COUNTY OF SAN MATEO
Inter-Departmental Correspondence

COUNTY MANAGER'S OFFICE

DATE: May 5, 2003

BOARD MEETING DATE: May 13, 2003

TO: Honorable Board of Supervisors

FROM: Paul T. Scannell, Assistant County Manager

SUBJECT: Adoption of Medicare Part-B Premium reimbursement 401(h) Reserve Contribution for Fiscal Year 2003-2004

Recommendation

Consider Resolution from Retirement Board as part of the Board of Supervisor's Budget Hearings in June.

Discussion

In 1998, when the Retirement Fund was earning in excess of the System's assumed interest rate, the Board of Supervisors and the Retirement Board jointly agreed to provide a tax free additional benefit to qualified retired employees. The extra benefit reimburses the cost of the supplemental Medicare Part B insurance that is deducted from retirees' Social Security. This benefit is **not** mandated by law and is in addition to the pension benefit earned by the employee during County service.

By law the benefit may only be provided from "excess earnings" of the Retirement System. The Board of Supervisors agreed in 1998 to cooperate in granting this additional benefit with two conditions: the Retirement Plan was at least 80% funded; and there was no additional cost to the County i.e. the benefit would come from excess earnings. The System is currently funded at 85.3%, down from 98.6% a year ago. The Retirement Board is now proposing to continue this benefit in 2003-04, and every year thereafter that the fund is at least 80 % funded, by defining the System earnings to meet the adopted criteria. Instead of coming from the excess earnings as in the past, the benefit will now be funded by adding this year's cost, $1.4 million, to the Plan's unfunded liability. This will result in financing the benefit over 20 years at 8.25% interest. Each additional year that this benefit is granted will result in adding to that unfunded liability. The $1.4 million will increase every year due to the number of retirees and the increasing cost of health insurance.

The County's contribution to the Retirement Fund in 2003-04 is estimated at $60.6 million, a 50% increase over 2002-03. In 2004-05 the contribution is estimated at $66.7 million.

The Retirement Board could provide for the benefit on a taxable basis without the approval of the Board of Supervisors and has indicated its willingness to do so by its unanimous vote in support of the Resolution presented today. The Retirement Board is able to do this because of definition of the System earnings that the Retirement Board has adopted. This is despite the fact that the System unfunded liability has increased from $19.5 million to $243.7 in the last year.

Since this benefit will impact the future cost to the County, it should be considered as part of the budget hearings in June and it is so recommended.

COUNTY OF SAN MATEO
INTER-DEPARTMENTAL CORRESPONDENCE

April 22, 2003

To: Honorable Board of Supervisors

From: Sidney C. McCausland, Chief Executive Officer, *SamCERA*

Subject: Adoption of Contribution Rates for Fiscal Year 2003-2004

RECOMMENDATION:

The Board of Retirement recommends that the Board approve a Resolution adopting Contribution Rates for Fiscal Year 2003-2004.

BACKGROUND: The Resolution sets forth the statutory requirements.

Results of the Triennial Experience Study & Actuarial Valuations: Mercer has completed the Triennial Experience Study as well as the Actuarial Valuation and Supplemental and Revised Valuations for June 30, 2002 and submitted recommendations for next year's contribution rates. The Triennial Experience Study resulted in revisions to SamCERA's non-economic assumptions (principally extended life expectancy for retirees) that will **increase** County Costs by ~1.94% and Member Costs by ~0.08%. While the Study & the Valuation did not recommend a change this year in SamCERA's 8.25% Actuarial Interest Assumption, the Valuation does reflect an **increase** in County Costs of ~1.44% due to cumulative investment shortfalls stemming from three-years of falling investment markets. Based on these changes, the Board of Retirement extended the funding period for the Unfunded Actuarial Accrued Liability from the former 9.5 years to a new 20-year schedule, which **reduces** County annual Costs by ~1.60%.

New County Benefit Formulas: Your Board has agreed to retirement benefit improvements for all but one bargaining unit (as of April 22nd). The improvements are described in *An Overview of Upcoming Changes to SamCERA's General, Probation & Safety Benefits & Costs*. The actuary performed Valuations for (1) the Current Formulas, (2) the New 2% @ 55 General Member Formula combined with the Current General Plan 3 Formula and (3) the New 3% @ 55 + 3% @ 50 Safety & Probation Formulas. The Valuations do not consider the impact of the 2% @ 55.5 General Formula tentatively scheduled for implementation in 2005, because that formula requires specific State legislation relating to the calculation of member contribution rates. The Benefit Improvements will **increase** County Costs by ~4.48%.

Comparative Actuarial Balance Sheets: The new benefit formulas, combined with the revised actuarial assumptions and investment shortfalls resulted in the following changes in SamCERA's Actuarial Balance Sheet:

$Millions (discrepancies due to rounding)	6/30/2001	6/30/2002	Change	% Change
Total Assets at Actuarial Value	$1,435.5	$1,449.0	$13.5	0.9%
PV* of Future Member Contributions	147.6	139.1	-8.5	-5.8%
PV* of Future Employer Contributions				
Normal Cost	256.9	303.8	46.9	18.3%
Unfunded Actuarial Accrued Liability	19.5	243.7	224.2	1149.7%
Total Actuarial Assets	$1,859.4	$2,135.7	$276.3	14.9%
PV* of Retirement Allowances Payable to Current Retirees	$742.9	$821.1	$78.2	10.5%
PV* of Retirement Benefits to be Granted in the Future	1033.4	1246.8	213.4	20.7%
PV* of Death Benefits to be Granted in the Future	15.5	16.0	0.5	3.2%
PV* of Future Refunds	16.7	19.5	2.8	16.8%
Reserve for Interest Fluctuation	13.2	0.0	-13.2	-100.0% **
Ventura Contingency Reserve	37.7	32.1	-5.6	-14.9% ***
Total Actuarial Liabilities	$1,859.4	$2,135.7	$276.3	14.9%

* PV = Present Value, which is the Aggregate of the Future Benefit Stream discounted at 8.25%/year.

** The Board of Retirement integrated the Reserve for Interest Fluctuation into Actuarial Assets.

*** The Board of Retirement reversed the interest previously credited to the *Ventura Contingency Reserve*. ~$1.3 million was used to fund Medicare Part-B in 2002-2003. The balance was credited to Employer Reserves.

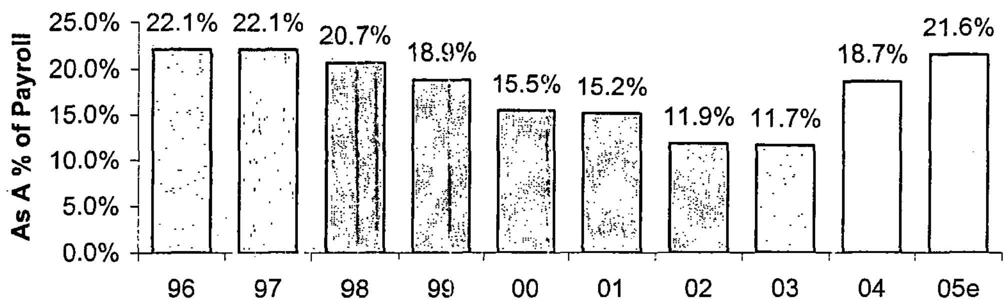
DISCUSSION:

EMPLOYER CONTRIBUTION RATES: The actuary estimates that the nominal aggregate employer contribution rate will increase from this year's estimated 11.66% to 18.69% for Fiscal Year 2003-2004 with the new benefit formulas.

SamCERA's staff estimates that the aggregate rate will further increase to 21.6% in Fiscal 2004-2005.

Employer contributions increase because of the 18.3% increase in the Present Value of the Normal Cost and the 1,150% increase in the Present Value of the UAAL.

RECENT HISTORY OF ESTIMATED AGGREGATE COUNTY CONTRIBUTION RATES



MEMBER CONTRIBUTION RATES: Member rates are 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. Member rates differ by entry age and plan.

Member rates will increase next fiscal year because of (a) improved life expectancy and (b) the negotiated Cost Sharing Member Contributions for the enhanced benefits. The actuary estimates that General Member rates will increase an average of 0.95%, Safety Member rates will increase an average of 2.5% and Probation Member Rates will increase an average of 1.56% over the next fiscal year.

Even though Member Contribution Rates increase, the Present Value of Future Member Contributions declines because the actuary predicts that members will retire at younger ages, hence contribute for fewer years of service.

Multiple Sets of Rates: The Resolution incorporates a set of rates to be implemented at the beginning of the Fiscal Year and alternate rates to be implemented when the new Benefit Formulas are implemented.

RECOMMENDED

COUNTY MANAGER

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