Retirement Process Overview
March 19, 2013

JOINT PRESENTATION:

CEO

COUNTY COUNSEL

SBCERS

BUDGET OFFICE

AUDITOR/CONTROLLER

FY 2012-13 Retirement Process Overview

- Action: Receive and file this joint presentation of the retirement rate setting and retirement contribution process
- February 5, 2013: Board approved FY 2013-14 retirement contribution rates and asked the CEO to return with the following:
  - An overview of how retirement contributions are derived
  - The Boards' roles & responsibilities in the rate setting process
  - Presentation should include SBCERS and their actuary
  - Answer any Board questions
  - Tutorial in nature

I. FY2012-13 Retirement Process Overview

- Presentation Topics:
  I. CEO – Overview
  II. County Counsel – Purview of County Board of Supervisors regarding retirement benefits and rate setting
  III. SBCERS/Actuary – Elements in rate computation
    - Actuarial Funding Basics
    - Funding Policies
      - Elements
      - Guidance
      - SBCERS policies
    - Actuarial Assumptions

FY2012-13 Retirement Process Overview

- Topics to be covered (continued):
  - IV. Budget Director – Use of actuarial rates, the budget process, historic and projected retirement costs
    - Projected impact of a change in rate of return
    - Projected impact of the change in PEPRA rates
  - V. Auditor-Controller – Impact of Government Accounting Standard's Board (GASB) new reporting standards for pensions. (GASB is the standard setting authority: Moody's is one of several rating agencies; Moody's is suggesting a different measurement for bond rating).

County and SBCERS Relationship

- Board of Supervisors' Role:
  - Pension program adopted by voters or Board
  - Sets compensation for County employees
  - Adopts benefit levels authorized by CERL (37 Act)/PEPRA 2013
  - Board of Supervisors has four appointments to Retirement Board

II. FY2012-13 Retirement Process Overview

- Retirement Board Role (SBCERS) :
  - Retirement system is a separate government entity
  - Administers County retirement system
    - Determines members retirement allowance
    - Manages system investments
    - Employs actuary - interest rates, member contributions and County appropriations

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EFI Actuaries — addressing public pension issues of today ...AND TOMORROW — ESTABLISHED 1990

III. Santa Barbara County Employees' Retirement System

Presentation to the Board of Supervisors

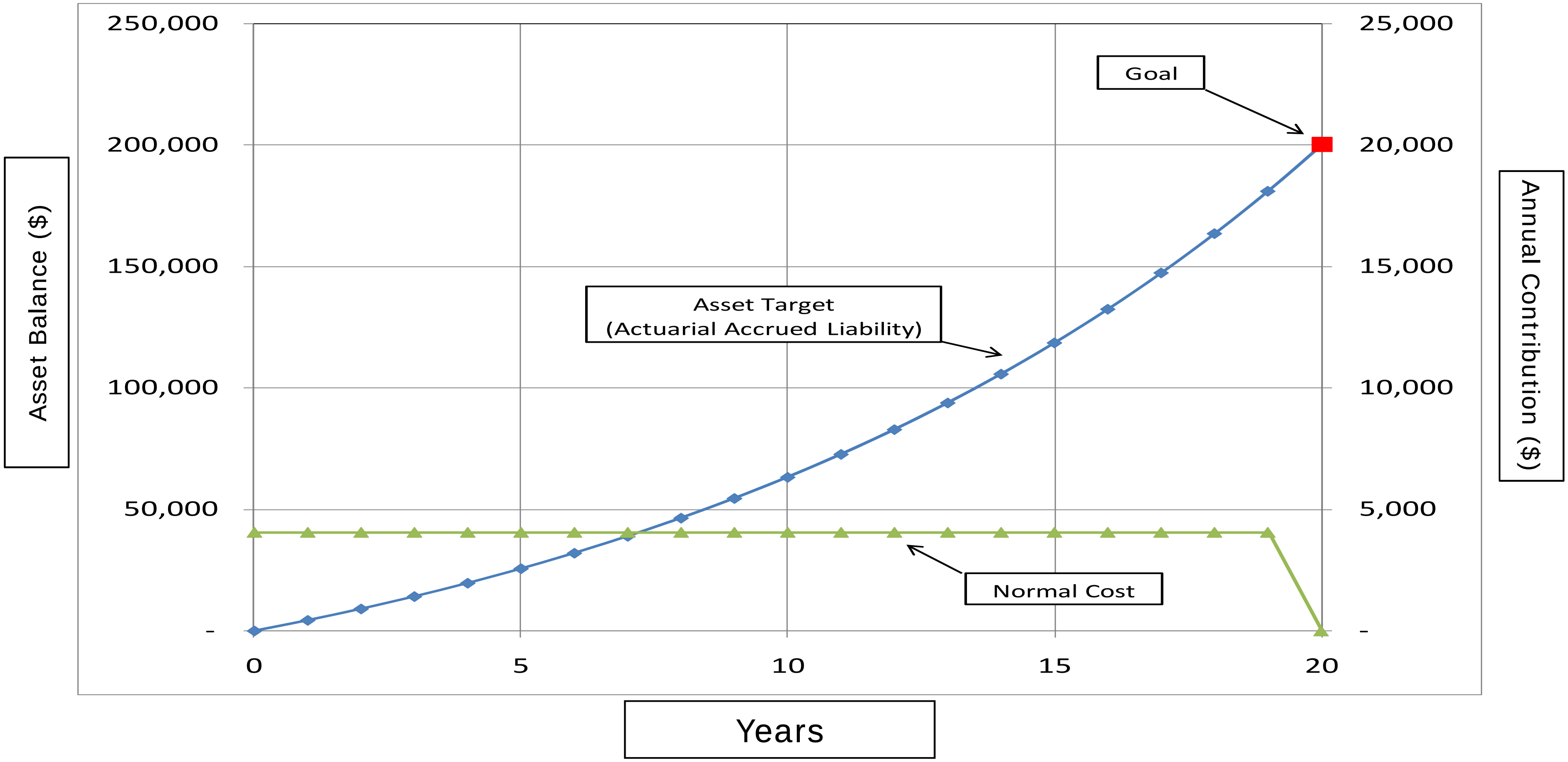
March 19, 2013

Graham A. Schmidt, ASA, FCA

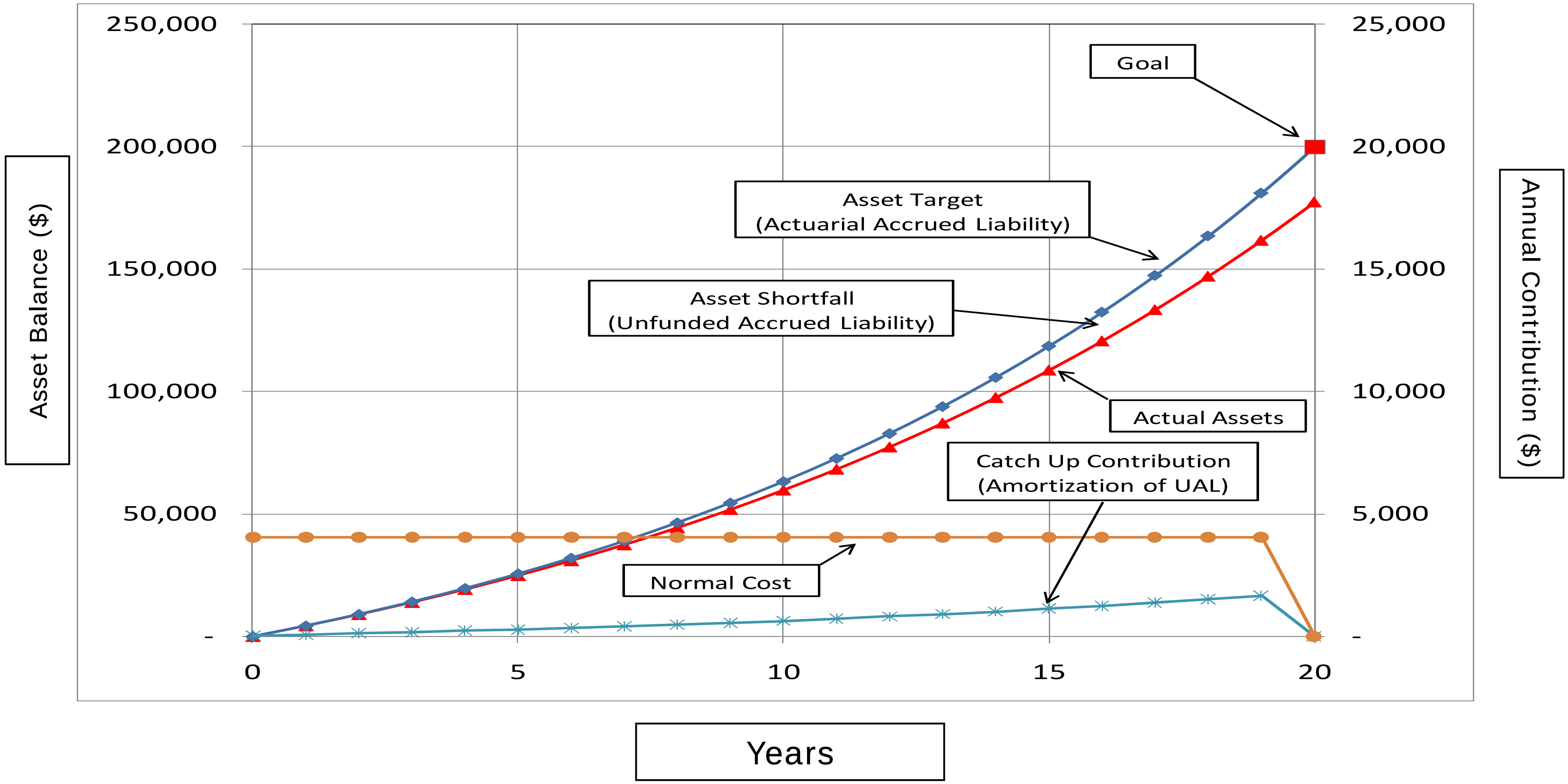
Agenda

- Actuarial Funding Basics
- Funding Policies
  - Elements
  - Guidance
  - SBCERS policies
- Actuarial Assumptions

Actuarial Funding



Actuarial Funding



Actuarial Funding

- Set a goal (Accrued Liability)
- Set a path to goal (Normal Cost)
- Formulate a plan to meet shortfall of excesses in assets (Amortization of Unfunded Accrued Liability)

Elements of Funding Policy

- Actuarial Cost Method
  - How is the total value of benefits to be split between past and future service? How is normal cost computed?
- Amortization
  - How long should sponsor have to pay down unfunded liability or surplus?
  - Longer period results in slower recovery of funded ratio and higher future contributions, but more stability in rates
- Asset Smoothing
  - Since investment markets are volatile and have large impact on plan cost, need additional tool beyond amortization to prevent large annual changes in contribution rates from year-to-year swings in asset prices
  - Gradually recognize investment returns above or below assumed return over a period of time; reduces contribution volatility

Funding Policy Guidance

- State law ('37 Act)
  - Requires maximum of 30-year amortization of unfunded liability
- Government Accounting Standards Board (GASB)
  - Current accounting standards require disclosure of Annual Required Contribution (ARC)
    - Required maximum 30-year amortization, no restrictions on asset smoothing or actuarial cost method
    - ARC is an accounting requirement, not funding, but was used as de facto funding standard by many systems
  - New GASB standards remove concept of ARC, leaving the development of funding guidance to others
- Other organizations:
  - Government Finance Officers Association (GFOA)
  - National actuarial organizations (AAA, CAA, ASB)
  - California Actuarial Advisory Panel (CAAP)

California Actuarial Advisory Panel (CAAP)

- Released guidance on March 5th, intended to provide guidance to actuaries and others on plan funding practices
- Document identifies five policy objectives
  1. Fully fund benefits
  2. Maintain generational equity
  3. Manage contribution volatility
  4. Support accountability and transparency
  5. Address principal/agent issues
- Defines five categories for elements of funding policies
  - Level Cost Model, Acceptable, Acceptable with conditions, Non-recommended, Unacceptable

SBCERS' Funding Policies

- Current SBCERS Policies
  - Cost method: Entry Age Normal
    - Classified as "LCAM-consistent" by CAAP
  - Asset smoothing method: 5-year smoothing using fixed periods, 80%/120% corridor
    - Classified as "LCAM-consistent" by CAAP
  - Amortization:
    - Rolling 17 year, level % of payroll amortization of UAAL
    - 16 year closed amortization of liability associated with Safety Plan 6

SBCERS Funding Policies

- Current SBCERS Policies
  - Amortization:
    - Falls into several categories
      - Acceptable: Rolling amortization of gain/loss without negative amortization (17 years on edge of negative amortization threshold)
      - Acceptable with conditions: Rolling amortization of assumption changes without negative amortization,
      - Acceptable with conditions: closed amortization of benefit improvements, longer than 15 years
    - Average net amortization period for '37 Act systems was ~ 20 years (based on 2009 survey)

Actuarial Assumptions

- Objective: develop best-estimate of future experience, so gains/losses minimized and achieve long-term stability in contribution rates
  - Actual experience, rather than assumptions, will determine ultimate level of cost
  - Assumptions affect *timing* of contributions (pay me now or pay me later…)
- Formal review of all assumptions as part of triennial experience study (scheduled for 2013)
  - For economic assumptions, collect information from investment consultant and other sources
  - For demographic assumptions (rates of mortality, retirement, etc.), analyze experience from Plan

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Economic Assumptions

- Economic assumptions have greatest impact on current contribution level
  - Includes investment return, inflation, wage growth, post-retirement COLA growth assumptions
  - Building block approach requires that these assumptions should be consistent with each other
    - Nominal return = real return + inflation
    - Wage growth = real wage growth (productivity) + inflation
    - If inflation lower, lower nominal returns, but also lower projected benefits from pay and COLAs
  - Current assumptions:
    - 3.25% inflation + 4.50% real return = 7.75% nominal
    - 3.25% inflation + 0.50% real wage growth = 3.75%
    - 7.75% is most common assumption for ‘37 Act systems prior to 2012, but recent trend is lower

Conclusion

- Actuarial funding is a *self-correcting process*
  - Annual measurements of how the assets of the plan compare to the funding target
  - Develop financing plan for getting plan back to funding target
  - Actuarial assumptions used to develop funding target get periodically reviewed and adjusted

IV. Use of Actuarial Rates/Budget Process

- Use of Rates for Budgeting:
  - SBCERS Recommends rates (FY 2013/14) to the Board for approval
  - Board of Supervisors approves rates
  - Budget and Auditor staff load FY 2013/14 rates into “Salary Model” by Retirement Plan
  - Budget Office and Auditor-Controller estimate FY 2014/15 rates by Plan and load FY 2014/15 rates into the Salary Model
  - The next slide shows the rates provided by SBCERS for General and Safety Members and includes:
    - The retirement plans
    - Normal Cost
    - COLA (normal and UAAL)
    - Unfunded Actuarial Accrued Liability (UAAL) rates
    - Total Rates

IV. Use of Actuarial Rates/Budget Process

Exhibit 13a: Total Employer Contributions
General Members
(Dollars in Thousands)

	General					
	5A	5B	5C	Plan 2	Plan 7	Total
Number of Active Members	796	474	1,860	11	0	3,141
A. Basic Employer Normal Cost Rate	8.84%	7.67%	9.52%	2.96%	8.57%	8.94%
B. COLA Normal Cost Rate	4.41%	5.27%	4.66%	0.00%	2.66%	4.70%
C. Employer Normal Cost Rate	13.25%	12.94%	14.18%	2.96%	11.23%	13.64%
D. Basic UAAL Contribution Rate	12.35%	12.35%	12.35%	12.35%	12.35%	12.35%
E. COLA UAAL Contribution Rate	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%
F. UAAL Contribution Rate	18.07%	18.07%	18.07%	18.07%	18.07%	18.07%
G. Total June 30, 2012 Contribution Rate (C + F)	**31.32%**	**31.01%**	**32.25%**	**21.03%**	**29.30%**	**31.71%**
H. Total June 30, 2011 Contribution Rate	29.75%	29.41%	30.78%	19.42%	N/A	30.18%
I. Estimated Payroll for fiscal year beginning July 1, 2013 *	$ 64,437	$ 46,722	$ 120,504	$ 778	$ -	$ 232,441
J. Estimated Annual Contribution (G x I) **	**$ 20,182**	**$ 14,488**	**$ 38,863**	**$ 164**	**$ -**	**$ 73,697**
K. Prior Valuation Estimated Annual Contribution ***	$ 18,477	$ 13,244	$ 35,750	$ 146	$ -	$ 67,617
L. Increase / (Decrease) in Annual Contribution	$ 1,705	$ 1,244	$ 3,113	$ 18	$ -	$ 6,080
M. Percentage Change in Annual Contribution	9.23%	9.39%	8.71%	12.33%	N/A	8.99%

* *Estimated payroll based upon the assumption of 3.75% annual payroll growth. No adjustment is made for open or closed groups.*

** *Estimated contributions shown for illustrative purposes. Actual contributions will vary depending on actual payroll and timing.*

****Estimated contribution for fiscal year beginning July 1, 2012 based on salary information as of June 30, 2012.*

IV. Use of Actuarial Rates/Budget Process

Santa Barbara County Employees' Retirement System

Exhibit 13b: Total Employer Contributions Safety Members
(Dollars in Thousands)

	Safety					
	4A	4B	4C	6A	6B	Total
Number of Active Members	79	16	356	120	314	885
A. Basic Employer Normal Cost Rate	15.24%	11.36%	14.44%	16.20%	16.48%	15.47%
B. COLA Normal Cost Rate	8.65%	9.56%	8.20%	9.31%	9.36%	8.86%
C. Employer Normal Cost Rate	23.89%	20.92%	22.64%	25.51%	25.84%	24.33%
D. Basic UAAL Contribution Rate	19.90%	19.90%	19.90%	21.81%	21.81%	20.88%
E. COLA UAAL Contribution Rate	11.07%	11.07%	11.07%	12.13%	12.13%	11.61%
F. UAAL Contribution Rate	30.97%	30.97%	30.97%	33.94%	33.94%	32.49%
G. Total June 30, 2012 Contribution Rate (C + F)	**54.86%**	**51.89%**	**53.61%**	**59.45%**	**59.78%**	**56.82%**
H. Total June 30, 2011 Contribution Rate	49.75%	44.91%	48.45%	54.10%	54.44%	51.60%
I. Estimated Payroll for fiscal year beginning July 1, 2013 *	$ 9,386	$ 1,716	$ 29,454	$ 13,561	$ 29,037	$ 83,154
J. Estimated Annual Contribution (G x I) **	**$ 5,149**	**$ 890**	**$ 15,790**	**$ 8,062**	**$ 17,358**	**$ 47,249**
K. Prior Valuation Estimated Annual Contribution ***	$ 4,501	$ 743	$ 13,754	$ 7,071	$ 15,236	$ 41,305
L. Increase / (Decrease) in Annual Contribution	$ 648	$ 147	$ 2,036	$ 991	$ 2,122	$ 5,944
M. Percentage Change in Annual Contribution	14.40%	19.78%	14.80%	14.01%	13.93%	14.39%

* *Estimated payroll based upon the assumption of 3.75% annual payroll growth. No adjustment is made for open or closed groups.*
** *Estimated contributions shown for illustrative purposes. Actual contributions will vary depending on actual payroll and timing.*
****Estimated contribution for fiscal year beginning July 1, 2012 based on salary information as of June 30, 2012.*

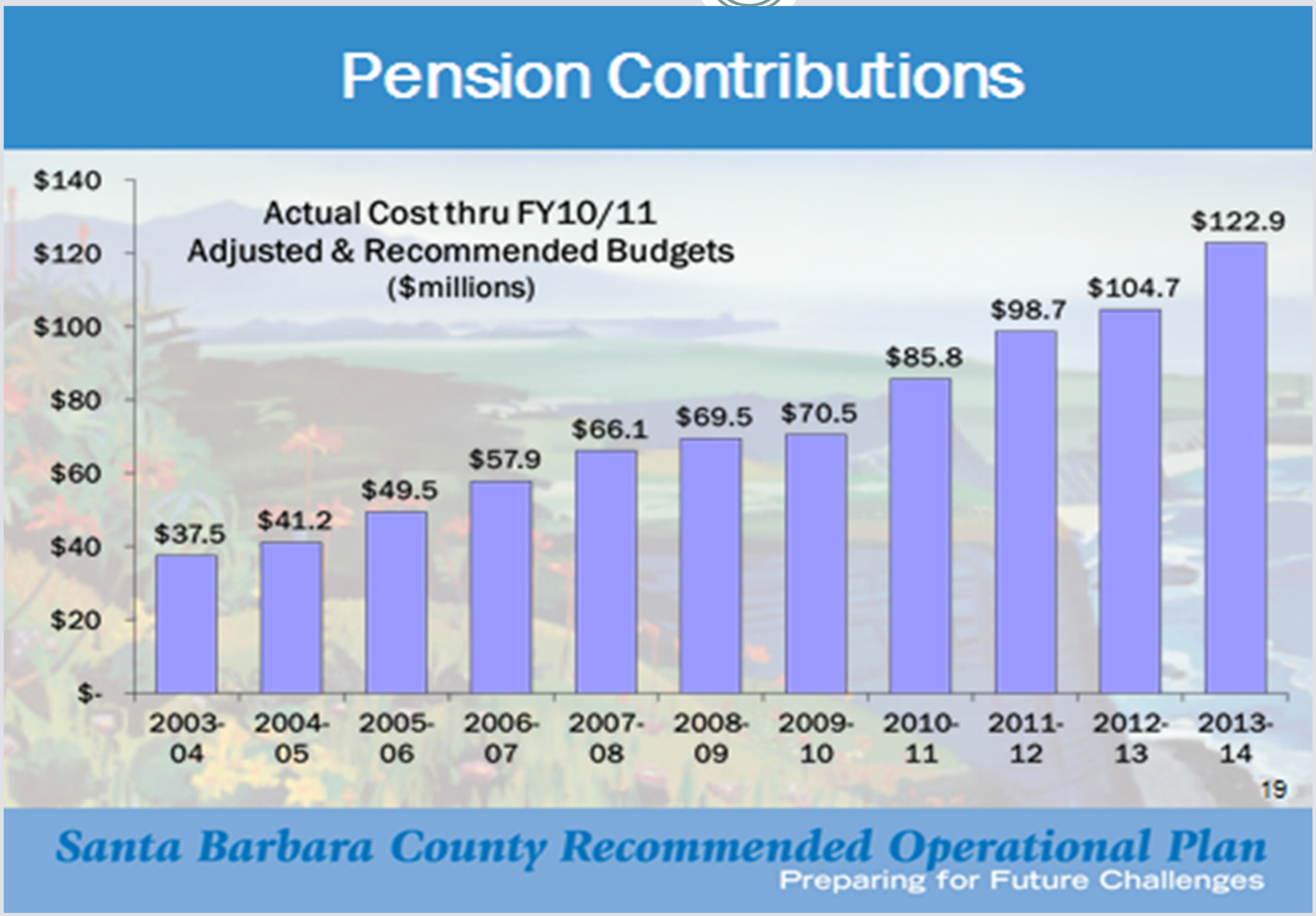
IV. Use of Actuarial Rates/Budget Process

- Use of Rates for Budgeting - Salary Model:
  - Salary Model lists each position in a department, using actual pay rates for existing employees and estimated rates for vacant funded positions
  - Rates for retirement are applied against each employee or position dependent on their Retirement Plan, to calculate an estimated retirement cost, by employee, program and department (currently 10 different plans, each with separate rates)
  - These cost estimates are then used to develop the departments budget

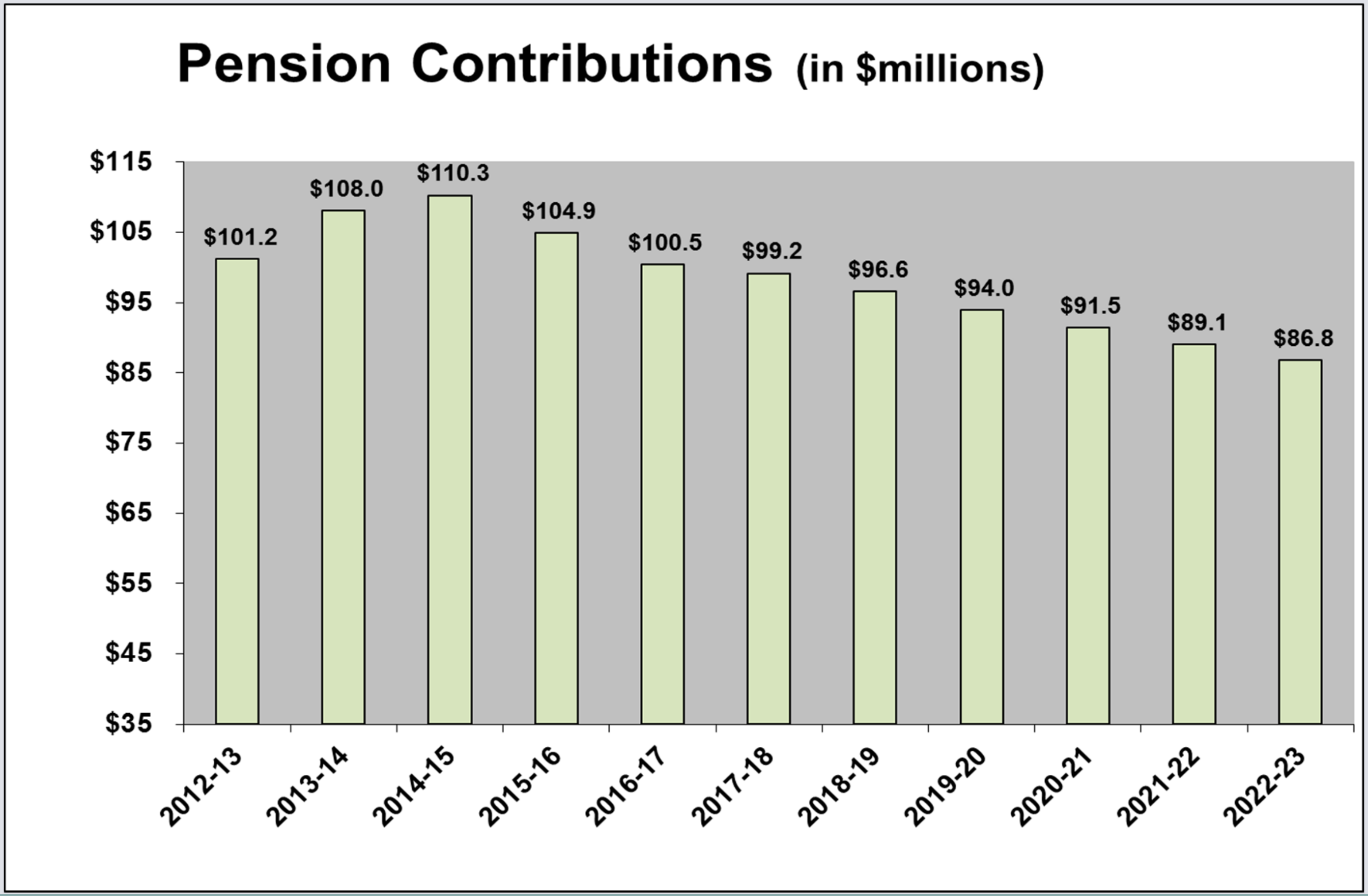
IV. Use of Actuarial Rates/Budget Process

- Use of Rates for Budgeting - Salary Model:
  - Based on the salary estimates and other factors, the department will complete their proposed budget; often requiring Service Level Reductions to balance the increased salary and benefit costs
  - The departments budget is then reviewed by CEO and Auditor-Controller staff. Any issues are then discussed and resolved with the department
  - The CEO will then recommend a final departmental budget figure, including salaries and benefits (retirement and other costs) to the Board for approval

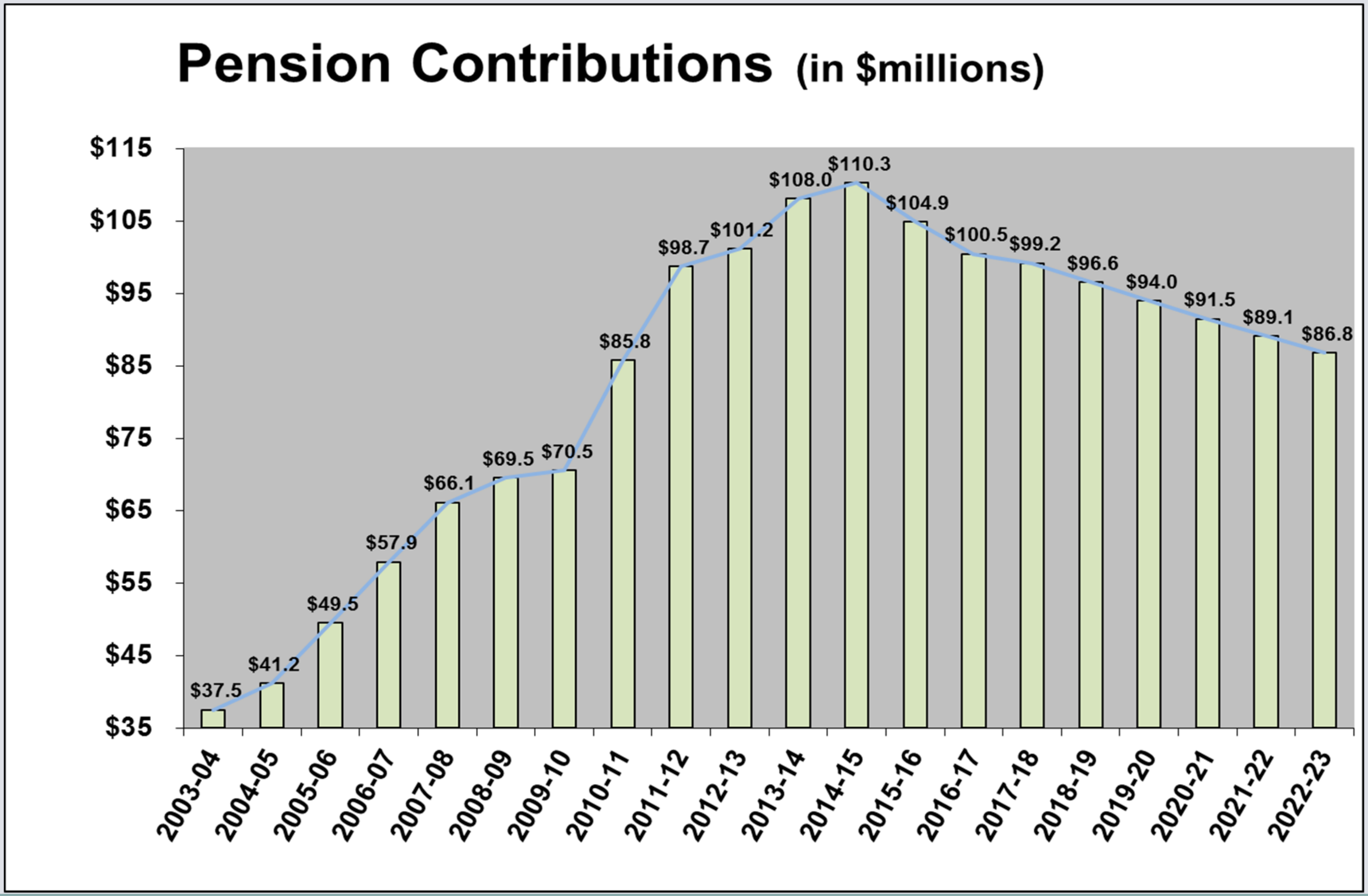
IV. Historic Pension Costs (Source: FY 2012-13 Recommended Budget)



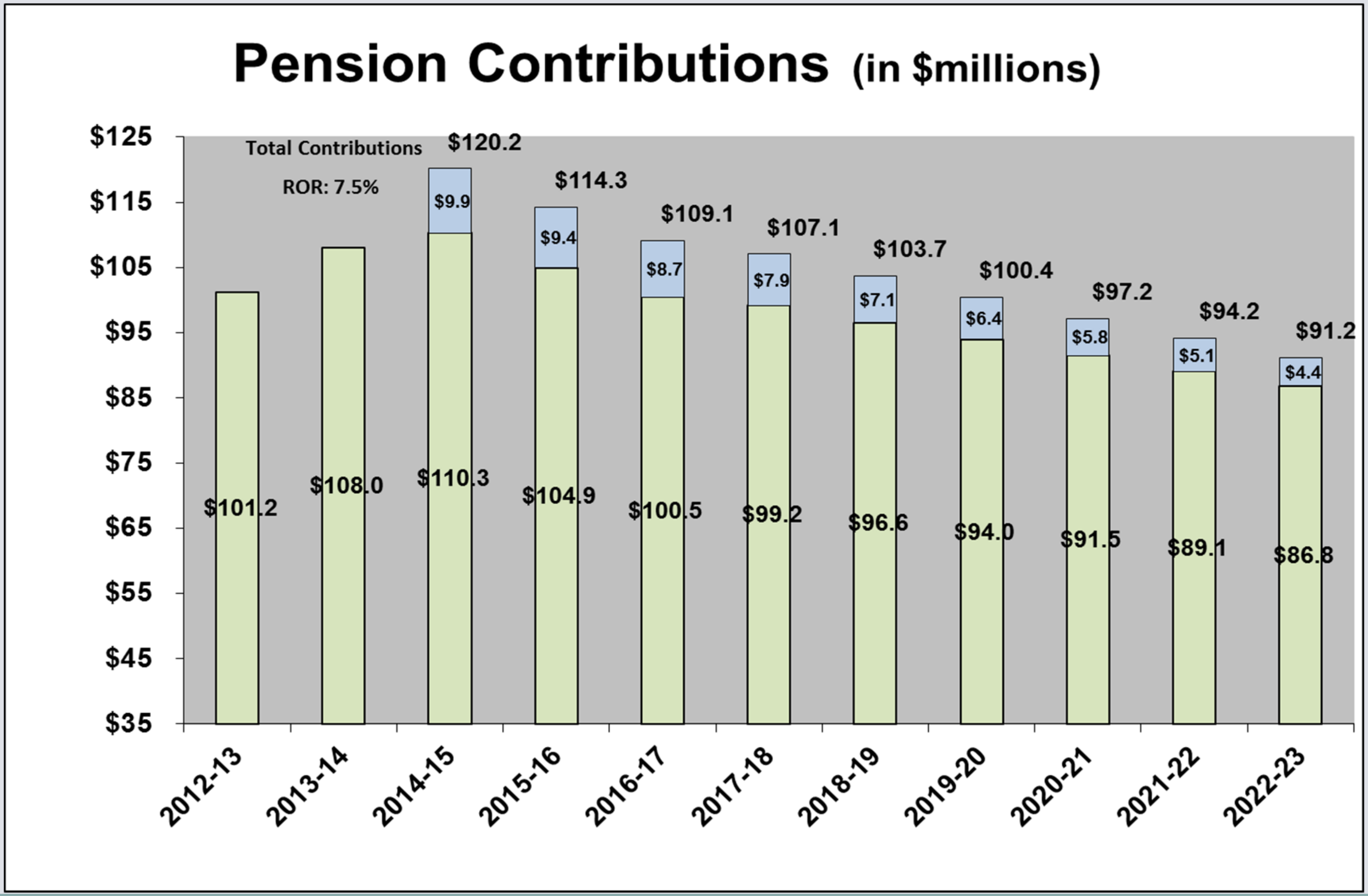
IV. SBCERS Rates w/County Adopted Payroll Pre PEPRA - Rate of Return (7.75%)



IV. Historic and Projected Pension Contributions (No Change for PEPRA or Rate of Return)

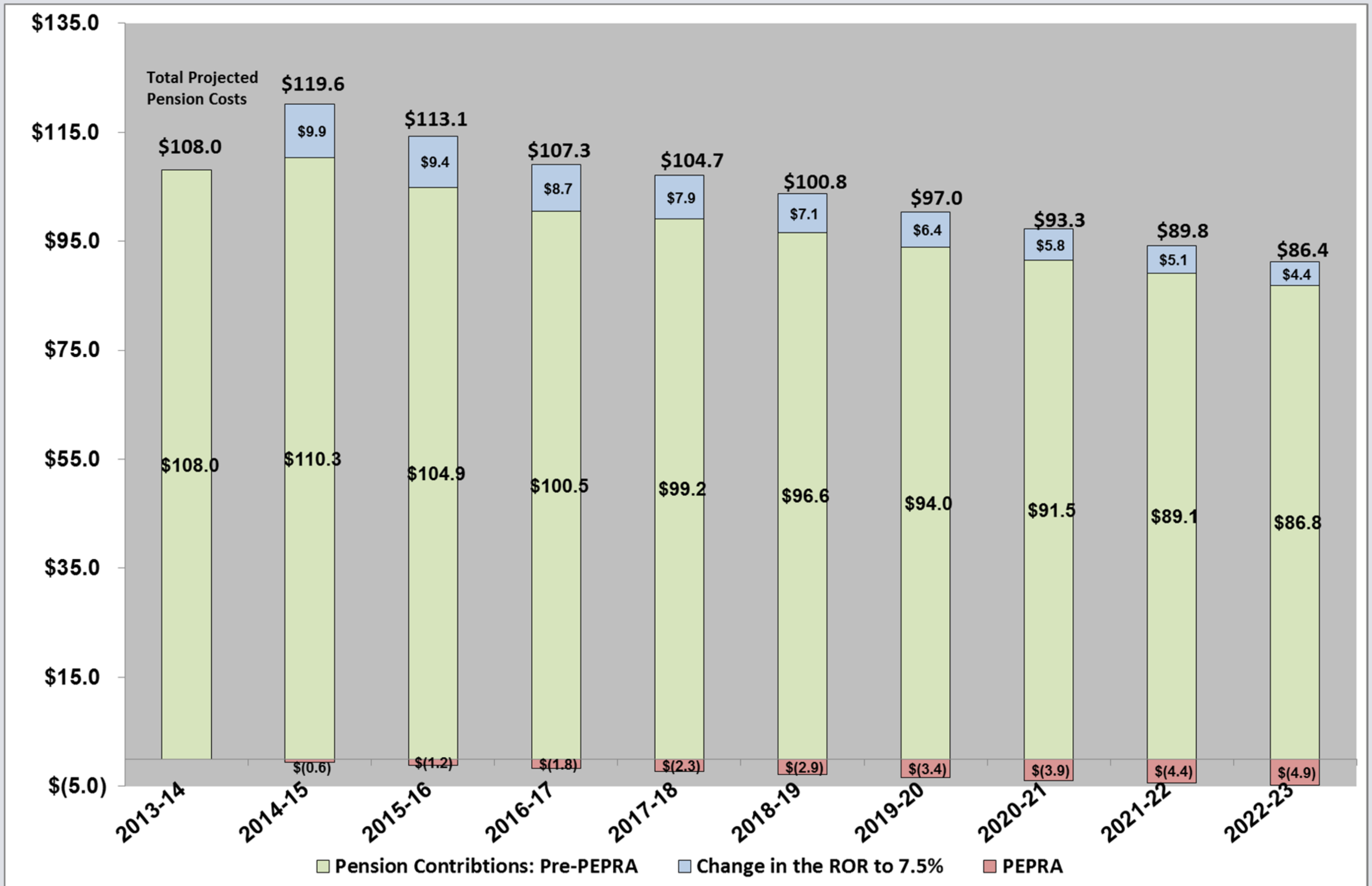


IV. Pension Projections + Change in Rate of Return from 7.75% to 7.5%



IV. Summary of Pension Factors

(Dollars in millions)



IV. Summary of Pension Factors
(Dollars in millions)

Summary of Pension Costs:	Fiscal Year Projected 13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
Pension Contribtions: Pre-PEPRA	$ 108.0	$ 110.3	$ 104.9	$ 100.5	$ 99.2	$ 96.6	$ 94.0	$ 91.5	$ 89.1	$ 86.8
Change in the ROR to 7.5%	-	9.9	9.4	8.7	7.9	7.1	6.4	5.8	5.1	4.4
PEPRA	-	(0.6)	(1.2)	(1.8)	(2.3)	(2.9)	(3.4)	(3.9)	(4.4)	(4.9)
Total Projected Pension Costs	$ 108.0	$ 119.6	$ 113.1	$ 107.3	$ 104.7	$ 100.8	$ 97.0	$ 93.3	$ 89.8	$ 86.4

V. Accounting & Reporting for Pensions

ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS (GASB 68)

Overview & Implementation

Future GASBs

(listed on CAFR page 58)

Future Government Accounting Standards Board (GASB) Statements

GASB Statements Nos. 60-68 listed below will be implemented in future financial statements:

Statement No. 60	*Accounting and Financial Reporting for Service Concession Arrangements*	The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.
Statement No. 61	*The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*	The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.
Statement No. 62	*Codification of Accounting and Financial Reporting Guidance*	The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.
Statement No. 63	*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*	The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.
Statement No. 64	*Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*	The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.
Statement No. 65	*Items Previously Reported as Assets and Liabilities*	The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.
Statement No. 66	*Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*	The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.
Statement No. 67	*Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*	The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013
Statement No. 68	*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*	The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

Summary

- **GASB 67** will require new Accounting and Financial Reporting for pensions; effective for the Santa Barbara County Retirement Association Financial Statements for the fiscal year ended 6/30/13.

- **GASB 68** will require new Accounting and Financial Reporting for pensions; effective for the County's Comprehensive Financial Statements for the Fiscal Year ended 6/30/14.

Major Impacts

- **Net Pension Liability on the Balance Sheet**
  - The employer will now recognize a net pension liability (unfunded accrued liability) in their statement of net financial position (entity-wide balance sheet).
- **New Discount Rate**
  - If the employer funds the actuarially determined contribution and it pays off the unfunded liability over a reasonable time then a lower discount rate is not required.
- **Cost Sharing Employers**
  - County will only show proportionate share of the unfunded liability.
- **More extensive disclosure**
  - The County will be required to make more extensive disclosures including assumptions and methods used to calculate pension liability.

Basic Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

Government-Wide (Full Accrual)
Governmental Activities
Business-Type Activities
(No Internal Service or Fiduciary Funds)

Fund
Governmental (Modified Accrual)
Proprietary (Full Accrual)
Fiduciary (Full Accrual)

Notes to the Financial Statements

REQUIRED SUPPLEMENTAL INFORMATION
(Other Than MD&A)

Estimated Pension Liability & Expense

	Total Pension Fund	County Estimate
County Percentage of Pension Fund (based on FY 2011-12 Contributions)	100%	92.9%
Liability	$828 million (UAAL)	$769 million
Expense	$122 million	$113 million

Government-Wide
Statement of Net Assets (Net Position)

As of June 30, 2012 (in thousands)

		GASB 68	
	Current	Change	Result
Assets	$ 1,100,320	$ -	$ 1,100,320
Liabilities	$ 322,694	$ 769,000	$ 1,091,694
Net Assets (Net Position)			
Invested in Capital Assets, Net of Related Debt	$ 558,696	$ -	$ 558,696
Restricted for Programs	165,154	-	165,154
Unrestricted	53,776	(769,000)	(715,224)
Total Net Assets (Net Position)	$ 777,626	$ (769,000)	$ 8,626

Fund Balances

COUNTY OF SANTA BARBARA, CALIFORNIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012 (in thousands)

	General	Roads	Public Health	Social Services	ADMHS	Flood Control District	Other Governmental Funds	Total Governmental Funds
ASSETS	$ 111,213	$ 26,921	$ 29,235	$ 22,493	$ 27,096	$ 61,334	$ 63,756	$ 342,048
LIABILITIES AND FUND BALANCES								
Liabilities:								
Total liabilities	25,304	9,069	7,955	15,111	17,919	588	21,998	97,944
Fund balances (Note 16):								
Nonspendable	8,780	--	--	364	--	21	201	9,366
Restricted	17,536	17,852	17,399	3,685	11,966	60,725	37,383	166,546
Committed	52,002	--	3,881	2,729	--	--	2,994	61,606
Assigned	--	--	--	604	--	--	1,213	1,817
Unassigned	7,591	--	--	--	(2,789)	--	(33)	4,769
Total fund balances	85,909	17,852	21,280	7,382	9,177	60,746	41,758	244,104
Total liabilities and fund balances	$ 111,213	$ 26,921	$ 29,235	$ 22,493	$ 27,096	$ 61,334	$ 63,756	$ 342,048

- CEO Closing Comments