



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: SBCERS
Department No.: 810
For Agenda Of: 4/17/07
Placement: Administrative
Estimated Tme: 45 Minutes on 4/24/07
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
Department Oscar Peters, Retirement Administrator, 568-2940
Director(s)
FROM: Contact Info: Lila Deeds, 568-2941
SUBJECT: Set Hearing to Receive Presentation of Santa Barbara County Employees' Retirement System Actuarial Studies for the Year Ending June 30, 2006, and Establish Contribution Rates for Fiscal Year 2007-08

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence:

As to form:

Recommended Actions: That the Board of Supervisors set a hearing for April 24, 2007, to:

1. Receive the experience study for the period July 1, 2003, through June 30, 2006, and the actuarial valuation report for the Santa Barbara County Employees' Retirement System as of June 30, 2006; and
2. Adopt contribution rates for members and the County and participating special districts for Fiscal Year 2007-08, as determined by the actuary and recommended by the Board of Retirement.

Summary Text: The Board of Retirement has an actuarial valuation of the Santa Barbara County Employees' Retirement System (the System) prepared each 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 longer term rate of return of the Fund's investments and the rate of increase in members' salaries.

In addition, every third year the Board of Retirement has the actuary perform an experience study to determine if the current assumptions represent reasonable expectations for valuing the liabilities of the System. The Board of Retirement's actuary, Buck Consultants, prepared an actuarial experience study for the three-year period ending June 30, 2006. As a result of the experience study, the Board of

Retirement revised the non-economic assumptions as follows:

- Reduced the expected deaths of active male general members
- Reduced the expected non-service disabilities of male general members
- Reduced the expected service disabilities of male general members
- Increased the expected safety disabilities
- Reduced the expected service retirements of male general members
- Increased the expected service retirements of female general members
- Increased the expected vested termination for both male and female general members

In addition, the disability retirement mortality tables were revised to reflect a longer life expectancy of all disability retirees.

The actuary confirmed the long term assumption of an 8% investment return based on historical returns and the asset allocation of the Fund. The actuary recommended that the inflation rate for salaries be reduced from 4.5% to 4.0% and that the merit and longevity assumption be increased from 1% to 2%. These factors combined result in an assumed annual payroll increase of 6% compared to 5.5% under the previous assumptions.

The actuary used these revised assumptions to prepare the June 30, 2006, actuarial valuation. The resulting report details the sources of changes in the actuarial funding, the total funded status of the system and recommends the contribution rate for employers and members. The valuation report found that the System had an improved funded status (to 85.8% from 85.6%) for the first time since the December 2002 valuation. Over the same period on a *market value basis* the System was 90.0% funded as of June 30, 2006, compared to 87.5% a year earlier. The System now has an unfunded actuarial accrued liability of \$256.9 million, and deferred gains in excess of \$76 million which will be recognized over the next five years.

The actuary also recommended changes in member and employer contribution rates. Member contribution rates are based on the contributions necessary to fund one-quarter (half rates) or one-half (full rates) of the basic retirement benefit. The employers' contributions pay for the remainder of the cost for the basic retirement benefit, the cost of living adjustment and other post-retirement benefits, and the annual cost to amortize any unfunded accrued liability. The recommended employer composite contribution rate increased to 20.90% (11.61% for normal costs and 9.29% for the unfunded accrued actuarial liability) of covered payroll from the current 20.14%. The table below details the changes which represent a 0.76% increase in contribution rate and a \$13.1 million increase in liabilities. Each year the new accrued liabilities or gains are amortized over 15 years.

EXHIBIT 5.1 – CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES AND CONTRIBUTION RATES

	<u>Unfunded Liability</u>	<u>Contribution Rate</u>
Values as of June 30, 2005	\$243,808,000	19.78%
Adjustment for Safety Plan 4C and 4D	1,023,000	0.36%
Adjusted current contribution rate	\$244,831,000	20.14%
Interest and contribution adjustment through June 30, 2006	2,244,000	0.44%
Change due to		
Asset losses/(gains)	7,856,000	0.24%
Other losses (demographic experience)	8,904,000	0.27%
Change in actuarial assumptions	(7,040,000)	(0.22)%
Change in plan provision	85,000	0.03%
Total changes	12,049,000	0.76%
Values as of June 30, 2006	\$256,880,000	20.90%

Background:

The actuarial valuation report was adopted by the Board of Retirement at its November 8, 2006, meeting. The recommended contribution rates were adopted, subject to further information regarding the structure and impact of the broadbanding of County managers and executives.

Fiscal and Facilities Impacts:

Adoption of the recommended contribution rates will increase System-wide employer contributions by approximately 0.76% of covered payroll, or \$2.18 million.

Special Instructions:

Please send a copy of the Minute Order to the Santa Barbara County Employees' Retirement System.

Attachments:

Report on the Experience Study, 7/1/03 through 6/30/06
 Report on the Actuarial Valuation as of 6/30/06

cc:

Superior Court
 SBCAG
 Participating Special Districts