BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
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Agenda Number:	**Attachment to CEO Board Letter**
Department Name:	SBCERS
Department No.:	810
For Agenda Of:	September 23, 2008
Placement:	Administrative
Estimated Tme:	
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO: Board of Supervisors

FROM: Department Director: Oscar Peters, Retirement Administrator
Contact Info: Oscar Peters, 805-568-2998

SUBJECT: **Actuarial Valuation as of June 30, 2007, and Retirement Contribution Rates for Fiscal Year 2008-09**

Recommended Actions:

That the Board of Supervisors:

a. Receive the revised report of the actuarial valuation for June 30, 2007.

b. Adopt employer and member contribution rates recommended by Milliman, the System's actuary, and approved by the Board of Retirement, for Fiscal Year 2008-09 to be implemented on October 1, 2008 or for the payroll cycle in which that date occurs.

Summary Text:

The Board of Retirement receives an actuarial valuation of the Santa Barbara County Employees' Retirement System (the System) each fiscal year. The valuation is based on the current members of the System and liabilities are projected based on non-economic and economic assumptions. The Non-economic assumptions address the probability of members leaving service for termination, death and retirement, and the life expectancy of retirees. Economic assumptions are the long term expected rate of return of the Fund's investments and the rate of increase in member salaries. The valuation presented at this time represents the consolidation of several reserves that were not previously considered valuation assets. In addition the with the adoption of a 401(h) retired health insurance program, assets previously excluded for the provision of retired supplemental benefits have been recharacterized as valuation assets for the basic retirement benefit.

As of June 30, 2006, the employer contribution rate was 21.09% with a funded ratio of 84.6%. Incorporating the revised actuarial assumptions and valuation assets resulted in employer contributions rates increasing by 1.97% and the funded ratio improving by 2.5%. The net result is an overall employer contribution rate of 23.06% and a funded ratio of 87.1% as of June 30, 2007.

Attached tables provide the detailed impact on employer contributions and the recommended employer and employee contribution rates.

Background

The assumptions that are used to project the liabilities are reviewed and adjusted based on an investigation of experience. The investigation is routinely prepared on a three-year cycle. However, Fiscal Year 2007 was the first year for Milliman to prepare the actuarial valuation. While all actuaries value the same sets of liabilities, their approaches to defining the liabilities differ. To have a valuation report that was internally consistent with the Milliman process, the Board of Retirement authorized an Investigation of Experience as part of the valuation. Because an investigation of experience had been performed by the predecessor firm for July 1, 2003 through June 30, 2006, it was decided to have the investigation overlap that study and add the another year. The resulting report was based on experience for four years (July1, 2003 through June 30, 2007). As a result of the experience study and recommendations from Milliman, the Board of Retirement revised several assumptions which resulted in a change in the value of the liabilities, which determine the required contribution rates for members and the plan sponsors.

The previous actuary's model had made assumptions based on age. Milliman believes that service is a better predictor of behavior for projecting liabilities. This resulted in a change in methodology. The new method assumes that any member who becomes eligible for a service retirement will receive a lifetime retirement allowance and will not terminate and take a refund of contributions. This change resulted in a 4.39% increase in employer contributions. There were two other significant changes in assumptions. The life expectancy of retirees on service retirement was adjusted to reflect the longer life expectancy of current members. This increased the employer contribution rate by 2.04%. The expected merit salary increases were adjusted to reflect long term changes. This reduced the employer contribution rate by 3.28%. The net change from the actuarial Investigation of Experience was an increase of 5.36% over the rate adopted from the June 30, 2006, actuarial valuation.

Member rates also changed based on changes in certain actuarial assumptions (mortality and salary increases). The rates of change vary considerably among plans and depending on age at entry into the retirement system.

Using these revised assumptions the Actuary then prepared the actuarial valuation report. The most significant adjustment was that investment experience resulted in actuarial gain of 1.73%, and that the transfer of health coverage reserves to retirement reserves resulted in an actuarial gain of 2.52%. The net result of the increases resulting from change of methodology and assumptions and the gains from investments and recharacterizing the health reserves as retirement benefit reserves was a 1.97% increase in employer contribution rates.

The Board of Supervisors adopted a new tier for the General Member plan after the close of the 2007 fiscal year. As the benefit has already been initiated, a further adjustment was necessary for that plan. The net change of that plan was a 0.66% increase in overall employer contribution rate.

The final addition was the transfer of funding of the supplemental benefits the plan sponsors. This resulted in a redesignation of health reserves as retirement reserves. The net change was a reduction of 2.52% in the overall employer contribution rate.

After these amendments, the June 30, 2007, actuarial valuation resulted in the System reporting an Unfunded Actuarial Accrued Liability of $252.3 million, a total employer contribution rate of 23.06% of covered payroll, and an actuarial funding ratio of 87.1%.

The Board of Retirement recognizes that these changes represent a significant increase in the cost of funding the system and that the reductions in cost from redesignation of health reserves is offset by increased costs in benefit programs. However, we believe that the revised assumptions were necessary to truly reflect the liabilities of the System. At 87.1% the system remains well funded.

Attachments

- Employer Contribution Rates for Fiscal Year 2008-09
- Member Contribution Rates for Fiscal Year 2008-09
- Consolidated Change Detail
- Actuarial Valuation June 30, 2007, Revised as of September 19, 2008

cc: All participating special districts
All recognized employee organizations