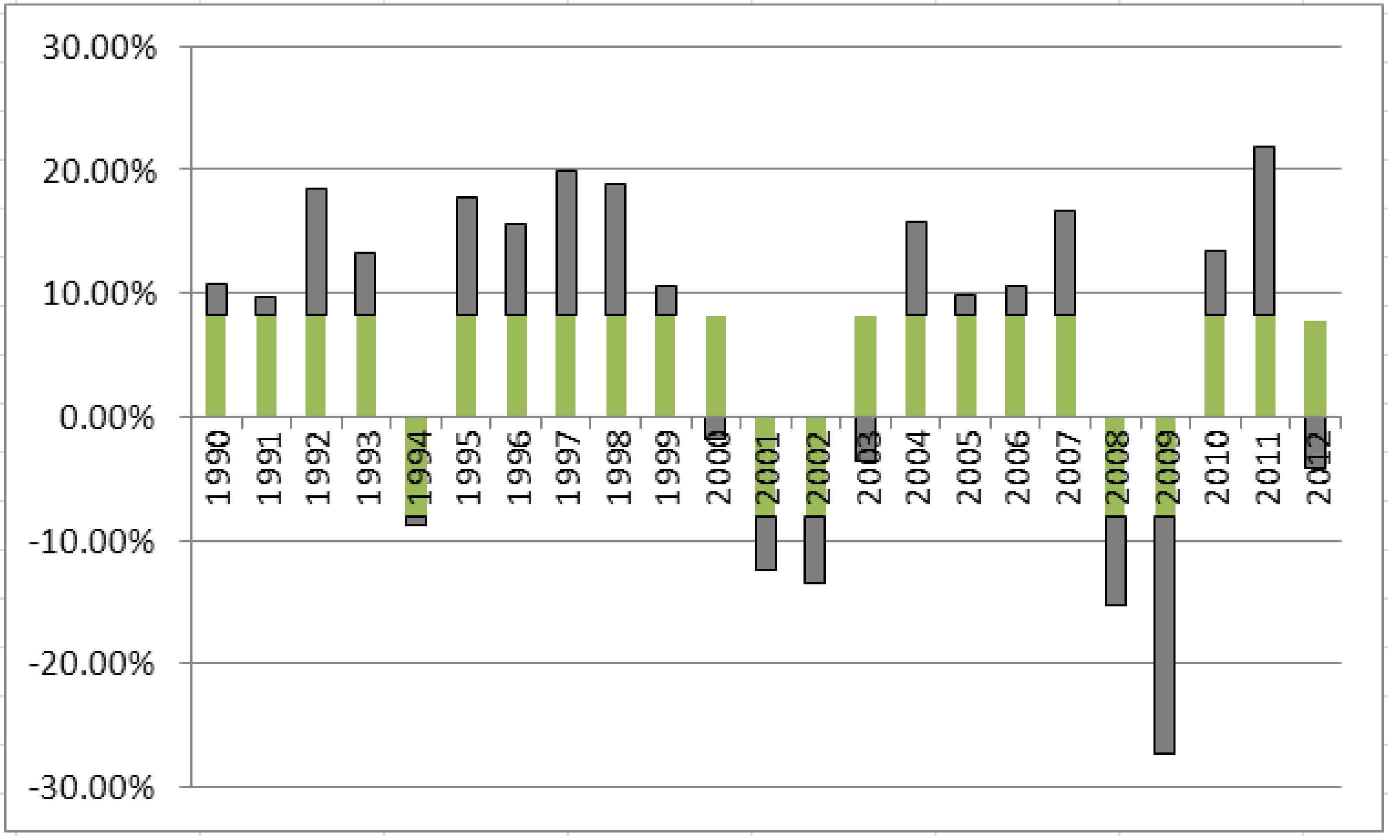
REQUEST TO SBCERS FOR CERTAIN CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

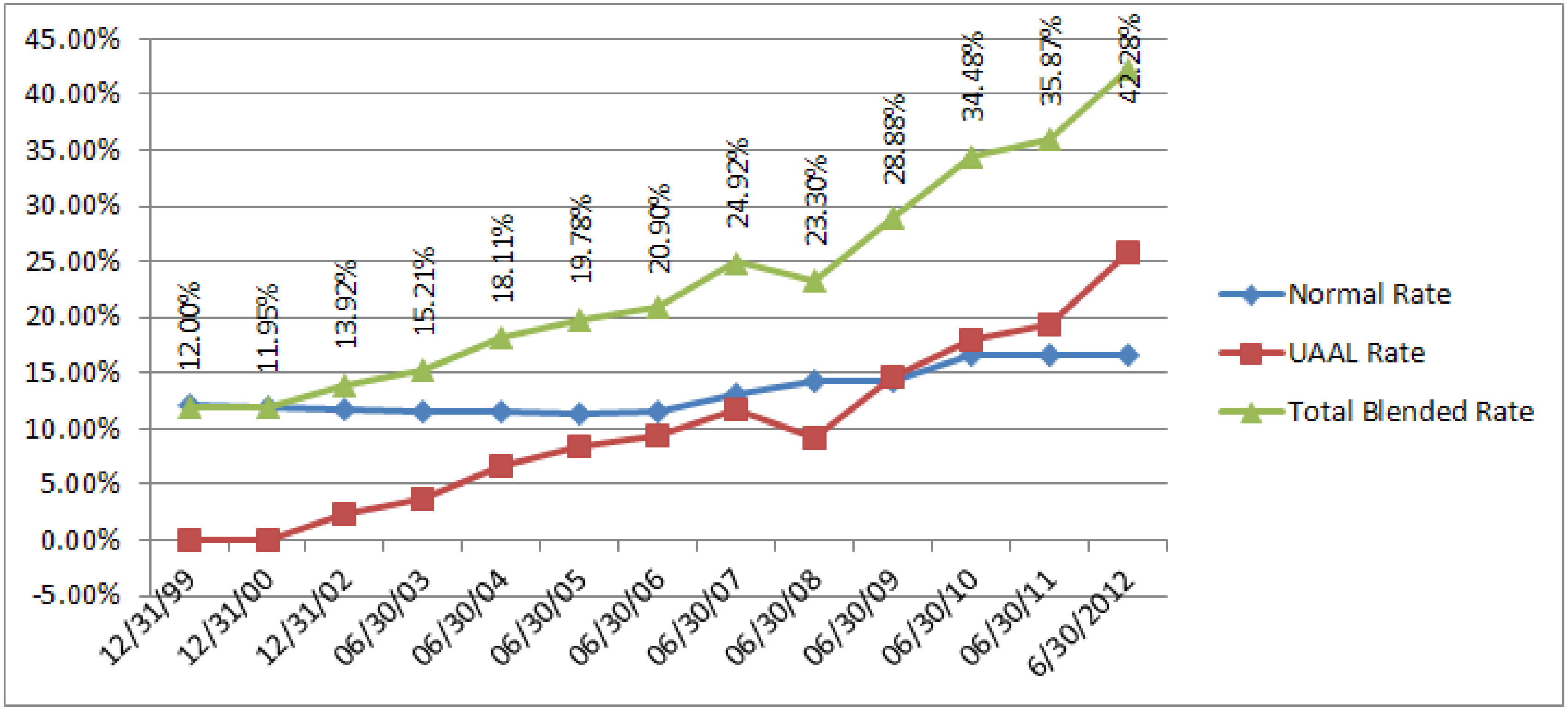
Board of Supervisors Meeting

4/10/12

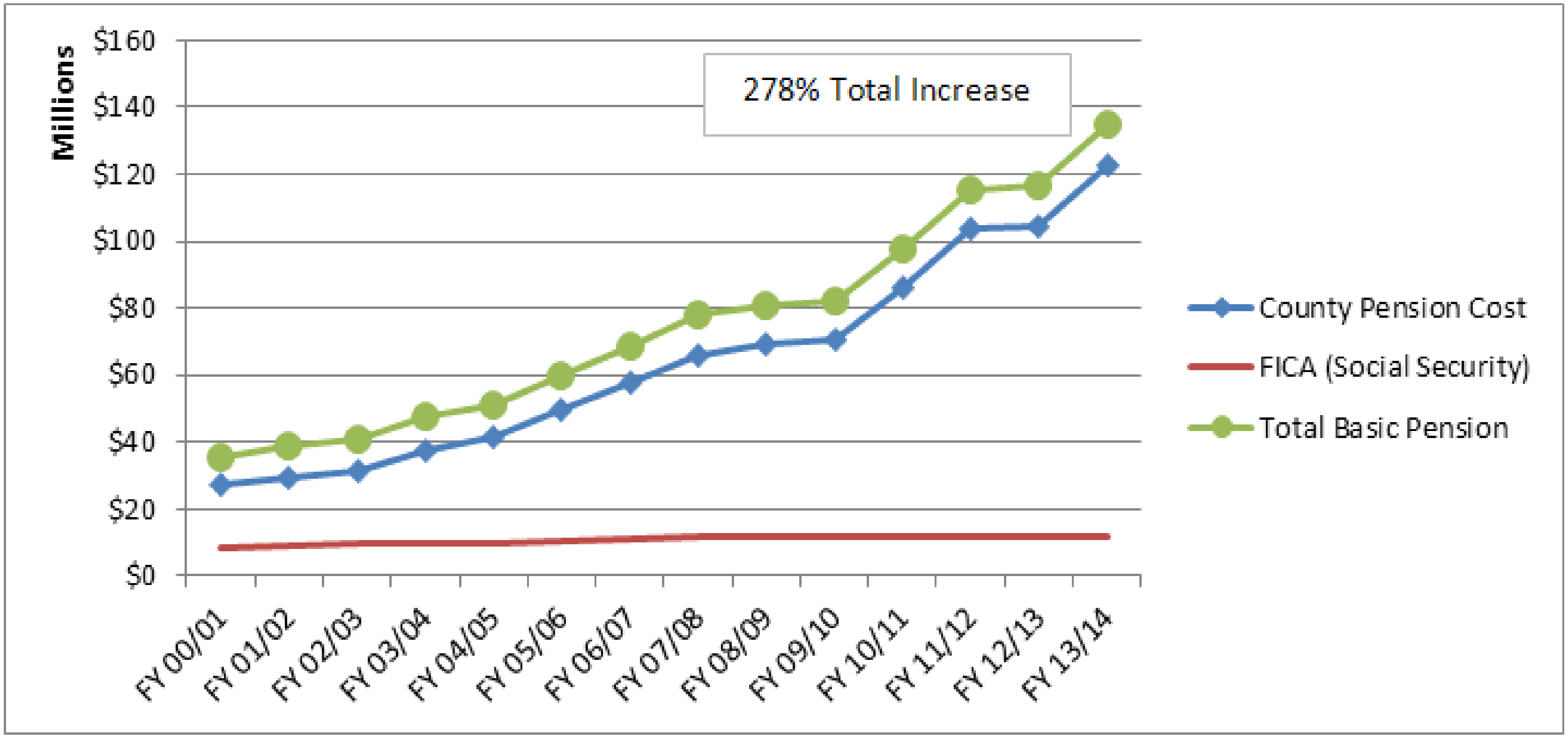
Historic Investment Returns



Change in Retirement Rates



Change in Retirement Costs



Sources of Change in Retirement Rates 6/30/2010 – 6/30/2011

Sources of Change	Employer Contribution Rate	Funded Ratio
June 30, 2010 Actuarial Valuation	**34.48%**	**73.7%**
Expected Year-to-Year Change	**-0.90%**	**1.6%**
Expected June 30, 2011 Actuarial Valuation	**33.58%**	**75.3%**
Recognized Asset (Gain)/Loss		
From 2010-11	-1.04%	1.4%
From Prior Years	3.39%	-4.7%
Salary / Payroll Variation	0.24%	0.6%
CPI Less than Expected	-0.61%	0.9%
Active Member Demographic Experience	0.09%	-0.1%
Retired Mortality Experience	0.17%	-0.2%
All Other Experience	0.05%	-0.2%
Total Experience	**2.29%**	**-2.3%**
Actual June 30, 2011 Actuarial Valuation	**35.87%**	**73.0%**

Budget Impacts for FY 11-12 & 13-14

Sources of Change	FY 12-13 Employer Contribution Rate	FY 13-14 Employer Contribution Rate
June 30, Actuarial Valuation	**34.48%**	**35.87%**
Expected Year-to-Year Change	**-0.90%**	**0.00%**
Expected June 30, 2011 Actuarial Valuation	**33.58%**	**35.87%**
Recognized Asset (Gain)/Loss		
From 2010-11	-1.04%	0.00%
From Prior Years	3.39%	4.00%
Salary / Payroll Variation	0.24%	0.00%
CPI Less than Expected	-0.61%	0.00%
Active Member Demographic Experience	0.09%	0.00%
Retired Mortality Experience	0.17%	0.00%
All Other Experience	0.05%	0.00%
Change in Interest Assumption Rate	0.00%	2.50%
Total Experience	**2.29%**	**6.50%**
June 30, Actuarial Valuation	**35.87%**	**42.37%**
Rate Change	**1.39%**	**6.50%**
Covered Payroll	$280,000,000	$280,000,000
Increased Retirement Costs	$3,892,000	$18,200,000

Sources of Change in Retirement Rates
6/30/2008 – 6/30/2009

Sources of Change	Employer Contribution Rate	Funded Ratio
June 30, 2008 Actuarial Valuation	**23.30%**	**88.6%**
Expected Year-to-Year Change	**0.14%**	**0.7%**
Expected June 30, 2009 Actuarial Valuation	**23.44%**	**89.3%**
Asset Gain/Loss	9.67%	-14.8%
Salary / Payroll Valuation	-0.52%	1.4%
New Entrants	0.03%	-0.1%
Retirement from Active Status Experience	0.34%	-0.5%
Retirement from Deferred Status Experience	0.13%	-0.2%
Retired Mortality Experience	-0.03%	0.1%
All Other Experience	-0.06%	0.1%
Total Experience	**9.56%**	**-14.0%**
Change in Amortization Method	**-4.12%**	**0.0%**
Actual June 30, 2009 Actuarial Valuation	**28.88%**	**75.3%**

SBCERS Changes to Investment Rate Assumptions

- FY 2011-12 -- Investment rate assumption was decreased from 8.16% to 7.75%
- FY 2012-13 – No change
- FY 2013-14 – Investment rate assumption proposed change from 7.75% to 7.50%

Recommendation #1

- Implement the next .25 basis point change from 7.75% to 7.50% over a 3-year period
- FY 2013-14 -- Investment rate assumption proposed change from 7.75% to 7.70%
- FY 2014-15 -- Investment rate assumption proposed change from 7.70% to 7.60%
- FY 2015-16 -- Investment rate assumption proposed change from 7.60% to 7.50%

Impact of Assumption Rate Change

Assumption Rate Change		UAAL	Percent Change
7.75% to:	7.50%	70 million	2.5%
	0.05%	14 million	0.5%
	0.10%	28 million	1.0%
	0.10%	28 million	1.0%

Recommendation #2

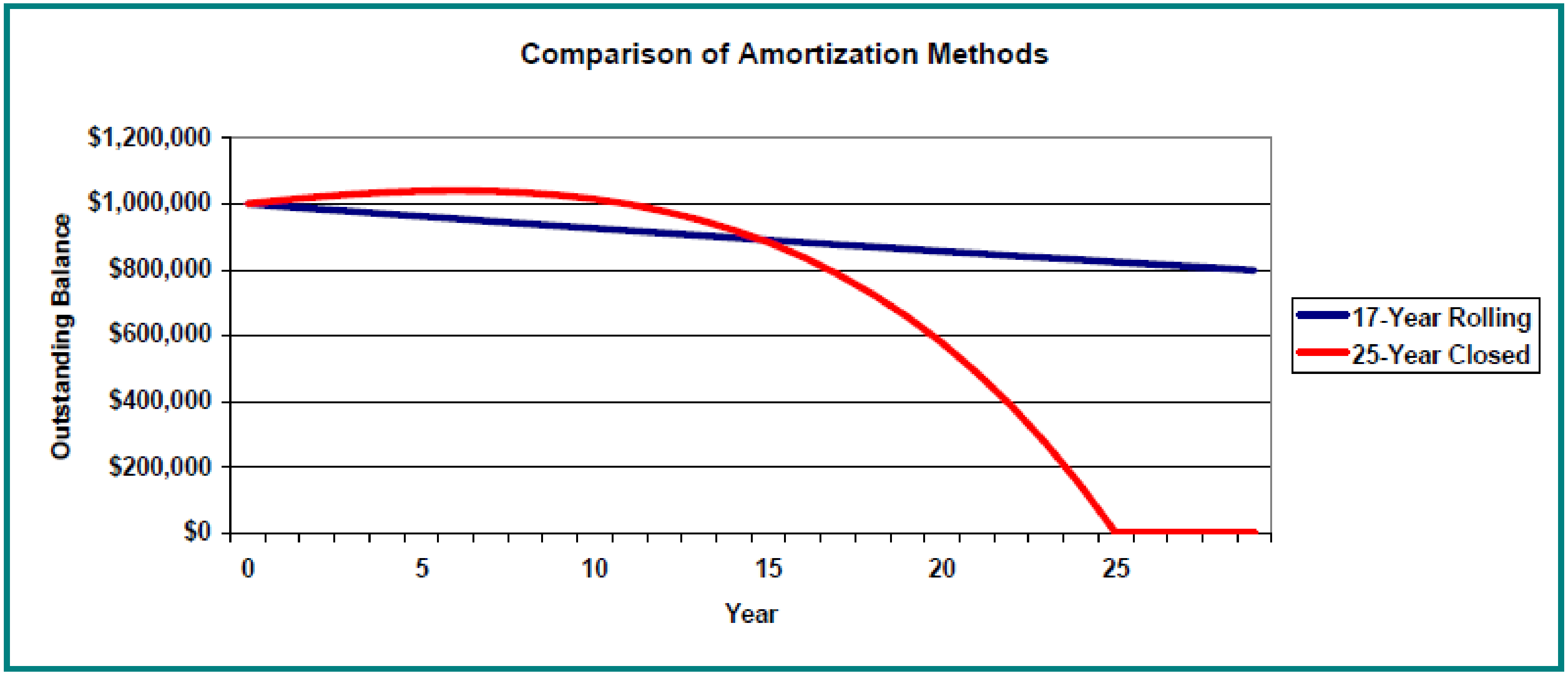
- Implement a 25-year layered fixed amortization period for the unfunded actuarial assumption liability (UAAL) caused by investment rate assumption changes and demographic assumption changes…retroactive to the FY 2010-11 change from 8.16% to 7.75%

- Retain the 17-year rolling amortization period for the UAAL generated by investment gains and losses

- Impact:
  - Change in rate from 7.75% to 7.50% increases rates 2.50%
  - A 25 year amortization saves approximately .5% in the first year
  - A retroactive application saves an additional 1.0% in the first year

Questions?

Comparison of Amortization Methods
Outstanding Balance



Comparison of Amortization Methods
Annual Payment