

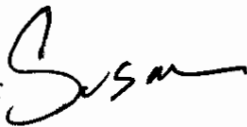
**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



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

Agenda Number:
Prepared on: 5/16/06
Department Name: Human Resources
Department No.: 064
Agenda Date: 5/23/06
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Susan Paul, Assistant CEO/HR Director 
568-2817

STAFF CONTACT: Joe Pisano, Sr HR Analyst
568-2839

SUBJECT: Actuarial Study of Retirement Benefit Changes for Safety Members in Fire and Probation Departments

Recommendation(s):

That the Board of Supervisors:

1. Receive and file the attached report (Attachment A) from the Retirement System's actuary regarding the anticipated financial impact of implementing changes in retirement benefits (FAS-3 and half-rates) for Safety members in the Fire and Probation Departments.
2. Receive and file the attached letter (Attachment B) from the Retirement System's actuary regarding the cost of including standby pay as pensionable earnings.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with actions required by law or by routine business necessity.

Executive Summary and Discussion:

Pursuant to Government Code Sections 7507 and 23026, the anticipated future cost of a proposed change in retirement benefits must be made public at a meeting no less than two weeks prior to adopting the proposed benefit. The agenda notice must include an explanation of the financial impact the proposed benefit will have on the funding status of the Retirement System.

Collective bargaining agreements have been negotiated with the Santa Barbara County Fire Fighters, Local 2046, and with the County's Probation Peace Officers Association. The Firefighters contract was adopted by the Board of Supervisors on May 2, 2006 and the Probation agreement was adopted on November 8, 2005. Both contracts included the adoption of employee half-rates and a three-year Final Average Salary for

employees in these units. For the Firefighters, the change will impact employees hired on or after October 10, 1994. In the Probation unit, all employees are affected by the change. This Board letter is a required step in the implementation process.

At the request of the County, the Retirement System's actuary reviewed the cost of implementing these changes. The calculations were based on the economic and non-economic assumptions used to perform the June 30, 2004 actuarial valuation, except as noted in the report. The cost of the change is included in Attachment A.

Additionally, it has been determined that standby pay be included as pensionable earnings, consistent with the 1937 Retirement Act. At the request of the County, the Retirement System's actuary reviewed the cost of including standby pay as pensionable. These calculations are based on the economic and non-economic assumptions used to perform the June 30, 2005 actuarial valuation except as otherwise noted in the report. The cost of the change is included in Attachment B.

Fiscal and Facilities Impacts:

The attached information is provided at this time for public review purposes in accordance with the requirements of the Government Code.

The cost information on implementing employee half rates pertains to all Safety member employees in the Fire and Probation Departments, including employees represented by the Santa Barbara County Fire Fighters, Local 2046 and the Probation Peace Officers Association, as well as managers and executives in the Fire and Probation Departments who are in Safety classifications.

The additional annual employer contribution associated with providing employee half-rates and three-year Final Average Salary for Safety employees in the Fire Department hired on or after October 10, 1994 and of providing employee half-rates and three year Final Average Salary for all Safety employees in the Probation Department, is approximately \$739, 556. Employee rates are not affected.

The additional employer contribution associated with including standby pay as pensionable earnings is \$109,800 per year.

Funding for these changes has been included in the County's Strategic Financial Plan and in the Fire Department's five-year financial projections.

Attachments

cc: Auditor-Controller
County Counsel
Fire
Santa Barbara County Fire Fighters Local 2046
Probation
Probation Peace Officers Association
Retirement Administrator

Attachment A

Santa Barbara County Employees' Retirement System
 Relevant Excerpts from the Report on Sections 31664.1 and 31664.2 Benefits for Safety Members
 As of June 30, 2004

INTRODUCTION

[The Retirement System's Actuary, Mellon, was] asked to determine the costs associated with adopting Sections 31664.1 (3% at age 50) and 31664.2 (3% at age 55) for Safety members using various combinations of member rates, final salary periods and applicable coverage periods. It is our understanding that these proposed new formulas will apply to current active members only and the costs in this report were prepared on that basis.

Our study is based upon the data and actuarial assumptions used to perform the June 30, 2004 SBCERS actuarial valuation, except as noted in the report. A summary of the data used for the study is shown below.

	<u>SB County FF Local 2046</u>	<u>Department Head</u>	<u>Assistant Department Heads</u>	<u>Managers</u>	<u>Total Fire</u>
Number	179	1	2	10	192
Annual Payroll*	\$13,917,881	\$157,152	\$246,292	\$1,170,576	\$15,491,901
Av Annual Salary	\$77,754	\$157,152	\$123,146	\$117,058	\$80,687
Average Age	41.44	59.00	51.50	50.90	42.13
Average Service	13.00	5.00	28.00	23.80	13.68

	<u>Probation Peace Officers Association</u>	<u>Department Head</u>	<u>Assistant Department Heads</u>	<u>Managers</u>	<u>Total Probation</u>
Number	223	1	3	9	236
Annual Payroll*	\$12,470,051	\$150,654	\$322,310	\$779,971	\$13,722,986
Av Annual Salary	\$55,920	\$150,654	\$107,437	\$86,663	\$58,148
Average Age	41.48	58.00	51.60	51.80	42.07
Average Service	8.63	36.00	23.30	23.30	9.49

*Represents the projection of active members' pay rates on June 30, 2004

MEMBER CONTRIBUTION RATES

Section 31664.1 does not prescribe a method for calculating the employee contributions under the new benefit formula. Therefore, we used the current basis employee contribution rates for this study. A summary of the member contribution rates based on the current and proposed plan provisions is shown below. The interest rate, mortality table, inflation rate, and cost-of-living benefit percentage are indicated on the bottom of the schedules.

SAFETY MEMBERS' CONTRIBUTION RATES FOR SECTIONS 31664.1 AND 31664.2
(expressed as a percentage of monthly compensation)

Entry Age	One Year FAS	One Year FAS	Three-Year FAS	Three-Year FAS
	Half Rates	Full Rates	Half Rates	Full Rates
20	5.45%	10.90%	5.16%	10.33%
21	5.51	11.01	5.22	10.44
22	5.57	11.13	5.27	10.55
23	5.62	11.25	5.33	10.66
24	5.68	11.37	5.39	10.77
25	5.74	11.48	5.44	10.88
26	5.80	11.60	5.50	10.99
27	5.86	11.72	5.55	11.11
28	5.92	11.84	5.61	11.22
29	5.98	11.96	5.67	11.33
30	6.04	12.08	5.72	11.45
31	6.10	12.20	5.78	11.56
32	6.16	12.33	5.84	11.68
33	6.23	12.45	5.90	11.80
34	6.29	12.58	5.96	11.92
35	6.35	12.71	6.02	12.04
36	6.42	12.84	6.08	12.16
37	6.48	12.97	6.14	12.29
38	6.55	13.10	6.21	12.41
39	6.61	13.23	6.27	12.54
40	6.68	13.36	6.33	12.66
41	6.75	13.49	6.39	12.79
42	6.81	13.63	6.46	12.91
43	6.88	13.76	6.52	13.04
44	6.95	13.89	6.58	13.16
45	7.01	14.03	6.65	13.29
46	7.08	14.16	6.71	13.42
47	7.15	14.30	6.78	13.55
48	7.22	14.45	6.84	13.69
49	7.30	14.60	6.92	13.83
50	7.38	14.76	6.99	13.98
51	7.46	14.92	7.07	14.13
52	7.54	15.08	7.15	14.29
53	7.63	15.26	7.23	14.46
54 & over	7.72	15.45	7.32	14.64
Interest:	8.16%	8.16%	8.16%	8.16%
Inflation:	4.50%	4.50%	4.50%	4.50%
Mortality:	94 GA (Male, -2)	94 GA (Male, -2)	94 GA (Male, -2)	94 GA (Male, -2)

Attachment A

Santa Barbara County Employees' Retirement System
5/16/06 (June 30, 2004 Valuation Date)

For Safety members, including managers and Executives in the Fire and Probation Departments 3% @ 55
All Half Rates
1 & 3 Year FAS

For all affected safety members in the Fire Department

Payroll	15,491,901
Change in UAAL	(136,152)
Change in UAAL rate	-0.07 %
Change in normal cost rate	1.98%
Change in total rate	1.91%
Change in UAAL contribution	(11,063)
Change in normal cost contribution	306,682
Change in total contribution	295,619

For all safety members in the Probation Department

Payroll	13,722,986
Change in UAAL	(1,571,415)
Change in UAAL rate	-0.98%
Change in normal cost rate	4.21%
Change in total rate	3.23%
Change in UAAL contribution	(134,192)
Change in normal cost contribution	578,129
Change in total contribution	443,937
Change in total contribution for both departments	739,556

SCHEDULE 1

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The UAAL is being amortized over 15 years from the date each new liability is first recognized.

- | | |
|---|--|
| 1. Interest: | 8.00% per annum, compounded biannually. |
| 2. Interest Credited to Employee Accounts: | 8.00% per annum, compounded biannually. |
| 3. Inflation: | 4.50% per annum. |
| 4. Asset Valuation: | Smoothed actuarial value. |
| 5. Salary Scale: | See Schedule 4. |
| 6. Spouses and Dependents: | 80% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands. |
| 7. Rates of Termination of Employment: | See Schedule 2. |
| 8. Years of Life Expectancy After Retirement (see Schedule 3): | <ul style="list-style-type: none"> • General & Safety Males - 1994 Group Annuity Table for Males, set back two years. • General & Safety Females - 1994 Group Annuity Table for Males, set forward one year. |
| 9. Years of Life Expectancy After Disability Retirement (see Schedule 3): | <ul style="list-style-type: none"> • General 1981 Disability Mortality Table for General Members, with no setback. • Safety 1981 Disability Mortality Table for Safety Members, set back two years. |
| 10. Life Expectancy After Retirement for Employee Contribution Rate Purposes: | <ul style="list-style-type: none"> • General Members - 1994 Group Annuity Table for Males, set back three years. • Safety Members - 1994 Group Annuity Table for Males, set back two years. |
| 11. Reciprocity Assumption: | 50% of members who terminate with a vested benefit are assumed to enter a reciprocal system. |
| 12. Deferral Age for Vested Terminations: | 62 for General members; 55 for Safety members. |

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

The following pages indicate the probability of separation from active service for each of eight separate sources of termination:

- ♦ *Withdrawal:* member terminates and elects refund of member contributions.
- ♦ *Vested termination:* member terminates and contributions are left on deposit.
- ♦ *Ordinary death:* member dies prior to eligibility for retirement; death not employment-related.
- ♦ *Ordinary disability:* member receives disability retirement; disability not employment-related.
- ♦ *Service retirement:* member retires after satisfaction of requirements of age and/or service for reasons other than disability.
- ♦ *Duty disability:* member receives disability retirement; disability is employment-related.
- ♦ *Duty death:* member dies prior to retirement; death is employment-related.
- ♦ *Death while eligible:* member dies prior to retirement but after satisfaction of age and/or service requirements for service retirement.

The probabilities shown for each cause of termination represent the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 25 is .1650, then we are assuming that 16.50% of the active members at age 25 will terminate without vested rights during the next year.

The following eligibility rules are not used when applying the assumptions: 5 years of service for vested termination, 5 years of service for ordinary disability and death while eligible, and the earlier of 50 years of age and 10 years of service or 30 years of service (20 years for Safety) for service retirement.

SCHEDULE 2
PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
SAFETY MEMBERS
CURRENT ASSUMPTIONS

<u>Age</u>	<u>Withdrawal</u>	<u>Ordinary Death</u>	<u>Ordinary Disability</u>	<u>Service</u>	<u>Death While Eligible</u>	<u>Duty Death</u>	<u>Duty Disability</u>	<u>Terminated Vested</u>
20	0.07000	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00000
22	0.06700	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00260
22	0.06400	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00585
23	0.06100	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00910
24	0.05800	0.00007	0.00000	0.00000	0.00000	0.00006	0.00018	0.01235
25	0.05500	0.00015	0.00004	0.00000	0.00006	0.00013	0.00027	0.01560
26	0.05200	0.00015	0.00004	0.00000	0.00006	0.00013	0.00036	0.01885
27	0.04900	0.00015	0.00004	0.00000	0.00006	0.00013	0.00049	0.02145
28	0.04500	0.00015	0.00004	0.00000	0.00006	0.00013	0.00063	0.02405
29	0.04100	0.00015	0.00004	0.00000	0.00006	0.00013	0.00077	0.02340
30	0.03800	0.00015	0.00004	0.00000	0.00006	0.00013	0.00094	0.02275
31	0.03500	0.00015	0.00007	0.00000	0.00006	0.00013	0.00112	0.02145
32	0.03200	0.00015	0.00010	0.00000	0.00012	0.00013	0.00130	0.01950
33	0.02900	0.00015	0.00017	0.00000	0.00012	0.00013	0.00153	0.01690
34	0.02700	0.00015	0.00025	0.00000	0.00012	0.00013	0.00175	0.01365
35	0.02500	0.00015	0.00032	0.00000	0.00012	0.00013	0.00202	0.01235
36	0.02300	0.00015	0.00038	0.00000	0.00018	0.00013	0.00234	0.01170
37	0.02100	0.00015	0.00046	0.00000	0.00024	0.00013	0.00265	0.01105
38	0.01900	0.00015	0.00052	0.00000	0.00024	0.00013	0.00297	0.01040
39	0.01700	0.00015	0.00059	0.00000	0.00030	0.00013	0.00329	0.00975
40	0.01500	0.00023	0.00066	0.00000	0.00036	0.00020	0.00360	0.00910
41	0.01300	0.00023	0.00074	0.00000	0.00036	0.00020	0.00391	0.00845
42	0.01100	0.00023	0.00081	0.00000	0.00036	0.00020	0.00427	0.00780
43	0.00900	0.00023	0.00084	0.00000	0.00042	0.00020	0.00464	0.00650
44	0.00700	0.00023	0.00084	0.00000	0.00042	0.00020	0.00499	0.00520
45	0.00600	0.00030	0.00088	0.00660	0.00048	0.00026	0.00540	0.00455
46	0.00500	0.00030	0.00088	0.00880	0.00054	0.00033	0.00581	0.00390
47	0.00450	0.00030	0.00091	0.01100	0.00054	0.00039	0.00621	0.00325
48	0.00400	0.00038	0.00091	0.01100	0.00060	0.00045	0.00661	0.00260
49	0.00400	0.00038	0.00094	0.01100	0.00060	0.00052	0.00702	0.00195
50	0.00400	0.00045	0.00094	0.05500	0.00066	0.00058	0.00742	0.00130
51	0.00400	0.00052	0.00098	0.04400	0.00072	0.00065	0.00788	0.00104
52	0.00400	0.00060	0.00098	0.04400	0.00078	0.00071	0.00833	0.00091
53	0.00400	0.00068	0.00102	0.03850	0.00084	0.00078	0.00877	0.00078
54	0.00400	0.00075	0.00105	0.03850	0.00090	0.00084	0.00922	0.00065
55	0.00000	0.00082	0.00000	0.10000	0.00096	0.00091	0.00000	0.00000
56	0.00000	0.00090	0.00000	0.07500	0.00102	0.00097	0.00000	0.00000
57	0.00000	0.00097	0.00000	0.07500	0.00108	0.00104	0.00000	0.00000
58	0.00000	0.00105	0.00000	0.15000	0.00114	0.00117	0.00000	0.00000
59	0.00000	0.00112	0.00000	0.40000	0.00120	0.00130	0.00000	0.00000
60	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

SCHEDULE 3

YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
50	32.55	33.94	81	8.88	9.14
51	31.62	32.99	82	8.37	8.58
52	30.69	32.05	83	7.89	8.05
53	29.77	31.11	84	7.44	7.54
54	28.85	30.17	85	7.00	7.06
55	27.95	29.24	86	6.59	6.59
56	27.04	28.31	87	6.19	6.15
57	26.15	27.40	88	5.80	5.73
58	25.27	26.49	89	5.43	5.34
59	24.39	25.59	90	5.07	4.98
60	23.52	24.70	91	4.73	4.64
61	22.67	23.82	92	4.42	4.33
62	21.83	22.96	93	4.13	4.04
63	21.00	22.11	94	3.86	3.76
64	20.18	21.28	95	3.61	3.51
65	19.39	20.46	96	3.37	3.28
66	18.60	19.65	97	3.16	3.06
67	17.84	18.86	98	2.98	2.86
68	17.10	18.08	99	2.81	2.67
69	16.37	17.31	100	2.66	2.50
70	15.66	16.54	101	2.52	2.34
71	14.97	15.78	102	2.39	2.19
72	14.29	15.04	103	2.26	2.06
73	13.63	14.31	104	2.15	1.94
74	12.98	13.60	105	2.04	1.83
75	12.34	12.90	106	1.93	1.74
76	11.72	12.22	107	1.84	1.66
77	11.12	11.57	108	1.75	1.59
78	10.53	10.93	109	1.68	1.54
79	9.96	10.31	110	1.62	1.50
80	9.40	9.71			

1994 GA (x-2, y+1) for Safety Members

SCHEDULE 3

**YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT
SAFETY AND PROBATION MEMBERS**

<u>Age</u>	<u>Years of Life Expectancy</u>	<u>Age</u>	<u>Years of Life Expectancy</u>	<u>Age</u>	<u>Years of Life Expectancy</u>
20	51.12	51	24.38	81	7.41
21	50.20	52	23.59	82	7.00
22	49.29	53	22.80	83	6.63
23	48.39	54	22.03	84	6.27
24	47.48	55	21.26	85	5.94
25	46.58	56	20.50	86	5.63
26	45.68	57	19.77	87	5.34
27	44.79	58	19.06	88	5.06
28	43.89	59	18.40	89	4.80
29	43.01	60	17.78	90	4.55
30	42.12	61	17.20	91	4.31
31	41.24	62	16.64	92	4.09
32	40.36	63	16.11	93	3.87
33	39.48	64	15.59	94	3.66
34	38.61	65	15.08	95	3.46
35	37.74	66	14.58	96	3.26
36	36.88	67	14.09	97	3.07
37	36.02	68	13.61	98	2.89
38	35.16	69	13.13	99	2.71
39	34.31	70	12.66	100	2.54
40	33.46	71	12.18	101	2.37
41	32.61	72	11.70	102	2.20
42	31.77	73	11.21	103	2.04
43	30.93	74	10.72	104	1.88
44	30.09	75	10.22	105	1.72
45	29.26	76	9.73	106	1.55
46	28.43	77	9.24	107	1.38
47	27.61	78	8.75	108	1.21
48	26.80	79	8.28	109	1.04
49	25.99	80	7.83	110	.88
50	25.18				

1981 Disability (x-2) for Safety members

SCHEDULE 4

RATIO OF CURRENT COMPENSATION TO COMPENSATION ANTICIPATED AT RETIREMENT

<u>Age</u>	<u>Safety Members</u>	<u>Age</u>	<u>Safety Members</u>
20	0.100	46	0.469
21	0.106	47	0.499
22	0.113	48	0.530
23	0.119	49	0.563
24	0.126	50	0.598
25	0.134	51	0.634
26	0.142	52	0.671
27	0.151	53	0.711
28	0.160	54	0.752
29	0.170	55	0.794
30	0.180	56	0.837
31	0.192	57	0.875
32	0.203	58	0.915
33	0.216	59	0.956
34	0.230	60	1.000
35	0.244	61	
36	0.258	62	
37	0.274	63	
38	0.291	64	
39	0.309	65	
40	0.328	66	
41	0.348	67	
42	0.369	68	
43	0.391	69	
44	0.415	70	
45	0.441		

Note: Salary scale assumption reflects 4.50% for inflation and graded merit and longevity.

Cost Impact of Including Standby Pay as Pensionable Earnings

	General	Fire	Other Safety	Probation	APCD	Total
Number	3,502	196	500	251	56	4,505
Annual Payroll*	195,460,015	16,348,335	37,802,096	14,264,331	3,910,457	267,785,234
Annual Payroll w/Standby Pay	195,947,905	16,377,251	37,828,794	14,280,793	3,910,457	268,345,200
Standby Pay	487,890	28,916	26,698	16,462	0	559,966
Average Age	45.13	42.21	41.07	41.28	49.11	44.39
Average Service	9.92	13.61	12.20	8.97	12.75	10.31
Additional Annual Contribution**	77,400	16,000	10,400	6,000	0	109,800

* Represents the projection of active members' pay rates on June 30, 2005.

** Assumed to increase by 4.5% per year