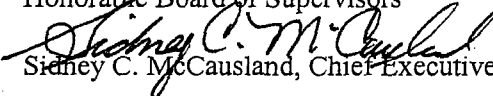


COUNTY OF SAN MATEO
INTER-DEPARTMENTAL CORRESPONDENCE

February 27, 2002

To: Honorable Board of Supervisors
 From:  Sidney C. McCausland, Chief Executive Officer, SamCERA
 Subject: Adoption of Contribution Rates & Medicare Part-B Premium Reimbursement 401(h) Reserve Contribution for Fiscal Year 2002-2003

RECOMMENDATION:

The Board of Retirement recommends that the Board approve a Resolution adopting County Contribution Rates & a Medicare Part-B Premium Reimbursement 401(h) Reserve Contribution for Fiscal Year 2002-2003.

BACKGROUND: The Resolution sets forth the statutory requirements. William M. Mercer, Inc. has completed the Actuarial Valuation for June 30, 2001 and submitted recommendations for next year's contribution rates and Medicare Part-B Premium Reimbursement appropriation.

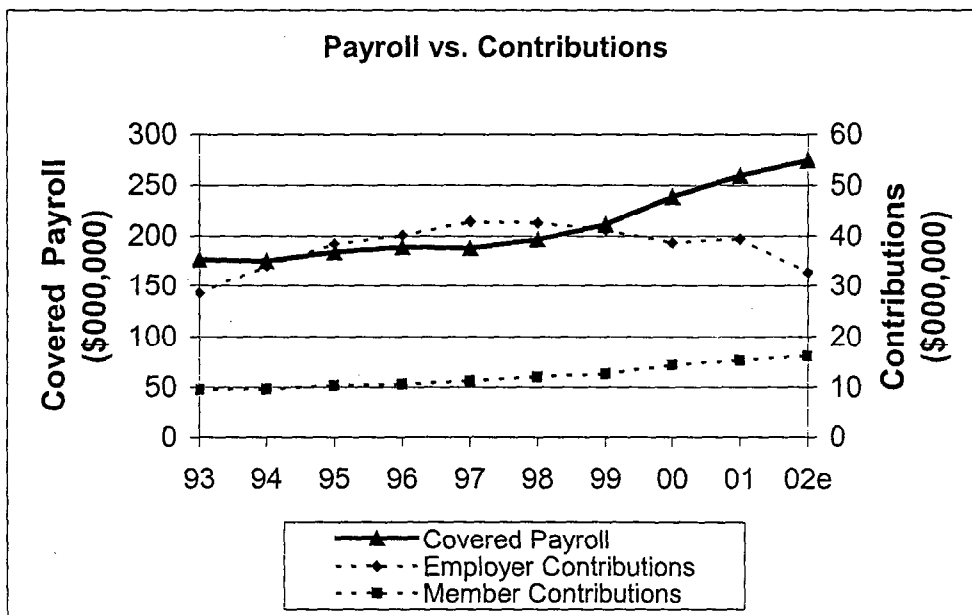
DISCUSSION:

Recommended Contribution Rates:

EMPLOYER CONTRIBUTION RATES: The actuary estimates that the nominal aggregate employer contribution rate for next year will decline from this year's estimated 11.92% to 11.78%.

Six years ago the contribution to amortize the unfunded liability constituted 54.5% of the total employers' contribution. Next fiscal year it will constitute less than 7% of the total contribution. This decline reflects an improvement in SamCERA's Funded Ratio over the six-year period, from 75.6% to 98.6% due to a combination of changes in the actuarial assumptions, member and employer contributions and strong investment earnings during the early portion of the period.

After peaking in 1998 employer contributions to SamCERA have declined, while the County covered payroll has increased.



The data for the graph is contained in the table on the next page.

PAYROLL VS. CONTRIBUTIONS IN THOUSANDS OF DOLLARS (000)

Fiscal Year	"Covered Payroll"	Member Contributions	Average %	Employer Contributions	Nominal Aggregate %
1993	\$176,432	\$ 9,534	5.4%	\$28,514	16.2%
1994	174,992	9,621	5.5%	33,956	19.3%
1995	183,786	10,305	5.6%	38,502	20.8%
1996	188,822	10,561	5.6%	40,151	22.1%
1997	187,926	11,198	6.0%	42,877	22.1%
1998	196,391	12,033	6.1%	42,676	20.7%
1999	211,529	12,586	5.9%	41,289	18.9%
2000	238,864	14,383	6.0%	38,695	15.5%
2001	259,075	15,287	5.9%	39,482	15.2%
2002	274,318e	16,200e	5.9%e	32,695e	11.9%e

From the Actuarial Valuations: "Covered Payroll" is prior year 6/30 annualized.

"Nominal Aggregate %" is "Total Employer Rate" estimated at start of year.

Based on annualized June 30, 2001 payroll data, the actuary estimates that the Employers' Contribution will decline next year, from this year's estimated \$32,695,000 down to \$32,303,000 in Fiscal Year 2002-2003. This would represent a reduction of 1.2% in the Employers' Contributions. The actual decline will be determined by the shifting distribution of payroll across SamCERA's ten plans over the course of the fiscal year.

MEMBER CONTRIBUTION RATES: Member rates are set based upon a '37 Act requirement that (a) General Members pay for an annuity equal to 1/120th of their final average salary per year of service at normal retirement age and (b) Safety Members pay for an annuity equal to 1/100th of their final average salary per year of service at normal retirement age. There are no changes to the members' contribution rates, as there were no changes to the actuarial assumptions.

401(h) Medicare Premium Reimbursement Program: The resolution also includes an appropriation for the continuation of SamCERA's 401(h) Medicare Part-B Premium Reimbursement Program. Internal Revenue Code §401(h) sets forth a complex set of tax-exemption qualification rules for ad hoc benefits.

Currently 1,611 SamCERA retirees and surviving beneficiaries are receiving \$54 per month under the terms of the 401(h) Medicare Part-B Premium Reimbursement Program.

The cost of the program will be approximately \$1,023,000 for the current fiscal year, increasing to approximately \$1,218,000 next fiscal year. The actuary recommends a \$1,340,000 appropriation for next fiscal year, which includes a 10% safety margin.

The IRS requires that the Medicare Part-B Premium reimbursement be appropriated by the Board of Supervisors in order to make the benefit exempt from taxation. However, the IRS also permits the Board of Retirement to offset the County's appropriation. While the program has been funded from earnings in excess of the actuarial interest assumption in past years, for 2002/2003 the Board of Retirement will offset the County appropriation with a transfer in like amount from excess earnings in the Ventura Contingency Reserve.

RESOLUTION NO. _____
 BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

RESOLUTION ADOPTING RECOMMENDATIONS
 MADE BY THE BOARD OF RETIREMENT
 PURSUANT TO GOVERNMENT CODE SECTION 31453 & INTERNAL REVENUE CODE SECTION 401(H)

RESOLVED, by the Board of Supervisors of the County of San Mateo, State of California, that

WHEREAS, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board...*shall, at least 45 days prior to the beginning of the succeeding fiscal year, recommend to the Board of Supervisors such changes in the rates of interest, in the rates of contributions of members, and in the county and district appropriations as are necessary...*; and

WHEREAS, the Board of Retirement has received, reviewed and approved the reports of its actuary, William M. Mercer, Incorporated, and the Retirement Administrator/Chief Executive Officer setting forth recommendations to assure the actuarial soundness of the Retirement Fund; and

WHEREAS, the Board of Supervisors wishes to provide eligible retired County employees and beneficiaries with tax-free Medicare Part-B premium reimbursements for the fiscal year beginning July 1, 2002; and

WHEREAS, the Board of Retirement has adopted its Resolution 97-98-11, as amended, establishing and governing SamCERA's Medicare Part-B Premium Reimbursement Program; and

WHEREAS, the Board of Retirement has recommended that the Board of Supervisors contribute \$975,000 to SamCERA's 401(h) Reserve to fund the Fiscal Year 2002-2003 cost of the Medicare Part-B Premium Reimbursement Program; and

WHEREAS, the Board of Retirement and the Board of Supervisors have agreed that such contribution to SamCERA's 401(h) Reserve will not add to the County's cost of funding SamCERA benefits for this or any other fiscal year, pursuant to the terms and conditions set forth in Resolution 97-98-11, as amended; and

WHEREAS the Board has reviewed the recommendations and finds them to be in the best interest of the members, retirees and beneficiaries of the Retirement System:

NOW, THEREFORE, IT IS HEREBY DETERMINED AND ORDERED, that

1. The County shall make contributions to the Retirement Fund in accordance with the following schedule of Contribution Rates, as a percentage of salaries, effective July 1, 2002:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Plan 4</u>
<u>GENERAL MEMBER RATES:</u>				
Normal Cost	11.70%	10.19%	6.18%	8.76%
Contribution to Unfunded Accrued Actuarial Liability	<u>0.85%</u>	<u>-0.74%</u>	<u>0.70%</u>	<u>0.57%</u>
TOTAL GENERAL MEMBER RATES	<u>12.55%</u>	<u>10.93%</u>	<u>6.88%</u>	<u>9.33%</u>
<u>SAFETY MEMBER RATES:</u>				
Normal Cost	20.01%	16.88%	None	15.43%
Contribution to Unfunded Accrued Actuarial Liability	<u>1.59%</u>	<u>1.55%</u>	None	<u>1.29%</u>
TOTAL SAFETY MEMBER RATES	<u>21.60%</u>	<u>18.43%</u>		<u>16.72%</u>
<u>PROBATION MEMBER RATES:</u>				
Normal Cost	24.91%	16.33%	None	13.68%
Contribution to Unfunded Accrued Actuarial Liability	<u>0.53%</u>	<u>1.49%</u>	None	<u>1.11%</u>
TOTAL PROBATION MEMBER RATES	<u>25.44%</u>	<u>17.82%</u>		<u>14.79%</u>

2. The County shall contribute \$1,340,000 to the 401(h) Reserve for the continuation of the Medicare Part-B Premium Reimbursement Program through Fiscal Year 2002-2003, as a one-time lump sum deduction from the first biweekly employer contribution paid in accordance with the contribution rates set forth above, in an amount equal to the difference between \$1,340,000 and the balance remaining in the 401(h) Reserve on July 1, 2001, as certified by the Retirement Administrator/Chief Executive Officer. The Controller shall specifically designate in writing at the time of contribution that such contribution is being made only to the 401(h) Reserve governed by Board of Retirement Resolution 97-98-11, as amended May 26, 1998.