

**Castillo, Brenda**

**From:** Brown, Michael F. (CEO)  
**Sent:** Wednesday, October 06, 2010 5:21 PM  
**To:** Castillo, Brenda  
**Subject:** 000 - BOS - Economic Assumptions transmittal.doc  
**Attachments:** image001.emz



Santa Barbara County Employees' Retirement System

Vincent P. Brown – Chief Executive Officer

**Item # 2**

**To:** Board of Retirement  
**From:** Lila Deeds, Assistant Chief Executive Officer  
**Subject:** **2010 Economic Assumptions**

**Recommendation:**

Receive preliminary report and presentation from Milliman, the System's Actuary, regarding the findings on economic assumptions (part of the Investigation of Experience from July 1, 2007, to June 30, 2010), and consider modifications to the economic actuarial assumptions.

**Discussion:**

Milliman is conducting an Investigation of the Experience for SBCERS, for the three-year period ending June 30, 2010. The Investigation will include analysis and the Actuary's recommendations regarding the various economic and demographic assumptions. At this time Milliman is providing draft of the economic assumptions section in advance of the final report scheduled for presentation on October 27, in order to allow the Board additional time to consider recommended changes in economic assumptions.

Based on their study, Milliman is recommending significant reductions in the inflation assumption and the expected rate of return on investments, as follows:

	Investment Return	Inflation	Real Return
Current Assumption	8.16%	3.5%	4.66%
Milliman's Recommendation	7.25%	3.0%	4.25%

Given the significant changes in assumptions, Milliman has also identified alternative assumptions

and combinations within the range of reasonableness. Milliman has provided four different sets of alternative economic assumptions (see Exhibit 3-2, page 30). In all scenarios, the Real Wage (inflation) assumption is maintained at 0.50%.

To assist the Board in understanding the potential economic impact on funded ratio and employer and member contribution rates, Milliman has applied the four sets of alternative assumptions to June 30, 2009 valuation data (this information is also displayed in Exhibit 3-2). For example, Milliman's recommended economic assumptions could reduce the System's funded ratio from 70.8% to approximately 67.8% and increase employer contributions by approximately 30% (from 28.8% to 37.65% of payroll). However, please note that these calculations are for illustrative purposes only and do not reflect whatever changes may occur due to demographic experience or as a result of an upcoming actuarial valuation based on June 30, 2010, data.

In a separate agenda item, Fiduciary Counsel Harvey Leiderman provides a legal context for the Board's consideration of the actuary's recommendations. Pension Consulting Alliance is also providing their perspective on capital markets expectations. Decisions by the Board regarding the economic assumptions are not expected on October 4. However, in order to meet the proposed schedule (i.e., valuation completed and recommended rates published in December) the Board will need to make all decisions regarding actuarial assumptions (economic and demographic) no later than the October 27 regular meeting. Should the Board wish to consider funding policy and/or investment allocation alternatives to mitigate the financial impact of assumption changes, the current schedule may necessarily be extended. For example, a review of the funding policy options with 20-year projections (similar to last year's) would require an additional meeting and cost an estimated \$100,000.

Attached for the Board's information is a chart showing the inflation and investment return assumptions from 1981 to 2009.

#### Attachments

cc: All Plan Sponsors  
All Recognized Employee Organizations  
Retirement Program Alternatives Advisory Commission