



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

San Mateo County Employees' Retirement Association
(*SamCERA*)

DATE: March 10, 2009
BOARD MEETING DATE: March 31, 2009
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: David Bailey, Chief Executive Officer, *SamCERA*

SUBJECT: Adoption of Employer and Employee Retirement Contribution Rates
for FY 2009-10

RECOMMENDATION

Adopt a resolution setting the employer and member contribution rates for the San Mateo County Employee's Retirement Association for FY 2009-10 in accordance with Government Code Sections 31453 and 31454.

Based on the June 30, 2008, Actuarial Valuation of the retirement association by Milliman, Inc., actuarial consultants, the Board of Retirement recommends contribution rates as set forth below for FY 2009-10.

BACKGROUND

Employer Contribution Rate: The Average Employer Rate the County will contribute for each employee in FY 2009-10 will be 23.62% of payroll. This is a 0.14% decrease from the 23.76% average rate in the current fiscal year. [See comments below regarding the financial markets downturn and the expected rate increase for FY 2010-11.]

The most important reason for the FY 2009-10 decrease is positive investment returns during the 2004-05, 2005-06 and 2006-07 fiscal years. These approximate returns were respectively 12%, 14% and 17%. Returns for the 2007-08 fiscal year reversed that positive trend totaling a negative 7.64%.

SamCERA's actuary, at the direction of the Board of Retirement, employs an actuarial process that reduces but does not eliminate the volatility of the county's employer contribution rate from one year to the next, even though financial market investment returns may be highly volatile. This process "smooths" each year's change in the value

of assets by recognizing each change over a five-year period. Thus, the losses of the 2007-08 fiscal year were partially offset by the earnings of earlier years.

Recent Employer Contribution Rate History

	<u>09-10</u>	<u>08-09</u>	<u>07-08</u>	<u>06-07</u>
San Mateo County	23.62%	23.76%	24.71%	25.16%
Mosquito & Vector Control District	16.59%	16.26%	16.94%	17.20%

Note: Each rate shown above is an average percentage of expected total payroll.

Market Downturn and 2010-11 Contribution Rate: While the smoothing process has worked to stabilize the county’s contribution rate for the 2009-10 fiscal year, it can only do so much. The unprecedented financial market downturn that accelerated during the last months of calendar year 2008 and continues today has significantly reduced *SamCERA’s* asset values. Without an equally significant financial market rebound by the end of the current fiscal year, a significant county contribution rate increase will be calculated for the rate change that will occur on July 1, 2010.

Thus, the next date of importance in the rate-setting process is June 30, 2009, the last day of the current fiscal year. The value of the fund on that date will be reflected in the actuarial rate-setting process. While it is unlikely that asset values will recover sufficiently by the end of the current fiscal year to avoid a substantial rate increase, we are hopeful that some improvement in asset values will occur.

Over the long term, we are confident of a full recovery. U.S. and world financial markets have recovered from every downturn and will recover from this one as well. The *SamCERA* board and investment staff are committed to taking prudent actions to see that the fund performs as well as possible during these difficult times and that it is positioned to perform well during the recovery. Thus, the retirement board is adhering to its Investment Policy, rebalancing to policy asset allocation guidelines, and continuing to seek greater diversification of the fund.

Member Contribution Rates: For the next fiscal year, the average member contribution rate will be 9.74 percent as compared to an average rate of 9.70% today. This rate includes member cost sharing percentages. The rates individual members will pay will vary from the average rate depending on each member’s age of entry to the system, plan enrollment (Plan 1, 2 or 4) and employment category (general, safety, or probation.)

During 2008 an actuarial experience study was conducted. Experience studies are conducted every three years to assess the demographic changes that have occurred in the member population and to determine if the association’s assumptions about the future costs of benefits appear to be accurate. Changes that are found affect the rates that members and their employer pay for *SamCERA* benefits.

One of the findings of the 2008 experience study was that member’s lifespans continue to increase faster than previous expectations. Since *SamCERA* pays retirement benefits that are guaranteed for the lifetimes of its retirees and beneficiaries, this finding means that more money will be paid out than previously expected, the cost of benefits

is higher, and as a result, the contribution rates for working members must by law be increased.

The increases will vary by entry age and plan type, but the average increase will be about 1% of current contributions. For example, a member currently contributing 7% of salary, would have a new rate of 7.07% of salary, an increase of 70 cents per bi-weekly pay period on each \$1,000 of salary.

Funded Ratio: The funded ratio of the system--the actuarial ratio of assets to liabilities--has improved, again mainly due to positive investment returns in recent years now being recognized in the actuarial process. Without a significant financial markets rebound prior to July 1, 2009, a significant decrease in the funded ratio will be reported in the next actuarial valuation.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarial Funded Ratio	79.1%	77.4%	75.4%	74.2%

FISCAL IMPACT

The employer contribution percentage rate will decrease slightly, but because the County payroll is expected to be larger in FY 2009-10 than in the current fiscal year, the total County contribution amount will increase. The increased countywide costs are estimated at \$2 million, most of that in the General Fund (\$1.3 million).

With the revised rates, the County's budgeted appropriation for retirement contributions will approximate \$110.7 million for FY 2009-10. This figure includes the County's employer contribution of \$103.8 million plus the amount of employee contributions the County covers pursuant to negotiated MOUs with employee bargaining units, approximately \$6.9 million.