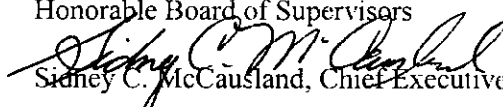


COUNTY OF SAN MATEO
INTER-DEPARTMENTAL CORRESPONDENCE

June 11, 2003

To: Honorable Board of Supervisors
 From:  Sidney C. McCausland, Chief Executive Officer, SamCERA
 Subject: Adoption of Contribution Rates for Fiscal Year 2003-2004 (corrected)

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%. The revised actuarial assumptions account for **17%** of the County's rate increase, while the investment shortfalls account for **19%** of the County's rate increase.

New County Benefit Formulas: Your Board has agreed to retirement benefit improvements for all bargaining units. The improvements are described in *An Overview of Upcoming Changes to SamCERA's General, Probation & Safety Benefits & Costs* on SamCERA's website. 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%. The new benefit formulas account for **64%** of the County's rate increase.

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:

SMillions (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 Stream of Cash Flows 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.

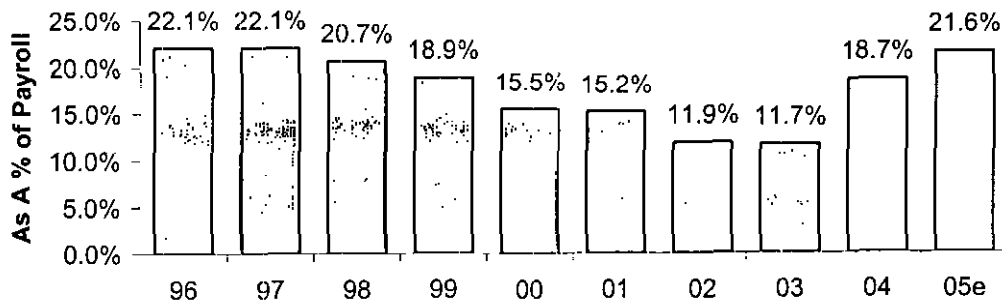
DISCUSSION:

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 Set of General 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 General Benefit Formula is implemented.

RECOMMENDED

Paul Danzell

ASSISTANT COUNTY MANAGER