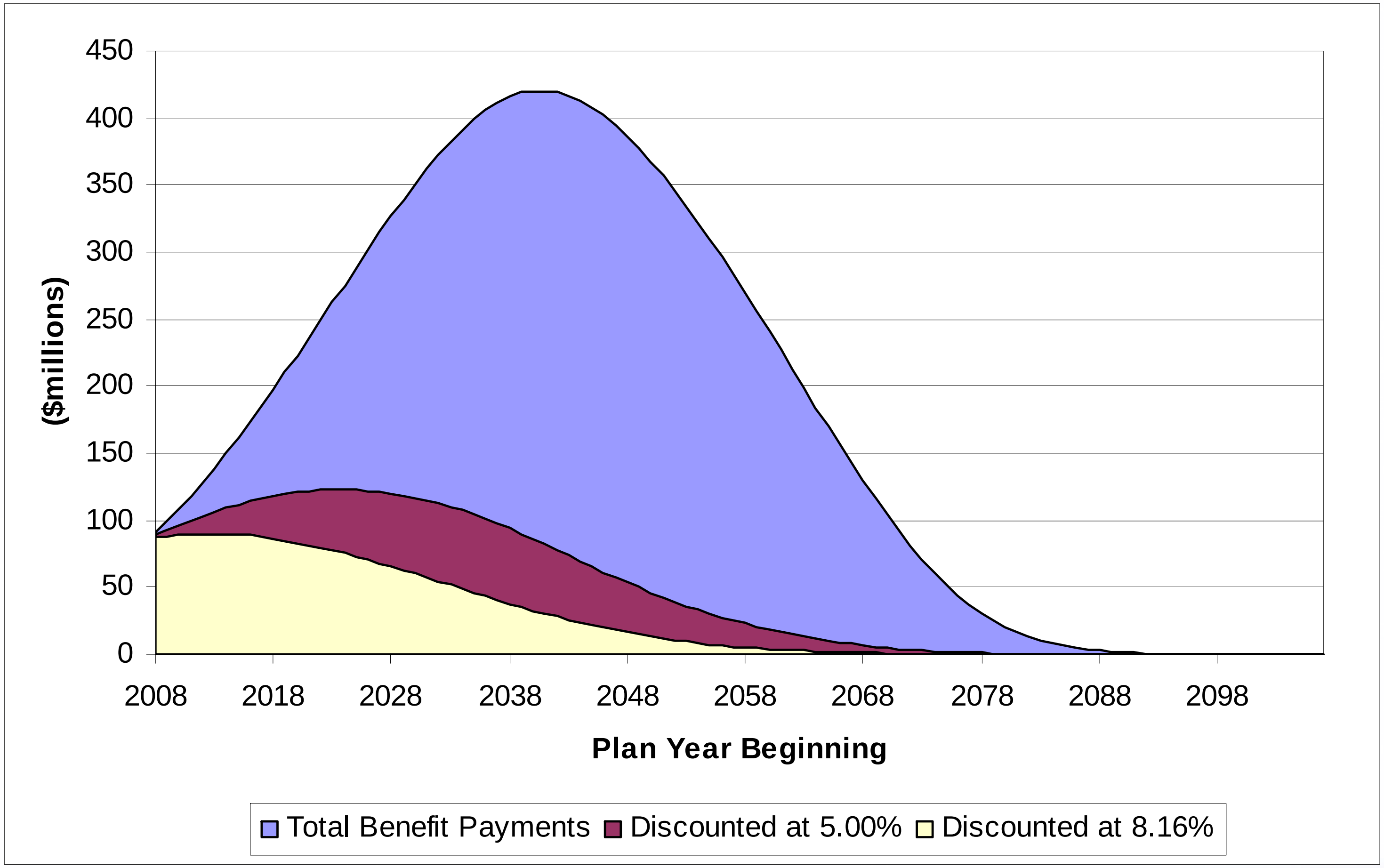
Nature of Defined Benefit Plans

Benefits are Defined.

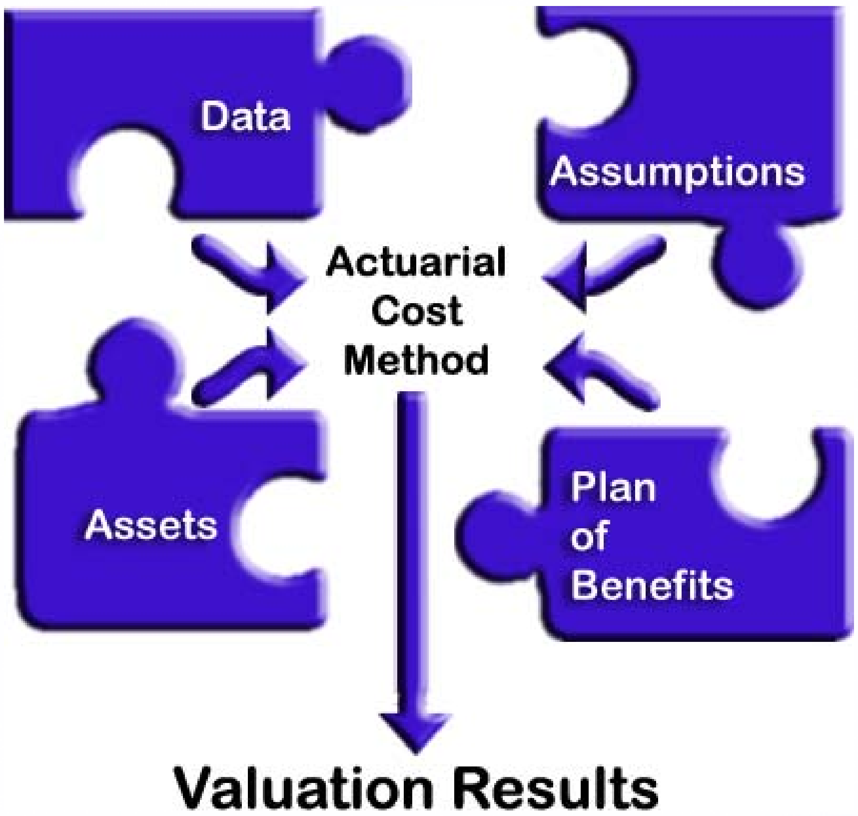
Because of this, contribution levels cannot be predicted in advance.

Assuming that expense levels are relatively small (as they are in the 1937 Act Systems), asset losses must result in some combination of contribution increases, benefit decreases, and future asset gains.

Projected Benefit Promises



The Four Necessary Elements of an Actuarial Valuation



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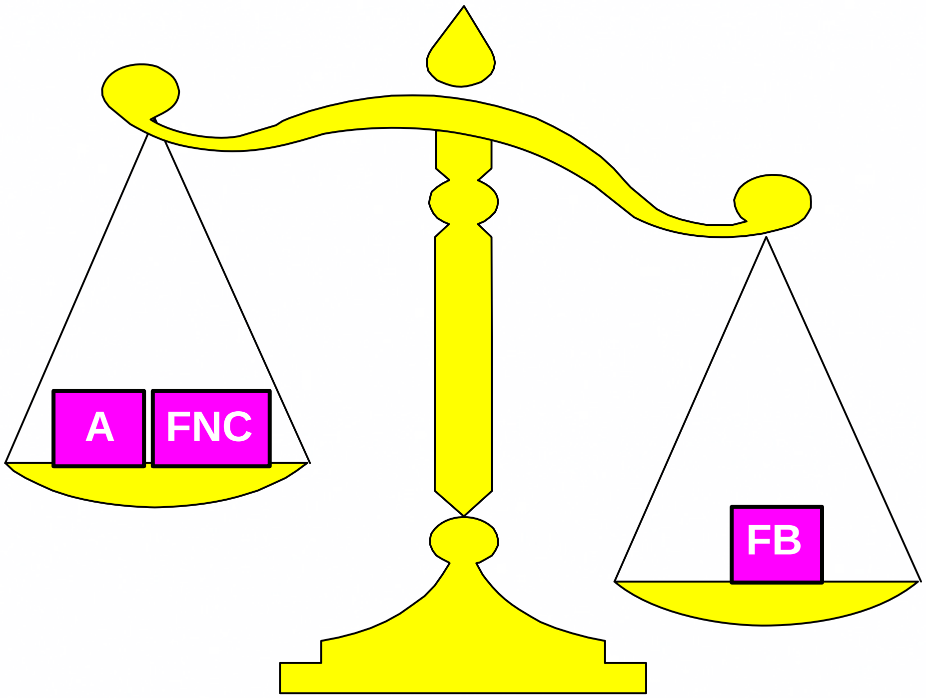
Experience Studies

Every three years all actuarial assumptions are reviewed and compared to actual experience.

Two major parts:

- Economic assumptions – How the investments and salaries will change in the future.
- Demographic assumptions – How members leave the system and the value of future benefit payments to them.

Actuarial Valuations – step 1



A = Current Assets

FB = Future Benefits

FNC = Future Normal Cost Contributions

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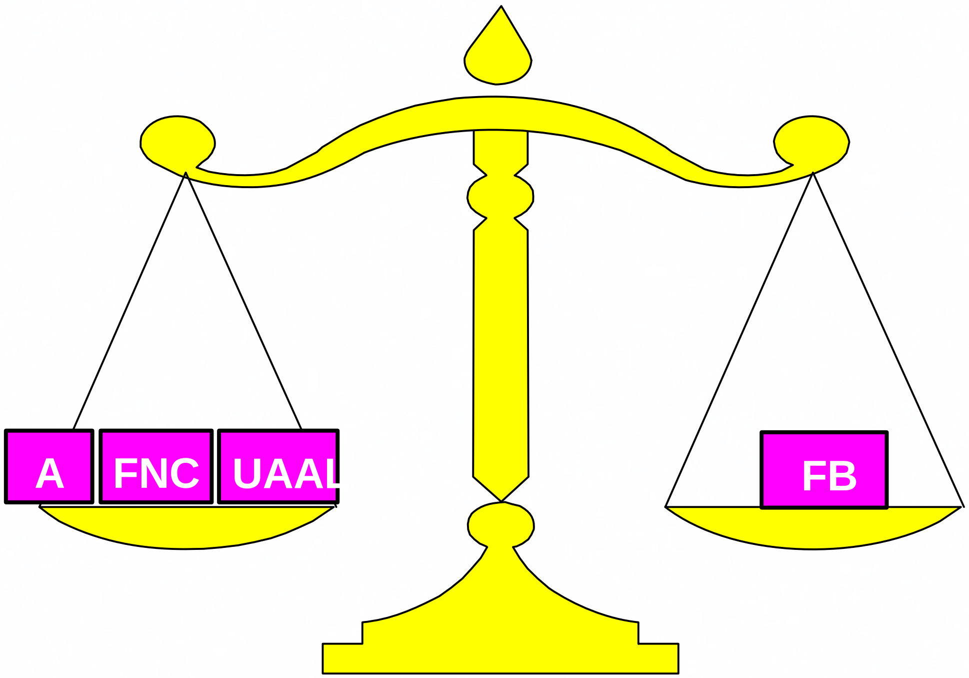
Actuarial Valuations – step 2



FNC = Future Normal Cost Contributions
UAAL = Unfunded Actuarial Accrued Liability

FB = Future Benefits
A = Current Assets

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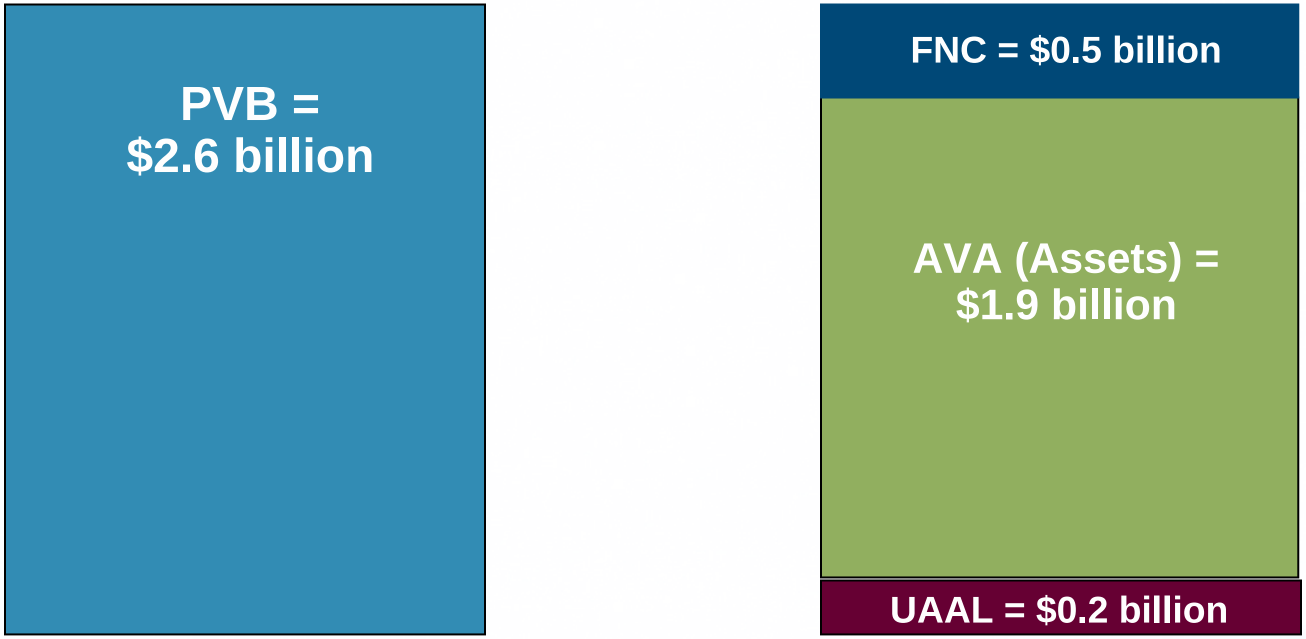
SBCERS Current and Historical Information

This section discusses the past history of SBCERS and the results of the June 30, 2008 valuation which established employer and employee contributions rates starting July 1, 2009.

June 30, 2008 Valuation Results

- Benefits valued using current actuarial assumptions
- Determination of cost allocations using Entry Age Cost Method



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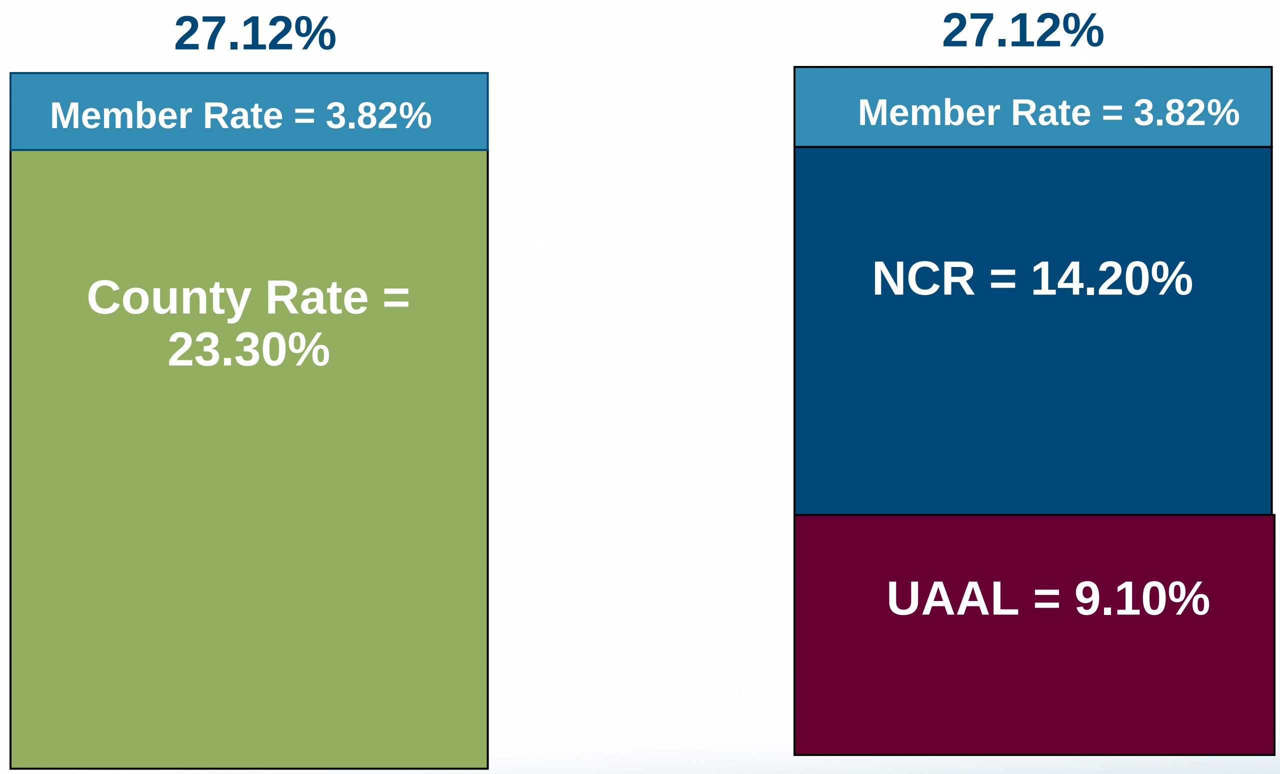
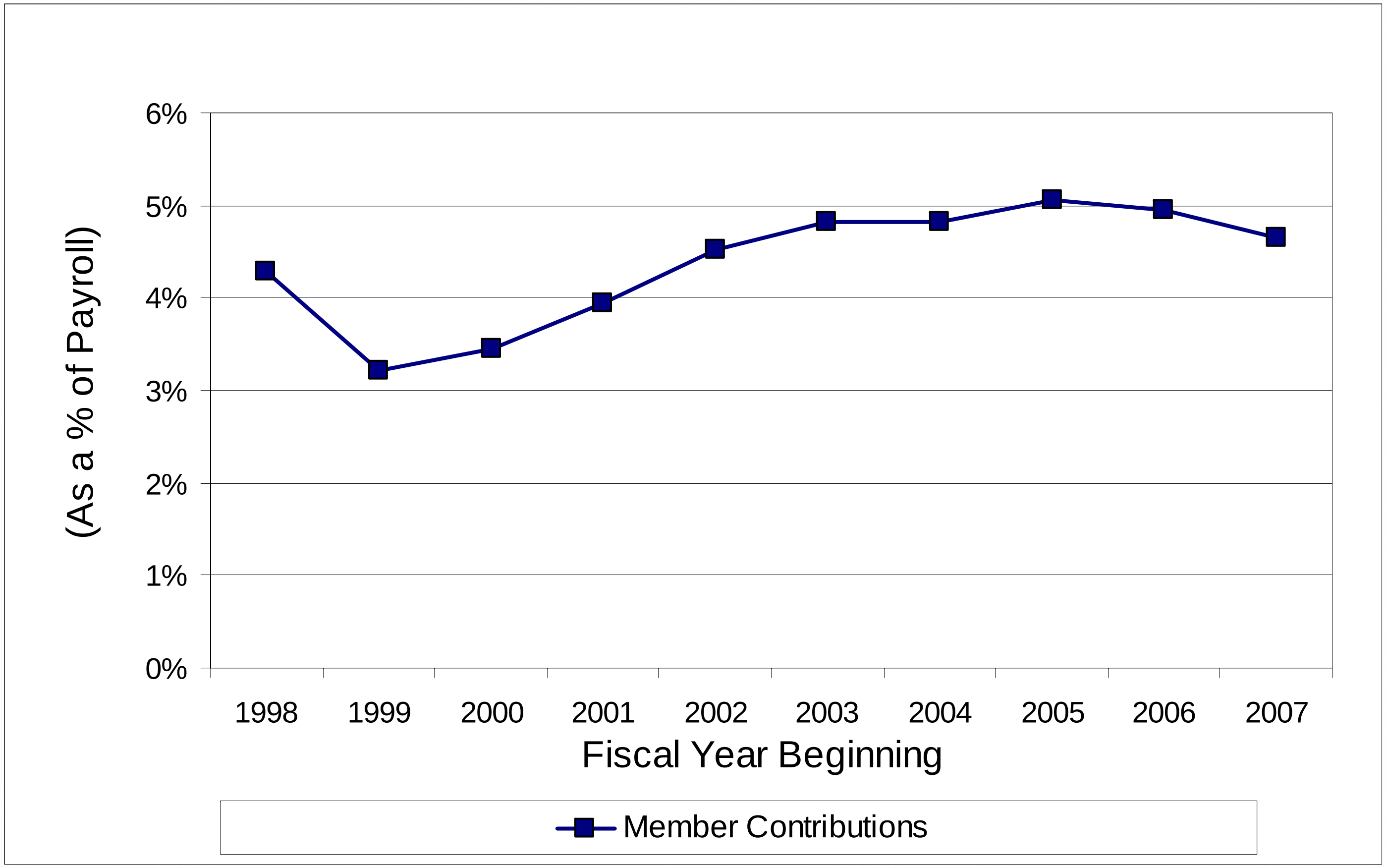
June 30, 2008 Valuation Results

SBCERS is funded by a combination of Member Contributions, Employer Contributions and Investment Earnings. This shows the allocation of the contribution rates.



Historical Contribution Rates – Employee Rates



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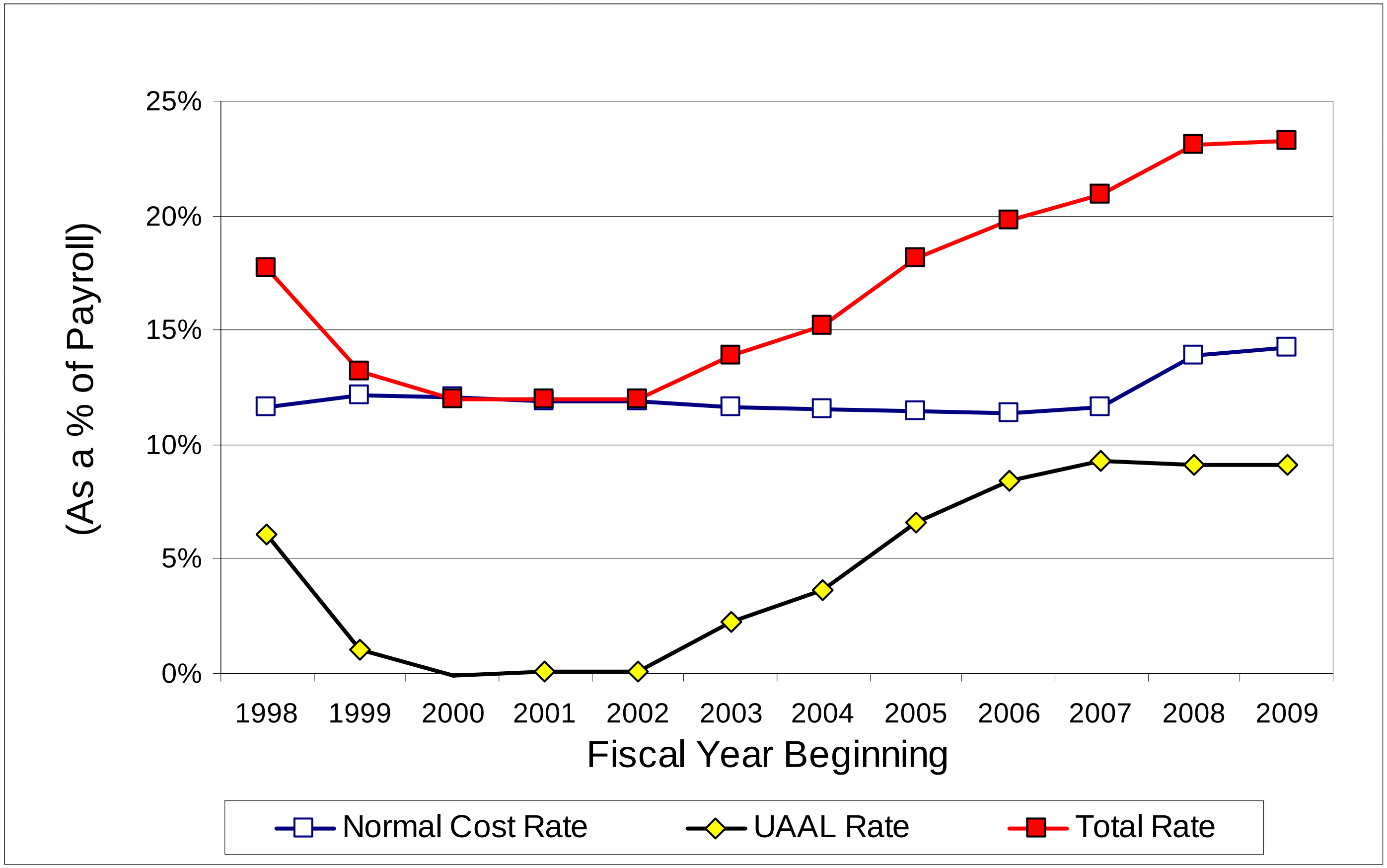
Historical Contribution Rates – Employer Rates



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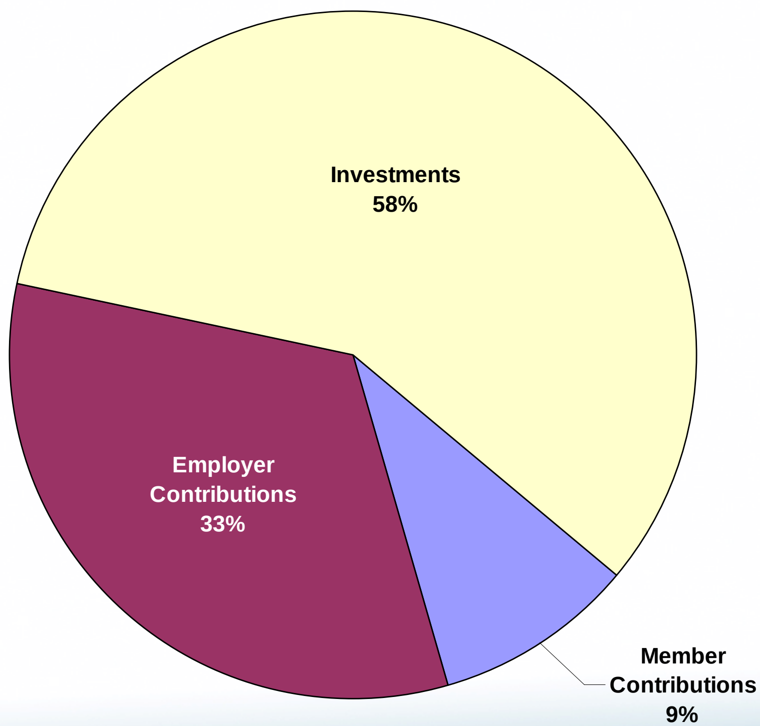
Investment Earnings is a Major Contributor

Investment earnings are used to credit interest to Fund reserves at the assumed earnings rate and reduce the unfunded actuarial accrued liability (UAAL). Undistributed earnings may be used for limited purposes at the discretion of the Board of Retirement (i.e., to restore lost purchasing power of retirement allowances).



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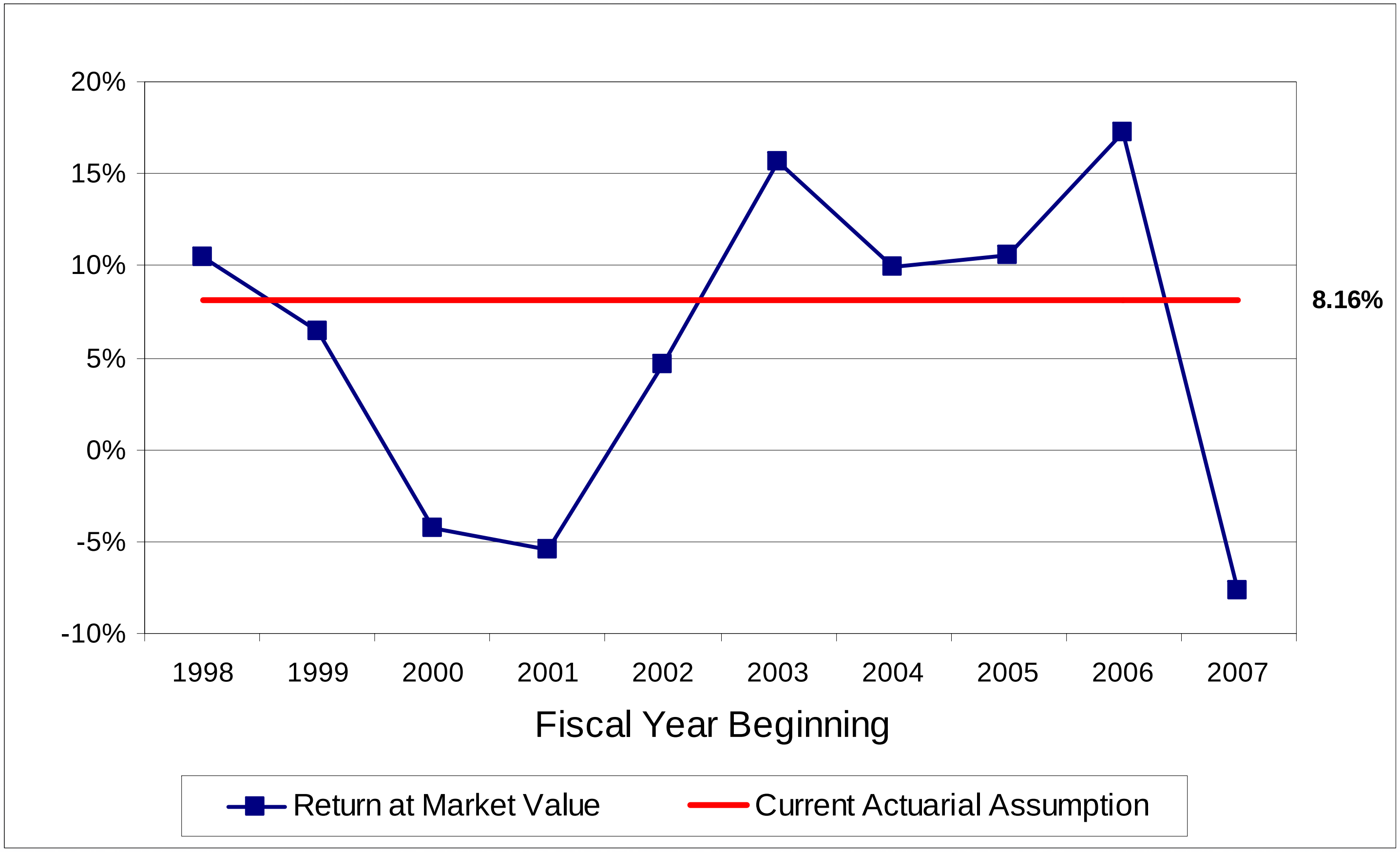
Historical Investment Return Rates



Consistent with pension funds nationwide, SBCERS' investment performance for the fiscal year stands at -33.8% as of 2/28/2009.

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Layered Amortization

- Current Funding Policy calls for a “layered” amortization approach
  - Each year the difference between actual UAAL and expected UAAL is amortized over 15 years.
  - A new layer is created each year for General, Safety and APCD.
- If unchanged, will eventually result in at least 49 separate amortizations (16 for General, Safety, and APCD, with a separate one for Safety Plan 6)
- Contribution Rates will change dramatically based upon results that are 15 years old
- Inconsistent percent of UAAL Amortized Each Year

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What the Future Holds?

- We are unable to accurately predict the final June 30, 2009 assets results, but given recent economic turmoil, it is expected that asset losses will lead to a significant increase in the UAAL and, thus, an increase in the employer contribution rates.
- The following illustrations are for discussion purposes only and are not meant to be predictive with any certainty.

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Looking Ahead

- The next actuarial valuation will set rates for fiscal year commencing July 1, 2010.
- June 30, 2009 actuarial valuation will not be completed until November 2009.
- Still three months away from knowing what the final June 30, 2009 asset values will be.
- Until both of these are completed, unable to determine exactly what the July 1, 2010 rates will be.
- Consideration by the Board of Retirement of any potential funding policy changes is yet to be discussed. Any actual experience results and policy changes would modify these projections.

Looking Ahead – Projections under Various Funding Policies

Projection: 10 Years

– Required contribution rate highly dependent on investment returns

– Also dependent on funding policy adopted

Projection Assumptions

– 30% investment loss in FYE09

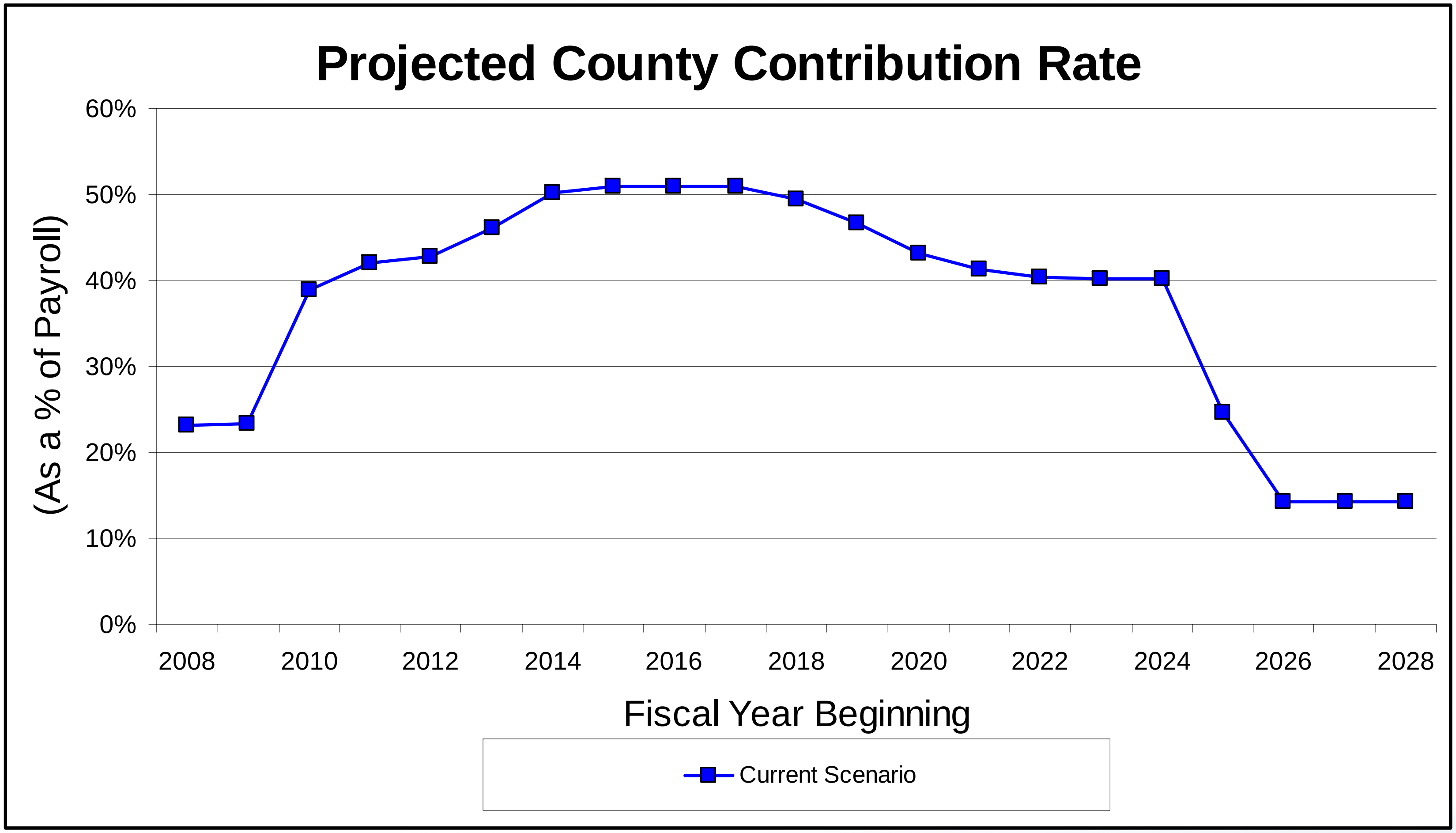
– Assumes 8.16% for all future years past FYE09

– All other assumptions are met

– County contributes at minimum required rate

– Assumes expected increases in salaries and payroll

Projected Contribution Rates: -30% returns in 2008-9



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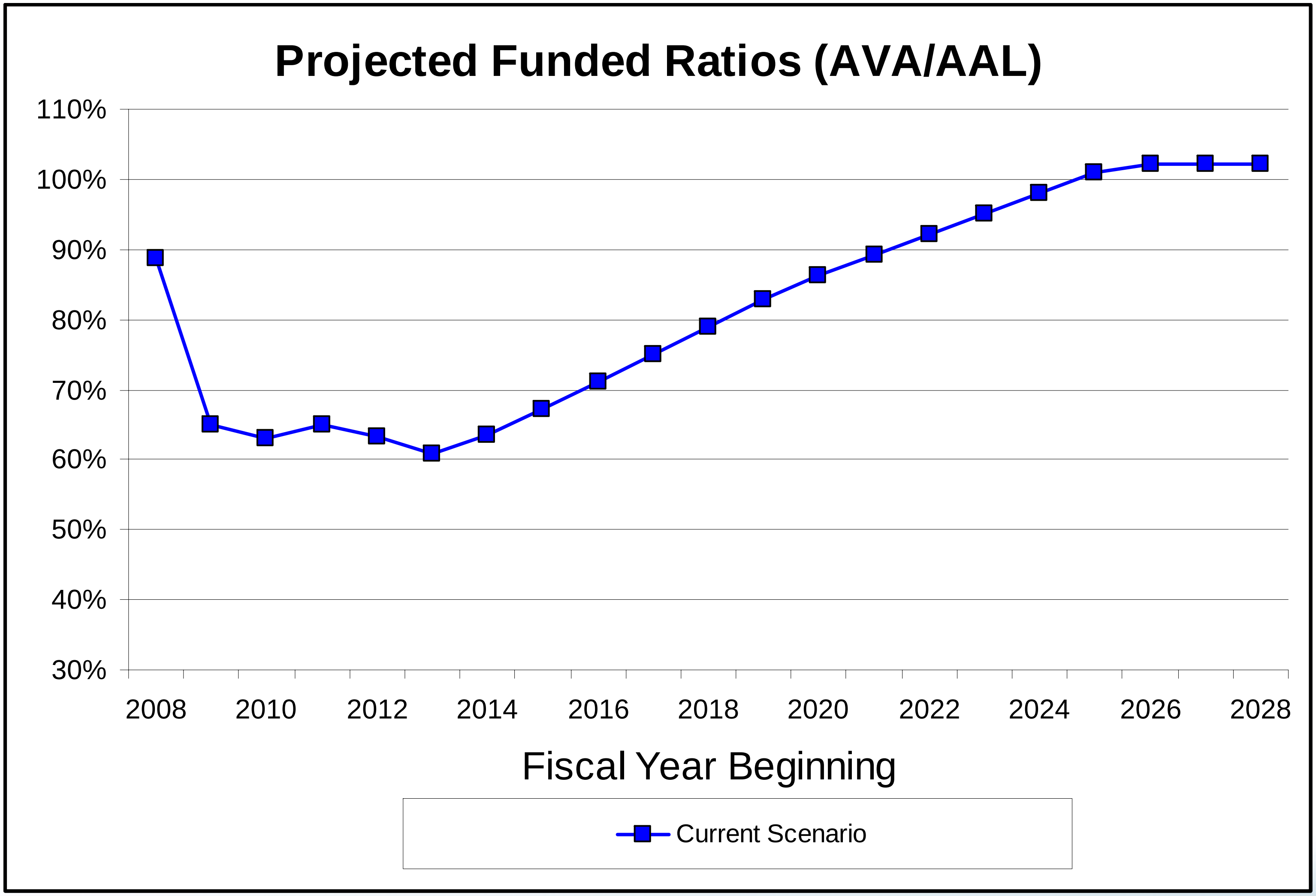
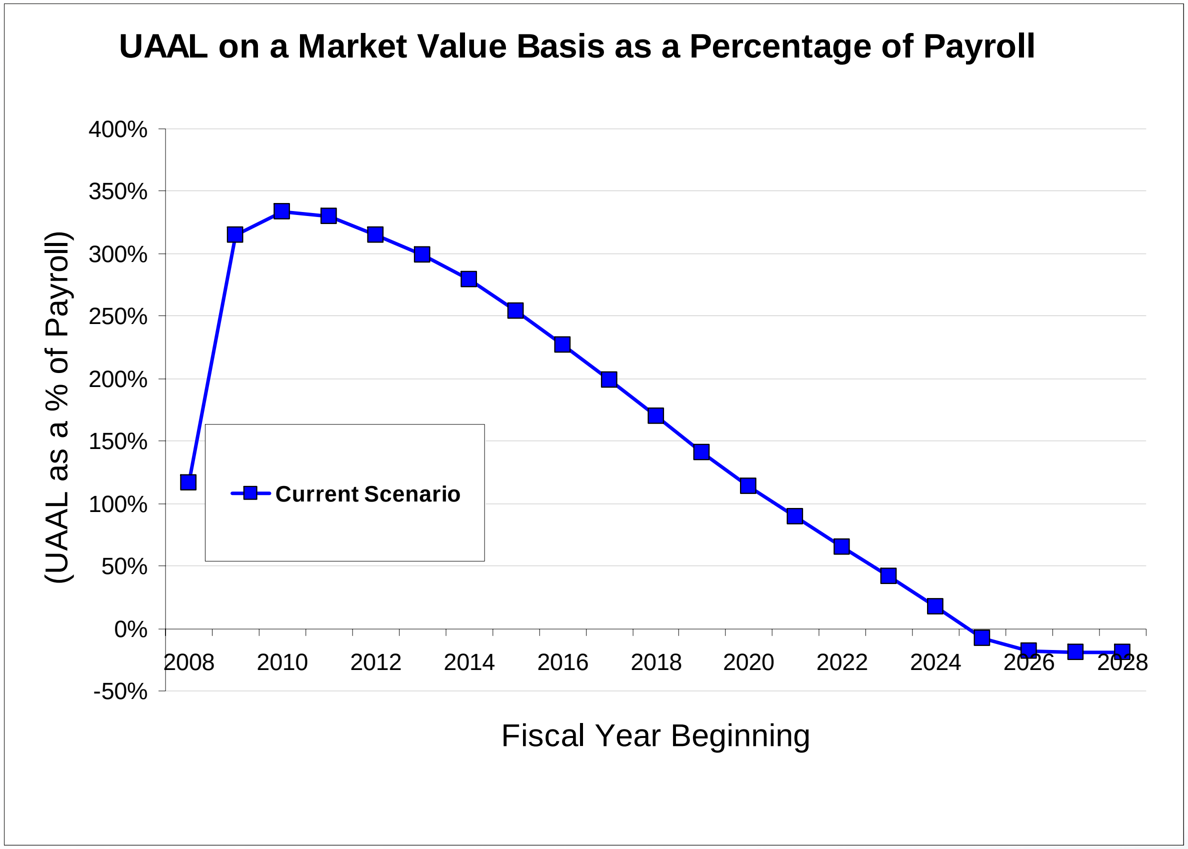
Projected Funded Ratio: -30% returns in 2008-9



UAAL as a Percentage of Payroll:
-30% returns in 2008-9



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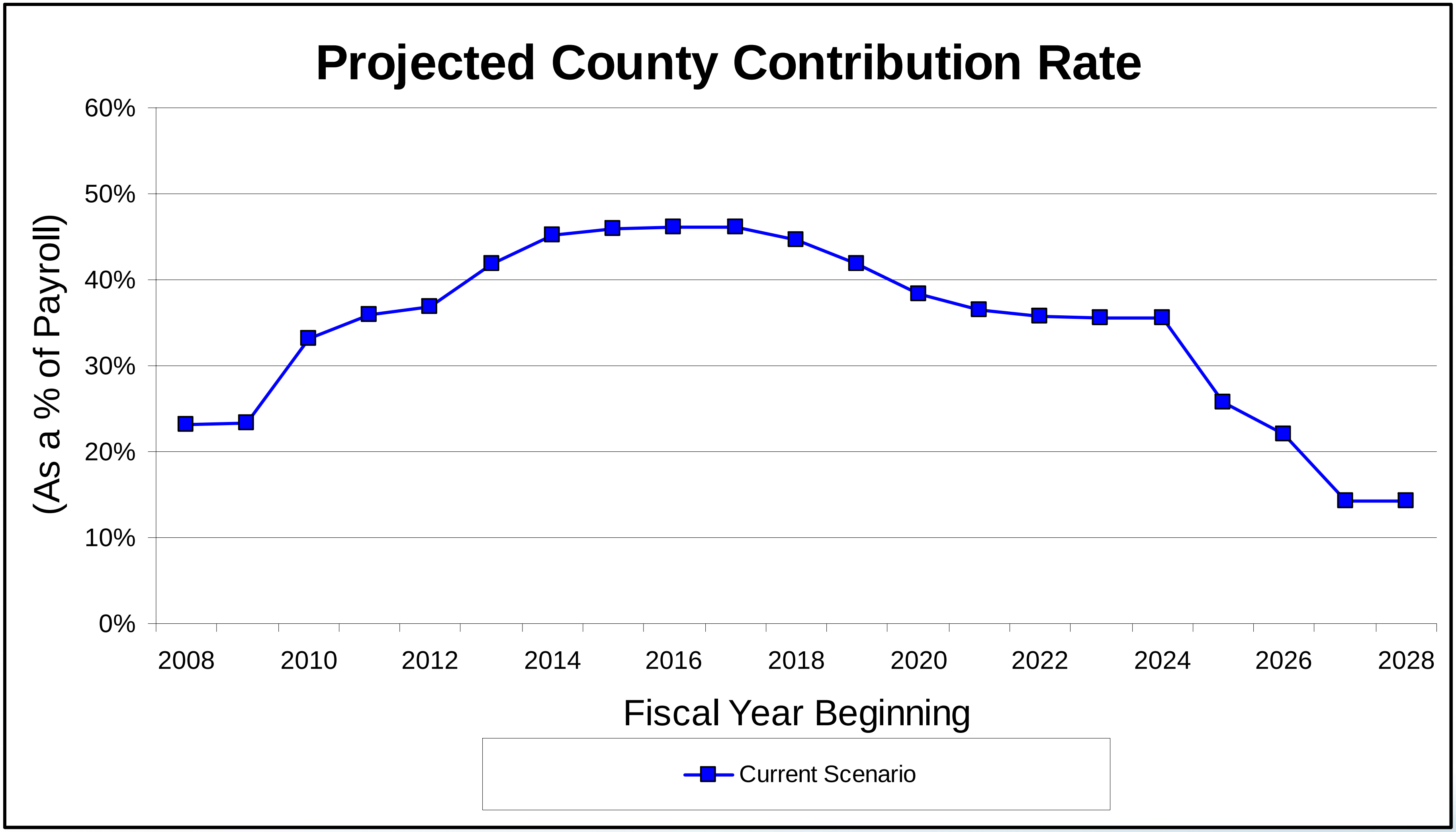
Projected Contribution Rates: -20% returns in 2008-9



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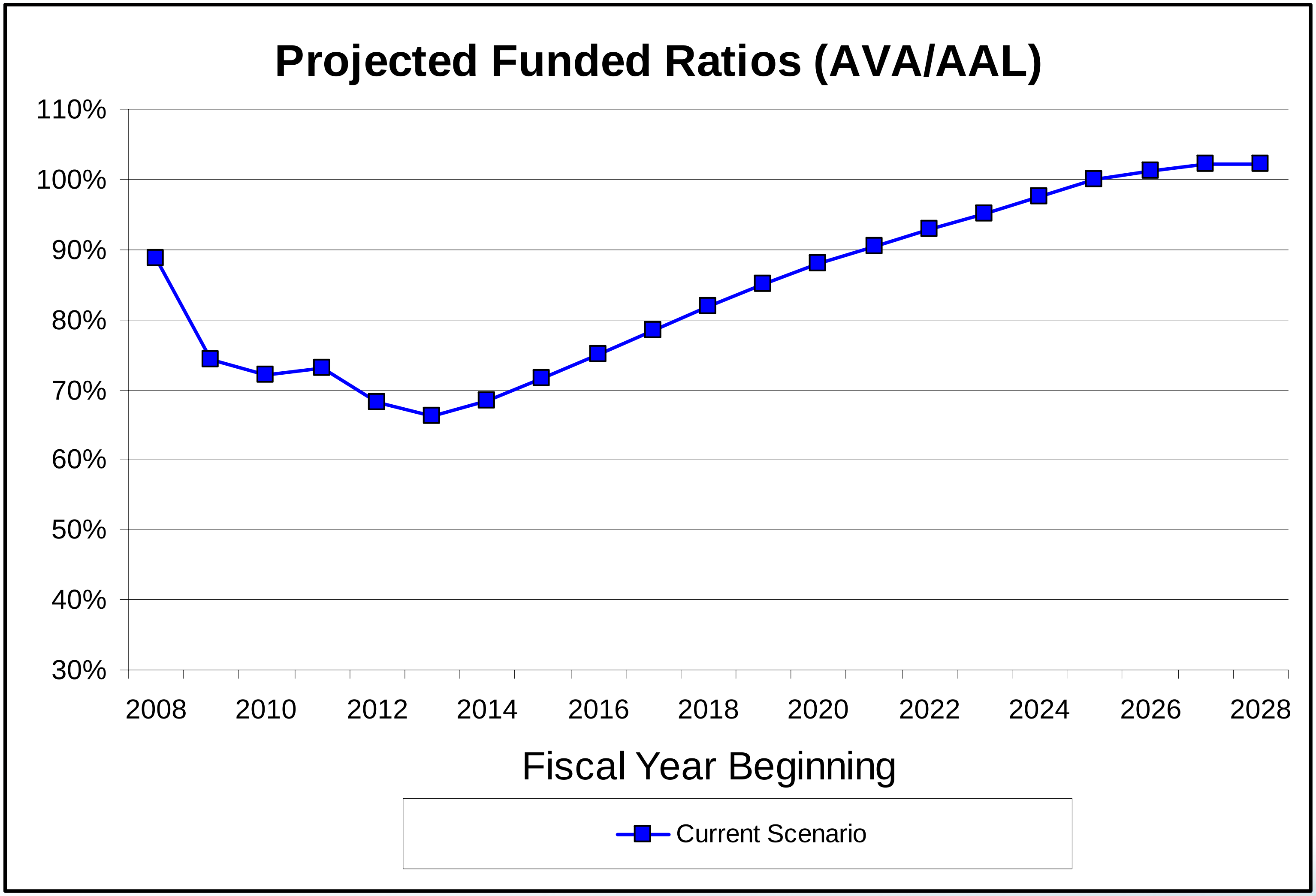
Projected Funded Ratio: -20% returns in 2008-9



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Projections Under Various Funding Policies

- Assumes -30% return for 2008-9 and 8.16% thereafter
- Assumes no liability gains or losses
- Current Scenario is the 15-year layered approach with 20% asset corridor and 5-year asset smoothing
- Scenario #2 is the same, but without the 20% asset corridor
- Scenario #3 replaces the layered approach with a 15-year rolling, but otherwise matches the Current Scenario

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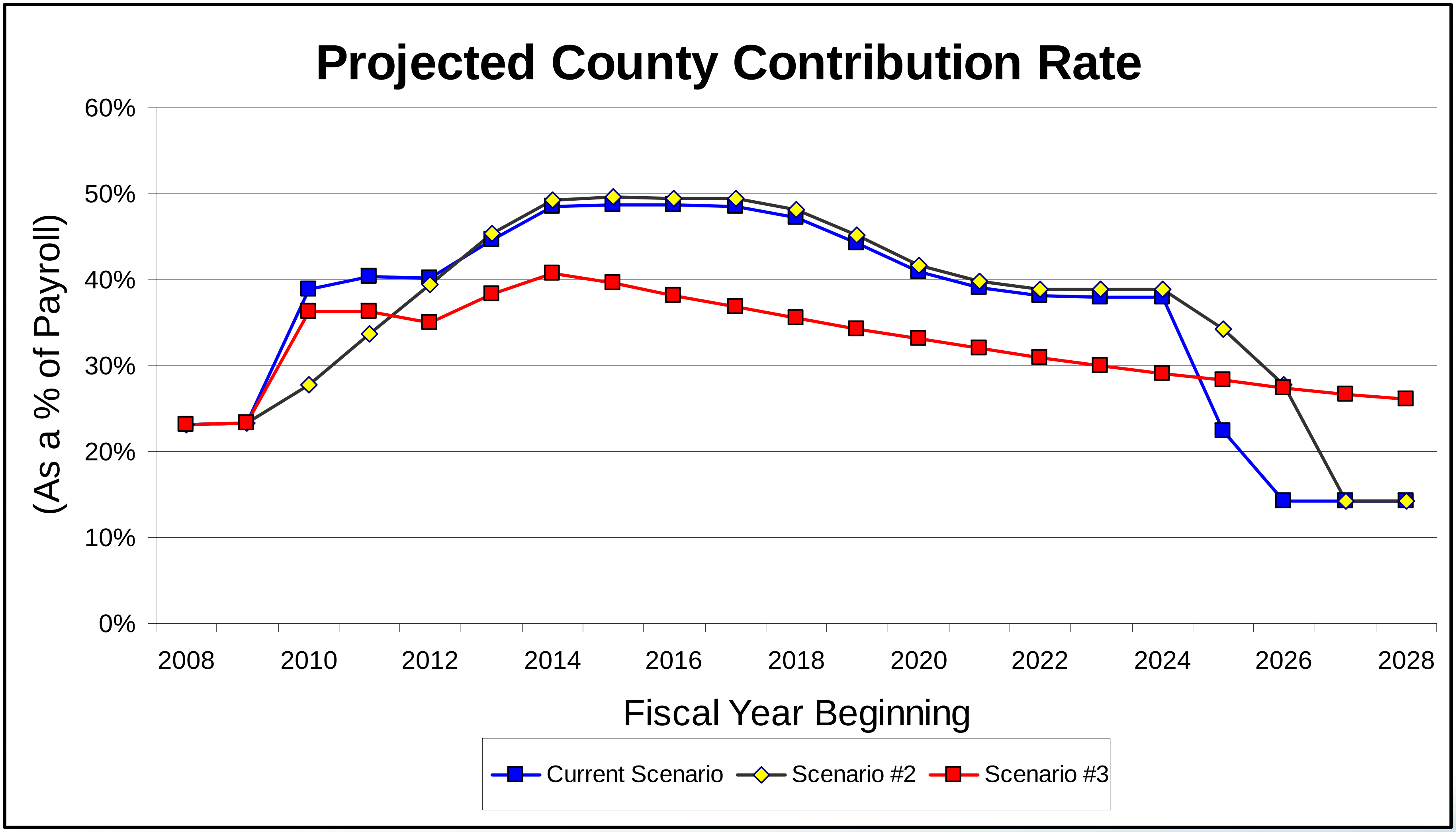
Projected Contribution Rates



Additional Projections Under Various Funding Policies

- Assumes no liability gains or losses, same investment returns as earlier
  - Does not reflect reality – markets are volatile and may be more so in the future. Various economic scenarios are beyond the scope of this presentation.
- Current Scenario is same as before.
- Scenario #2 moves to a 30-year closed amortization, becoming a rolling-15 amortization in 15 years. CERL requires a minimum UAAL contribution equal to a 30-year amortization.
- Scenario #3 is the same as Scenario #2, but uses Market Value of Assets instead of Actuarial Value of Assets.

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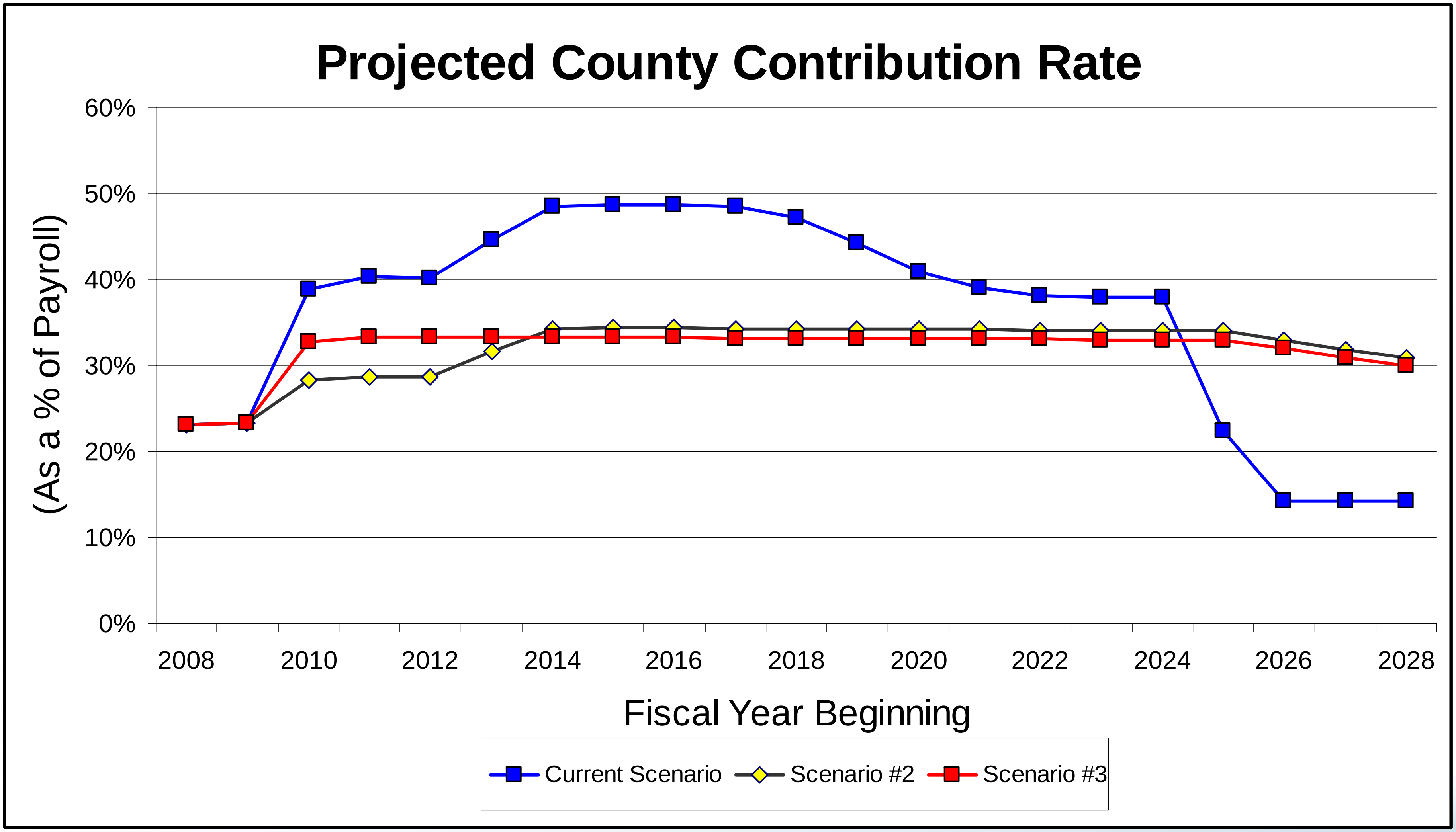
Projected Contribution Rates



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Questions

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Caveats and Disclaimers

This presentation is based on the data, methods, assumptions and plan provisions described in our 2008 actuarial valuation report. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

These statements include reliance on data provided, on actuarial certification, and the purpose of the report.

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