

SBCERS' FRAMEWORK FOR CONSIDERING ACTUARIAL FUNDING CHANGES

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The business of relationships.™



FUNDAMENTAL FIDUCIARY DUTIES OF THE BOARD OF RETIREMENT

1. Exclusive benefit rule
2. Duty of loyalty – best interests of *all* members and beneficiaries, today and tomorrow
3. Duty of prudence – to invest assets and provide promised benefits through sound actuarial funding

Measure of prudence: “under the circumstances then prevailing”



AN “INTERESTED” BOARD WITH A DISINTERESTED MISSION

- The Constitution requires an “interested” retirement board, but trustees must act for the good of the system, not for “constituents”
- In other words, the SBCERS’ trustees do not “represent” anyone but the trust
- Their mission: Promises made by the County and districts are to be kept by SBCERS



THE RECESSION HAS HIT EVERYBODY HARD

- **Impact on SBCERS**
 - **Investment earnings**
 - **Cash flow**
 - **Assumed rate of return**
 - **Gap between Actuarial and Market Value of Assets**
 - **Funded ratio – current and projected**
 - **Contribution rates**



THE RECESSION HAS HIT EVERYBODY HARD

- **Impact on the County and districts**
 - **Revenues**
 - **Workforce**
- **Impact on members**
 - **Job security**
 - **Wage security**
 - **Retirement assumptions**



PROPOSED ACTUARIAL CHANGES UNDER CONSIDERATION

- **When current circumstances portend long term changes impacting funding**
 - **Rates of inflation and wage growth**
 - **Real rates of return**
 - **Investment return assumption and the discounting of liabilities**
- **Please don't shoot the messenger!**



FACTORS SBCERS MAY CONSIDER

- **SBCERS is not in a vacuum – County and district fiscal conditions important**
- **Employer hardship, short term**
 - **Decline in revenue sources, subventions**
 - **Reductions in force**
 - **County, district ability to make timely contributions**
- **Employer hardship, long term**



FACTORS SBCERS MAY CONSIDER

- **SBCERS' cash flow requirements and any impairment of ability to pay benefits timely**
- **SBCERS' long-term funding obligations**
- **Actuarially sound assumptions, methodologies**
- **Volatility of contribution rates**



SBCERS' CHECKLIST FOR PRUDENT DECISION MAKING

- ☐ Conduct open, public proceedings
- ☐ Provide notice to members and retiree organizations, employers
- ☐ Check interests at the door
- ☐ Avoid “negotiating” with the County
- ☐ Promote full disclosure – by both SBCERS and the County



CHECKLIST FOR PRUDENT DECISION MAKING

- ☐ Conduct full due diligence – get the facts!
- ☐ Obtain actuarial “if/then” modeling
- ☐ Obtain actuary’s recommendations and assurance of compliance with standards of practice
- ☐ Determine if choices will materially impact members’ benefit security



CHECKLIST FOR PRUDENT DECISION MAKING

- ☐ Consider subsequent events after “snapshot” actuarial valuation date
- ☐ Maintain current long-term policies unless circumstances require change
- ☐ Weigh the facts impartially
- ☐ Maintain a record of deliberations, actions

ABOVE ALL, KEEP YOUR BALANCE!

