

# An Overview of Upcoming Changes To *SamCERA*'s General, Probation & Safety Benefits & Costs

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# How *SamCERA*'s "Retirement Formula" Works

*There are only Three Variables:*

<b>Years of Service Credit</b>	<i>2,080 eligible hours equal one year</i>	20
Times		X
<b>Final Average Salary</b>	<i>Plan 1 &amp; 2: eligible compensation for 2,080 consecutive hours divided by 12. Plan 4: eligible compensation for 3-sets of 2,080 consecutive hours divided by 36.</i>	\$10,000
Times		X
<b>Age Factor</b>	<i>Increases incrementally every three months after age 50 until maximum factor reached.</i>	.02091*
Equals		=
<b>Unmodified Monthly Benefit</b>	<i>Plan 1, 2, &amp; 4: Leaves 60% of Unmodified Monthly Benefit to Eligible Spouse. Benefit can be reduced to provide additional benefits to spouse or others.</i>	\$4,182*

\*Assumes 2% @ 61.25 Formula with Retirement at Age 62  
 2% @ 55 Age 62 Factor = .02366 & Benefit in example = \$4,732  
 2% @ 55.5 Age 62 Age Factor = .02611 & Benefit in example = \$5,222

Plan 3 formula is far more complex but provides benefit about ½ of other Plans

## What the County & General Member Unions Agreed Upon

- Improve Current 2% @ 61.25 Benefit Formula to 2% @ 55 in September 2003 or earlier
- Improve 2% @ 55 Benefit Formula to 2% @ 55.5 in March 2005
- All General Members, including Management, Attorneys, Confidential and 30-year plus Employees, will participate in Cost Sharing with the County on the following schedule:
  - 1% of pay effective August 30, 2003
  - 2% of pay effective August 28, 2004
  - 3% of pay effective March 12, 2005 and thereafter

## The Contingencies or Potential Show Stoppers

- In order to implement 2% @ 55.5 in March 2005 Legislation must be enacted authorizing the calculation of General Member Contribution Rates based on a formula similar to the 2% @ 61.25 formula

### *Current Law:*

Under 2% @ 61.25, member pays the cost of an annuity worth 1/120 of comp/year of service at age 60

Under 2% @ 55, member pays the cost of an annuity worth 1/120 of comp/year of service at age 60

Under 2% @ 55.5, member pays the cost of annuity worth 1/240 of comp/year of service at age 55

*The legislation would require member to pay the cost of annuity worth 1/120 of comp/year of service at age 55*

# Comparison of General Member Age Factors

Retirement Date	Benefit Factor		
	Before 8/17/2003	8/17/2003 – 3/11/2005	On or After 3/12/2005*
<i>Formula</i>	2%@61.25	2%@55	2%@55.5
<i>Age</i>	\$31676.1	\$31676.16	\$31676.14
50	0.01182	0.01426	0.01475
51	0.01243	0.01522	0.01567
52	0.01303	0.01628	0.01667
53	0.01364	0.01742	0.01741
54	0.01426	0.01866	0.01841
55	0.01492	0.02000	0.01948
56	0.01564	0.02052	0.02061
57	0.01641	0.02104	0.02182
58	0.01725	0.02156	0.02268
59	0.01817	0.02210	0.02354
60	0.01917	0.02262	0.02440
61	0.01991	0.02314	0.02526
62	0.02091	0.02366	0.02611
63	0.02198	0.02418	0.02611
64	0.02311	0.02418	0.02611
65	0.02432	0.02432	0.02611

Monthly Benefit Examples**		
Before 8/17/2003	8/17/2003 – 3/11/2005	On or After 3/12/2005*
2%@61.25	2%@55	2%@55.5
\$31676.1*	\$31676.16	\$31676.14
\$118	\$143	\$148
\$124	\$152	\$157
\$130	\$163	\$167
\$136	\$174	\$174
\$143	\$187	\$184
\$149	\$200	\$195
\$156	\$205	\$206
\$164	\$210	\$218
\$173	\$216	\$227
\$182	\$221	\$235
\$192	\$226	\$244
\$199	\$231	\$253
\$209	\$237	\$261
\$220	\$242	\$261
\$231	\$242	\$261
\$243	\$243	\$261

Percentage of Current	
8/17/2003 – 3/11/2005	On or After 3/12/2005*
2%@55	2%@55.5
\$31676.16	\$31676.14
121%	125%
122%	126%
125%	128%
128%	128%
131%	129%
134%	131%
131%	132%
128%	133%
125%	131%
122%	130%
118%	127%
116%	127%
113%	125%
110%	119%
105%	113%
100%	107%

\*Contingent on enactment of legislation

**Assumes:	Service =	10	Salary =	\$1,000
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# What the County & Probation & Safety Unions Agreed Upon

- Improve Current 2% @ 50 Benefit Formula to 3% @ 55 on July 6, 2003
- Improve 3% @ 55 Benefit Formula to 3% @ 50 on January 1, 2005
- All Probation & Safety Members, including Management, Sergeants and 30-year plus Employees, will participate in Cost Sharing with the County on the following schedule:

## **PROBATION MEMBERS:**

- 1.5% of pay effective October 12, 2003
- 2.5% of pay effective January 1, 2004
- 3.5% of pay effective January 1, 2005 and thereafter

## **SAFETY MEMBERS:**

- 2% of pay effective July 6, 2003
- 3% of pay effective January 1, 2004
- 5% of pay effective January 1, 2005

## The Contingency or Potential Show Stopper

- As of April 22<sup>nd</sup> the Deputy Sheriffs' Association has not entered into an agreement with the County. Hence the Probation & Safety enhancement cannot be implemented unless DSA agrees or legislation is enacted authorizing union-by-union implementation.

# Comparison of Probation & Safety Member Age Factors\*

Retirement Date <i>Formula</i>	Benefit Factor		
	Before 7/6/2003	7/2003 – 1/1/2005*	On or after 1/1/2005*
	2% @ 50	3% @ 55	3% @ 50
Age	\$31664	\$31664.2	\$31664.1
41	0.01252	0.01433	0.01877
42	0.01325	0.01517	0.01988
43	0.01401	0.01604	0.02101
44	0.01479	0.01694	0.02219
45	0.01561	0.01787	0.02342
46	0.01645	0.01884	0.02468
47	0.01736	0.01988	0.02603
48	0.01817	0.02081	0.02726
49	0.01904	0.02181	0.02857
50	0.02000	0.02290	0.03000
51	0.02103	0.02408	0.03000
52	0.02216	0.02537	0.03000
53	0.02338	0.02678	0.03000
54	0.02473	0.02825	0.03000
55 & up	0.02620	0.03000	0.03000

Monthly Benefit Examples**		
Before 7/6/2003	7/2003 – 1/1/2005*	On or after 1/1/2005*
2% @ 50	3% @ 55	3% @ 50
\$31664	\$31664.2	\$31664.1
\$125	\$143	\$188
\$133	\$152	\$199
\$140	\$160	\$210
\$148	\$169	\$222
\$156	\$179	\$234
\$165	\$188	\$247
\$174	\$199	\$260
\$182	\$208	\$273
\$190	\$218	\$286
\$200	\$229	\$300
\$210	\$241	\$300
\$222	\$254	\$300
\$234	\$268	\$300
\$247	\$283	\$300
\$262	\$300	\$300

Percentage of Current	
7/2003 – 1/1/2005*	On or after 1/1/2005*
3% @ 55	3% @ 50
\$31664.2	\$31664.1
115%	150%
115%	150%
115%	150%
115%	150%
115%	150%
115%	150%
115%	150%
115%	150%
115%	150%
115%	150%
115%	143%
115%	135%
115%	128%
115%	121%
115%	115%

\*Contingent on all unions agreement or legislation

\*\* Assumes: Service = 10 years & Salary = \$1,000

# The Advantages of Working Longer: More Service Credit x Higher Final Average Salary

Many Members conclude that they should retire once their Age Factor reaches its maximum value.

These Members overlook the other two very important ingredients in SamCERA's Formula.

The following example uses a hypothetical maximum age factor of 2.5 to demonstrate the impact of Service Credit & Final Average Salary:

Service Credit	Final Average Salary (@3%/yr)	Maximum Age Factor	Monthly Benefit
10	1000	.025	250
11	1,030	.025	283
12	1,061	.025	318
13	1,093	.025	355
14	1,126	.025	394
15	1,160	.025	435
16	1,195	.025	478
17	1,231	.025	523
18	1,268	.025	571
19	1,306	.025	620
20	1,345	.025	673
21	1,385	.025	727
22	1,427	.025	785
23	1,470	.025	845
24	1,514	.025	908
25	1,559	.025	974



## The Costs

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# How the Employer Contribution Rate Works

SamCERA's Actuary, Mercer Human Resource Consulting uses the **Entry Age Normal** Method for Valuing SamCERA's Actuarial Liabilities.

The Employer may be required to pay both a **Normal Cost Contribution** and an **Unfunded Actuarial Accrued Liability (UAAL) Contribution**.

Each year the Actuary Calculates the "**Normal Cost**" that will need to be paid each year as a level percentage of payroll in order to fully fund the **Benefit Earned During That Year**.

The Actuary also looks backward to the **Date the Member Entered** SamCERA to determine how much the Contributions Collected in Prior Years Exceed or Fall Short of the Amount that would have been collected if the new Normal Cost had been collected since Entry.

If an Excess has been collected, it becomes an Actuarial Gain and Reduces the Employer's Future Normal Cost.

If there is a Short Fall, it becomes an Actuarial Loss and may become an **Unfunded Actuarial Accrued Liability (UAAL)** of SamCERA.

The UAAL is treated in a manner similar to a mortgage.

Annual Payments are made by the Employer as a Level Percentage of Payroll to Retire the UAAL over the remaining years of the Amortization Period.

# Results of the 2002 Triennial Experience Study

The County Employees Retirement Law (the '37 Act) requires an actuarial experience study and valuation at least every three years. SamCERA performs annual valuations and triennial studies of actual experience.

## The Major Findings of the 2002 Triennial Experience Study:

The Experience Study tested each of the Board's Economic and Non-economic Actuarial Assumptions against SamCERA's actual experience of the last three years. Where the actual experience seems to indicate that the actuarial assumptions are overstating or understating an actuarial exposure, the actuary recommends revisions to the assumptions.

The actuary recommended revision to the following assumptions:

### Non-Economic Assumptions:

- An increase in new General Member Service Connected Disabilities.
- An increase in the percentage of members earning a Service Retirement Benefit.
- An increase in the Age of Death for Retired Members and Survivors.
- An increase in the percentage of Active Members dieing while still employed due to non-industrial causes.
- A small increase in the percentage of Terminated Members who withdraw their contributions.
- Vested termination assumptions are revised, with General Member increases and Safety & Probation Member decreases.

Economic Assumptions: The actuary recommended no changes to the economic assumptions at this time, but did recommend that they be scrutinized closely again next fiscal year.

**Ratio of Actives to Retired & Deferred:** Reflective of SamCERA's aging process is the fact that as of June 30, 2002 there were only 1.14 Active Members for every 1 Retired Member (includes Service, Disability & Beneficiary Benefits plus Vested Deferred Members). This is one of the lowest ratios that I am aware of for an open system.

**Benefit payments,** which totaled \$50.5 million 4-years ago, totaled \$67.0 million in the twelve-months ending June 30, 2002.

# Results of the 2002 Actuarial Valuation

## Impact of the New Assumptions & Parameters on the Estimated Aggregate Employer's Contribution Rate:

Current Year's Approximate Rate	11.66%
<b>Change due to:</b>	
• New Formulas	4.41%
• New Non-Economic Assumptions	1.94%
• Investment Shortfalls	1.44%
±20% Corridor	0.70%
Net of other Cost Increases	0.21%
Net of other Cost Reductions	(0.14%)
• New 20-Year Amortization Period	(1.60%)
Next Year's Approximate Rate	18.62%

**The actual aggregate rate is dependent upon the distribution of payroll across SamCERA's 10 retirement plans, each of which has its own contribution rates.**

# Comparison of County Costs for Current & Next Fiscal Year

Formula	Employer Contribution Rate			03/04 Annual Payroll	03/04 Employer Contribution		
	Old	Old	New		Old	Old	New
Assumptions	Old	New	New		Old	New	New
Plan	<i>2/7/03 Projected</i>						
G1	12.55%	18.01%	22.07%	\$26,215,878	\$3,290,093	\$4,721,480	\$5,785,844
G2	10.93%	13.13%	16.34%	\$120,301,454	\$13,148,949	\$15,795,581	\$19,657,258
G3	6.88%	8.70%	10.78%	\$9,724,780	\$669,065	\$846,056	\$1,048,331
G4	9.33%	10.51%	13.41%	\$100,515,662	\$9,378,111	\$10,564,196	\$13,479,150
General	<b>10.32%</b>	<b>12.43%</b>	<b>15.57%</b>	\$256,757,774	\$26,486,218	\$31,927,312	\$39,970,583
P1	25.44%	31.29%	39.45%	\$2,133,196	\$542,685	\$667,477	\$841,546
P2	17.82%	21.42%	32.20%	\$6,947,746	\$1,238,088	\$1,488,207	\$2,237,174
P4	14.79%	17.44%	26.25%	\$9,165,312	\$1,355,550	\$1,598,430	\$2,405,894
Probation	<b>17.19%</b>	<b>20.57%</b>	<b>30.06%</b>	\$18,246,254	\$3,136,323	\$3,754,115	\$5,484,614
S1	21.60%	31.68%	42.43%	\$7,510,984	\$1,622,373	\$2,379,480	\$3,186,911
S2	18.43%	22.81%	34.03%	\$20,202,520	\$3,723,324	\$4,608,195	\$6,874,918
S4	16.72%	19.72%	30.96%	\$13,164,762	\$2,201,148	\$2,596,091	\$4,075,810
Safety	<b>18.46%</b>	<b>23.44%</b>	<b>34.58%</b>	\$40,878,266	\$7,546,845	\$9,583,766	\$14,137,638
County	<b>11.77%</b>	<b>14.33%</b>	<b>18.87%</b>	\$315,882,294	\$37,169,386	\$45,265,193	\$59,592,836

Annual Payroll = 26 x 2/7/03 Biweekly

Contributions are Rate x Annual Payroll

Plan Aggregate Rate = Contribution / Payroll

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# Comparison of Member Costs for Current & Next Fiscal Year

Member Rates are based on the Member's Age at Entry

As a percentage of pensionable compensation

General				Safety				Probation			
Plan	1 & 2	4	Cost Sharing	Plan	1 & 2	4	Cost Sharing	Plan	1&2	4	Cost Sharing
Entry Age				Entry Age				Entry Age			

2002-2003 Member Contribution Rates											
25	5.46%	5.21%	N/A	21	6.77%	6.44%	N/A	21	7.58%	7.58%	N/A
35	5.82%	5.55%		25	6.84%	6.51%		25	7.66%	7.66%	
45	6.54%	6.24%		30	7.03%	6.69%		30	7.87%	7.87%	

2003-2004 Member Contribution Rates											
25	5.54%	5.28%	1%	21	6.77%	6.44%	2.5%	21	7.58%	7.58%	1.56%
35	5.90%	5.63%	1%	25	6.84%	6.51%	2.5%	25	7.66%	7.66%	1.56%
45	6.63%	6.32%	1%	30	7.03%	6.69%	2.5%	30	7.87%	7.87%	1.56%

## **Uncertainties of Magnitude**

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## The Additional Cost of 2% @ 55.5

As part of this year's Actuarial Valuation Process, the Board of Retirement extended the period for paying off the UAAL from **9.5 years to 20 years** and strengthened several policies that control the valuation process.

Based on the new assumptions and parameters,  
Member Contribution legislation is enacted,  
2% @ 55.5 is implemented in March '05,

All things being equal...

the **General Member Aggregate Rate** will increase from 15.6% to **17.1%**

However, All things will not be equal because...



# Investment Returns & the Actuarial Interest Assumption

All pension funds are experiencing investment returns well below their actuarial interest assumptions. SamCERA's Investment Returns continue to fall well below the Assumed Actuarial Interest Rate of 8.25%.  
*Returns for Calendar Year 2002 were a Negative 9.59% or 17.84% below Target.*

It is probable that the Board of Retirement will Reduce the Actuarial Interest Assumption to 8.00% effective for Fiscal Year 2004-2005.

If the Actuarial Interest Assumption is Reduced to 8.00%,  
using the new '03/04 assumptions and parameters,  
Member Contribution legislation is enacted,  
2% @ 55.5 is implemented in March '05,

For Fiscal Year **2004-2005**  
ALL THINGS BEING EQUAL

By interpolation the **General Aggregate Rate** will increase from 15.6% to ~18.8%  
The **Probation Aggregate Rate** will increase from 30.6% to ~33.1%  
The **Safety Aggregate Rate** will increase from 34.6% to ~38.1%

# SamCERA's Market Stabilization Account

However, All things will not be equal because...

SamCERA's Market Stabilization Account, which the actuary uses to smooth volatility in the Employer Contribution Rates, was \$273 million in the red on June 30, 2002.

Under one of the new policies adopted by the Board of Retirement the Reserve is not permitted to exceed 20% of the Market Value of Assets.

Consequently, \$32 million was transferred onto the Actuarial Balance Sheet as part of the current Valuation. However, by March 31<sup>st</sup> the Retirement Fund had further declined to a Market Value of \$1.12 billion.

Assuming the Market Value of the Fund is still \$1.12 billion on June 30<sup>th</sup>, the Market Stabilization Account will need to be capped at \$224 million and an additional draw down will be required.

In addition, any new investment return shortfalls will flow directly to the Actuarial Balance Sheet

**These transfers to the Actuarial Balance Sheet result in an increase in the County's annual UAAL Contribution.**

Even after Investment Returns improve, the balance in the Market Stabilization Account will have to be amortized over the next five years.

The projections on page 20 include an optimistic assumption that the impact on all contribution rates will be 2% in 2004-2005.

# Resolution of *Ventura II* Litigation

*Ventura II* is SamCERA's nickname for the Consolidated Appeal of the Class Action Suits claiming that (1) Terminal Pay should be included in the calculation of Final Average Salary, (2) Retirees are entitled to Retroactive Benefit Payments from October 1994 forward and (3) SamCERA is entitled to collect Member Contributions on all disputed pay items back to the date of a member's entry in the System.

The appeal should be scheduled for oral arguments during the current fiscal year.

When the Actuary provided an Estimate of the Potential Cost of *Ventura II* in August 2002,  
it came to

**\$16.2 million**

without the collection of arrears Member Contributions

However, the estimate was done prior to the adoption of New Actuarial Assumptions and Parameters by the Board of Retirement and is no longer current.

In addition, if the litigation drags on until the Board of Retirement reduces the Actuarial Interest Assumption, then the Present Value of the Potential Cost of *Ventura II* will increase significantly.

SamCERA has a pre-funded \$32.1 million *Ventura* Reserve, which may or may not be adequate.

## McCausland's Projected '04/05 Employer Contribution Rates for Budgeting Purposes

Note: Actual Departmental Aggregate Rates will vary by Distribution of Payroll across SamCERA's Plans, Actual Retirements, Terminations & New Hires

General Plans' Aggregate	Estimated Aggregate Rate
'02/03	10.3%
'03/04	15.6%
'04/05	~19.7%
<b>Probation Plans' Aggregate</b>	
'02/03	17.2%
'03/04	30.1%
'04/05	~35.1%
<b>Safety Plans' Aggregate</b>	
'02/03	18.5%
'03/04	34.6%
'04/05	~40.1%
<b>Estimated County Aggregate Rate</b>	
'02/03	11.7%
'03/04	18.9%
'04/05	~21.6%

**Assumptions / Inputs:**

- 1/03 New Actuarial Assumptions & Parameters Approved (realistic / actuary increased All rates)
- 2/03 No Payroll changes after 2/7/03 Biweekly: (conservative / McCausland sets **Plan payroll ratios** for all scenarios)
- 6/03 Negative Annual Investment Return (realistic / McCausland increases All '04/05 Rates by **2%** - it could wind up being more)
- 7/03 2% & 3% @ 55 implemented (probable / full year costs per new formulas)
- 9/03 1<sup>st</sup> Member Cost Sharing Contribution implemented (probable / actuary integrated into '03/04 G Rates)
- 11/03 3% General Salary Increase ignored (neutral / Plan payroll ratios remain fixed per McCausland's 2/03 estimate)
- 1/04 8% Actuarial Interest Assumption Adopted by Board of Retirement (probable / increases All '04/05 Rates)
- 1/04 2<sup>nd</sup> Safety & Probation Cost Sharing Contribution implemented (probable / built into rates)
- 6/04 8% Annual Investment Return (optimistic / no impact on '04/05 Rates; neutral impact on '05/06 Rates)
- 9/04 2<sup>nd</sup> 1% Member Cost Sharing Contribution implemented (probable / McCausland pro-rates '04/05 G Rates)
- 11/04 3% General Salary Increase ignored (neutral / Plan payroll ratios remain fixed per McCausland's 2/03 estimate)
- 05 3<sup>rd</sup> Member Cost Sharing Contribution implemented (probable / McCausland pro-rates '04/05 Rates)
- 05 2% @ 55.5 & 3% @ 50 Implemented (probable / McCausland pro-rates '04/05 Costs between the old & new formulas)

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