SANTA BARBARA COUNTY
BOARD AGENDA LETTER

Clerk of the Board of Supervisors
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Agenda Number:	
Prepared on:	4/26/06
Department Name:	SBC Employees Retirement System
Department No.:	810
Agenda Date:	5/02/2006
Placement:	Departmental
Estimate Time (Hrg):	15 minutes
Continued Item:	NO
If Yes, date from:	

TO:	Board of Supervisors
FROM:	Board of Retirement Santa Barbara County Employees' Retirement System
STAFF CONTACT:	Oscar Peters, Retirement Administrator 568-2998
SUBJECT:	Presentation of Santa Barbara County Employees' Retirement System Actuarial Valuation for the Year Ending June 30, 2005 Establishing Employer Contribution Rates for fiscal year 2006-07

Recommendation(s):
That the Board of Supervisors:
Adopt Board of Retirement recommended employer contribution rates to the Santa Barbara County Employees' Retirement System for FY 2006-07.

Executive Summary and Discussion:
The Board of Retirement's actuary, Buck Consultants, (formerly Mellon Human Resources and Investment Solutions), annually prepares an actuarial valuation of the plans administered by the Santa Barbara County Employees' Retirement System (SBCERS). The Board of Retirement received the report of the June 30, 2005 actuarial valuation at its meeting of October 12, 2005 and adopted the recommendations of the report. The recommendations increased the required plan sponsor contribution rate from 18.11% to 19.78% of covered payroll.

The actuarial funding process is designed to collect money during current service to fund payment of future benefits that accrued from that service. To project the current cost of the future benefits the actuary has to make assumptions of the structure of the workforce, the level of pay increases, their tenure with the County and their life expectancy after retirement. In addition the actuary has to look at the expected economic environment and make assumptions on the levels of inflation and the expected return on investments. Using these assumptions the actuary projects the current cost of providing future benefits as a percentage of current payroll. This percentage is then divided among members and the plan sponsor. Every three years an actuarial experience study is performed to test the assumptions against the actual experience of the Plan. If the Board of Retirement finds as a result of the actuarial experience study that some of the assumptions need to be adjusted it recommends new member and plan sponsor contribution rates. The last experience study was performed on June 30, 2003. In that study it was found that retired members were outliving their assumed life expectancy. On the basis of that study member and sponsor contribution rates were increased effective July 1, 2004 to reflect the higher cost of paying benefits longer. The next experience study will be performed on June 30, 2006.

Annually the Board of Retirement has the actuary perform an actuarial valuation. The report from the valuation study identifies actuarial gains and losses resulting from experience that differed from the actuarial assumptions. To minimize the impact of these changes on the County budget the Board of Retirement has adopted smoothing procedures.

The gains and losses resulting from the changes in market value of the portfolio are recognized over a five year period and amortized over 15 years. All other gains and losses are amortized over 15 years. The changes in contribution rates from the valuation report only affect the County contribution rates.

The report presented at this meeting is the result of the June 30, 2005 actuarial valuation.

The table below gives the details by plan.

NORMAL COST AND UAAL RATE BREAKDOWN

TOTAL EMPLOYER CONTRIBUTION RATES – RECOMMENDED							
	GENERAL			SAFETY	SAFETY & PROBATION	APCD	
	Plan 5A	Plan 2	Plan 5B	Plan 4A	Plan 4B	Plan 1	Plan 2
Normal Cost	9.31%	2.79%	9.43%	18.96%	15.76%	11.32%	11.23%
UAAL	6.20	6.20	6.20	14.77	14.77	7.04	7.04
Total	15.51%	8.99%	15.63%	33.73%	30.53%	18.36%	18.27%

Recommended Average Rate for Total Group:		
	Normal Cost	11.38%
	UAAL	8.40%
	Total	19.78%

Mandates and Service Levels:
Section 31453 of the County Employees Retirement Law requires that an actuarial valuation be presented to the Board of Supervisors at least 45 days before the beginning of the fiscal year for which the new rates will be effective.

Fiscal and Facilities Impacts:
The employer contribution rate for the current fiscal year is 18.11% of covered payroll was established on the basis of the June 30, 2004 actuarial valuation. The recommended contribution rate for the 2006-07 fiscal year is 19.78% percent of covered payroll. This 1.67% increase is

estimated to increase County costs by $4.5 million. The following table details the components of the change.

CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES AND CONTRIBUTION RATES

	Unfunded Liability	Contribution Rate
Values as of June 30, 2004	$199,599,000	18.11%
Interest and contribution adjustment through June 30, 2005	4,159,000	0.40%
Change due to ….		
Asset losses/(gains)	41,541,000	1.32%
Other losses (demographic experience)	(1,491,000)	(0.05)%
Total changes	44,209,000	1.67%
Values as of June 30, 2005	$243,808,000	19.78%

The fund had a very good year with a return on assets of 9.9%. This resulted in an actuarial return on retirement assets of 5.0%, which is below the actuarial assumed rate of 8.16%. The recognition of market losses from the preceding years created an asset loss of $41.5 million requiring a 1.32% increase in the contribution rate. The System uses a five-year smoothing method to recognize asset gains and losses. Asset losses from two years of the market collapse remain to be recognized. However, over the five year smoothing period the system has $32 million of deferred gains. This compares to $32 million of deferred losses at the end of the previous year.

Even with these losses the system remains well funded at 85.6%.   .

Attachment: Report on the Actuarial Valuation as of June 30, 2005.

Copy: Special Districts

Special Instructions: Please send a copy of the Minute Order to the Retirement Office