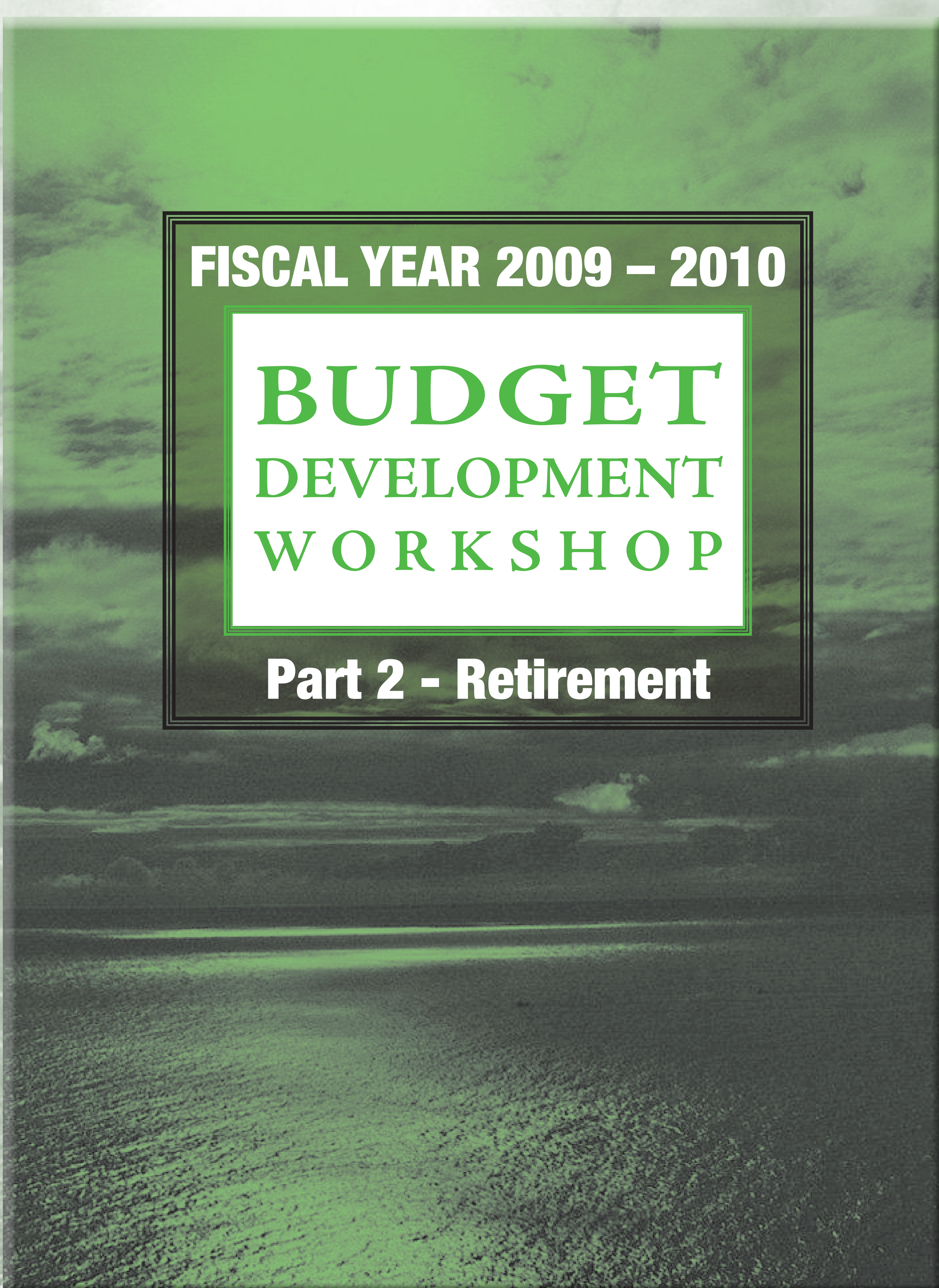

FISCAL YEAR 2009 – 2010

BUDGET DEVELOPMENT WORKSHOP

Part 2 - Retirement

COUNTY EXECUTIVE OFFICE

County of Santa Barbara Budget Development Workshop PART 2 – RETIREMENT

Presented Tuesday, February 10th, 2009
to the
Board of Supervisors

Salud Carbajal	First District
Janet Wolf, Vice Chair	Second District
Doreen Farr	Third District
Joni Gray	Fourth District
Joseph Centeno, Chair	Fifth District

Report of the County Executive Office
Auditor-Controller and CEO/Human Resources

County Executive Office
Budget & Research Division

EXECUTIVE SUMMARY

STATEMENT OF PURPOSE

Given the multifaceted financial challenges affecting the development of the Fiscal Year 2009-2010 budget, the Board of Supervisors (BoS) requested staff to conduct a Budget Development Workshop. Due to the breadth and complexity of the information, the workshop is divided into four parts with one part being conducted on each of the four Tuesdays in February 2009.

This second part of the four-part Budget Development Workshop presents the County's retirement program and the challenges the County will face in funding retirement costs. The latter two parts of the workshop will 1) present five-year financial forecasts for several of the County's key service funds, and 2) present Fiscal Year 2009-2010 service level impacts developed by department staff based on the Board's adopted budget principles.

RETIREMENT SUMMARY

Future budgets will be severely constrained by rising retirement costs even if the recession ends and the economy bounces back. This workshop focuses on issues surrounding the County's rising pension costs. The County's actuary, Bill Hallmark, of Mercer, will make the presentation (Pension Obligations tab). Mr. Hallmark will review with the BoS:

- General principles for the management of retirement plans;
- The impact of recent market experience on the County's retirement system and associated County costs; and
- Options for the BoS to consider.

RETIREMENT SYSTEM

The Retirement Act of 1937 ('37 Act) governs the manner in which pensions are administered in '37 Act counties, of which the County of Santa Barbara is one. The Santa Barbara County Employees' Retirement System (SBCERS), which has a Board of Retirement (BoR) as provided for in the '37 Act, has been responsible for many years for managing the County's pension plans. The County of Santa Barbara is the major plan sponsor within that system.

Pension plans are funded from three sources:

- Employee contributions (a percentage of employee pay);
- Employer contributions (a percentage of total payroll); and
- Investment earnings (returns on the investments made by the Retirement System).

The annual employer contribution rates are based on:

- The level of benefits;
- The actuarial methods and assumptions used by the Retirement System's actuary; and
- The actual return on investments realized by the Retirement System.

RECENT OCCURRENCES

In the last several years, the following has occurred:

- Some improvements and reductions in some pension benefit levels;
- SBCERS-driven changes in the actuarial methods and assumptions used to determine employee/employer costs; and
- Significant losses in SBCERS' market investments.

Due to these occurrences, both the County's actuary and the SBCERS experts have independently projected that the County's pension costs will significantly increase by 2010. In fact, assuming the market stabilizes so that SBCERS earns its expected return for the first half of 2009 and achieves a return for the Fiscal Year of about -22%, Mercer projects the County's costs will increase from 23% of payroll today to approximately 35% of payroll by July 2010.

Under the same assumptions, Mercer projects that the funding status of SBCERS using the market value of assets will have declined from approximately 97% on June 30, 2007 to approximately 60% on June 30, 2009. If investment returns for the Fiscal Year are as low as -38%, contribution rates could be as high as 44% of payroll and the funded status could be as low as 57% by June 30, 2009.

Using the current methods adopted by SBCERS, required employer contributions are expected to increase from about $76 million in the 2009-2010 Fiscal Year to between $93 million and $150 million, depending on investment performance. The majority of employer contributions are paid by the County (approximately $65 million of the total $76 million in 2009-2010). Over 10% to more than 17% percent of the entire County budget would be dedicated to funding retirement costs.

OPTIONS

There are some options available to the Board in managing costs and risks:

- **Funding Policy** – could include changes in actuarial methods and assumptions. Changes to the funding policy require action by the SBCERS BoR.
- **Investment Policy** – much of the ongoing risk retained by the County is investment risk. Higher investment returns will reduce required County contributions; lower returns will increase required County contributions. Changes to the investment policy require action by the SBCERS BoR.
- **Benefits Policy** – changes to the benefit structure are subject to collective bargaining and legal requirements. Changes to benefits policy require action by the County BoS.

Addressing the fiscal impact of retirement costs is imperative in being able to balance future budgets.