

## STAFF REPORT

**TO:** SBCAG Executive Committee

**SUBJECT:** SBCERS Employer Contribution Rates

**MEETING DATE:** September 10, 2009

**AGENDA ITEM:** 5

**STAFF CONTACT:** Bobbi Didier

### RECOMMENDATION:

Receive a report on options for addressing SBCERS investment losses and proposed response to the Retirement Board.

### DISCUSSION:

SBCAG is a member of the Santa Barbara County Employees Retirement System (SBCERS). Pension plan benefits for all SBCAG employees are provided through the system. SBCERS is governed by the independently elected members of the Retirement Board.

The SBCERS investment portfolio has incurred significant losses in the current economic recession. For FY 2008-09 SBCERS is reporting an investment loss of 19.6% and did not achieve the actuarially projected return of 8.16%. These losses have resulted in an unfunded liability for the system. At the August 25<sup>th</sup> meeting of the Retirement Board, various options were presented to address these losses and the resulting unfunded liability. Addressing these retirement fund losses could significantly increase SBCAG's retirement costs beginning in FY 2010/11.

On September 1<sup>st</sup>, SBCAG received a letter (see attached) from Vincent Brown, CEO of SBCERS, requesting input regarding the five year potential impact to SBCAG if SBCERS **did not change** the current funding policy. As you will notice in the table below, the current funding policy would increase SBCAG's contribution rate from the current 21.6% to 38.26% in FY 13/14. Assuming no increase in SBCAG's staffing levels, salaries and revenue, the contribution rate change would increase SBCAG's annual retirement plan costs from \$372,341 in FY 2009-10 to \$676,437 in FY 2013-14. This represents an increase in SBCAG contributions of 82% over the five year period.

## **SBCAG Contributions under Current Funding Policy**

Total 5 yr variance = +16.66 %

Average annual increase (FY 2010-2014) = \$76,024

	<u>SBCAG Contribution Rate</u>	<u>Retirement Plan Cost</u>
FY 2009-2010	21.60%	\$372,341
FY 2010-2011	30.99%	547,903
FY 2011-2012	31.90%	563,992
FY 2012-2013	33.76%	596,876
FY 2013-2014	38.26%	676,437

Recognizing the significant impact of the rate increases under its current pension plan funding policy on the County and other member agencies like SBCAG and APCD, the SBCERS board directed its actuary to develop alternative funding policies which would spread the plan's unfunded liability over a longer period of time. Each of the four alternative options presented offers a different strategy for ensuring the sustainability of the pension plan and provides for variable employer contribution rates depending upon the option selected. (Please see attached Milliman report for further detail.)

Some options front load the expenses while others spread them out over a longer period of time. SBCAG staff has prepared the attached chart (SBCAG Employer Contribution Rates by Year) illustrating the anticipated 20 year financial impact specific to SBCAG of the current funding policy and each of the four options presented by the actuary. *Note: Changes to employee contribution rates occur every three years. Employees are based on demographic changes and are not responsible for unfunded liabilities.*

Each of the options developed projects an increases in annual contribution rates of varying amounts for the next 7-10 years to make up for the investment losses and address the plan's unfunded liability. The actuarial study, then projects a decline in contribution rates for each option. The projected five-year impact for each option on SBCAG is summarized below.

### **Alternative Option 1**

Total 5 yr variance = + 7.78%

Average annual increase (FY 2010-2014) = \$36,877/yr

	<u>SBCAG Contribution Rate</u>	<u>Retirement Plan Cost</u>
FY 2009-2010	21.60%	\$372,341
FY 2010-2011	25.24%	446,298
FY 2011-2012	25.13%	444,298
FY 2012-2013	26.19%	463,039
FY 2013-2014	29.38%	519,848

### **Alternative Option 2**

Total 5 yr variance = + 9.55%

Average annual increase (FY 2010-2014) = \$44,598/yr

	<u>SBCAG Contribution Rate</u>	<u>Retirement Plan Cost</u>
FY 2009-2010	21.60%	\$372,341
FY 2010-2011	26.79%	473,647
FY 2011-2012	26.68%	471,702
FY 2012-2013	27.73%	490,266
FY 2013-2014	31.15%	550,732

### **Alternative Option 3**

Total 5 yr variance = + 5.19%

Average annual increase (FY 2010-2014) = \$25,327/yr

	<u>SBCAG Contribution Rate</u>	<u>Retirement Plan Cost</u>
FY 2009-2010	21.60%	\$372,341
FY 2010-2011	22.40%	396,032
FY 2011-2012	22.50%	397,800
FY 2012-2013	23.73%	419,546
FY 2013-2014	26.79%	473,647

### **Alternative Option 4**

Total 5 yr variance = +12.46 %

Average annual increase (FY 2010-2014) = \$59,847/yr

	<u>SBCAG Contribution Rate</u>	<u>Retirement Plan Cost</u>
FY 2009-2010	21.60%	\$372,341
FY 2010-2011	27.61%	488,145
FY 2011-2012	28.22%	498,930
FY 2012-2013	30.08%	531,814
FY 2013-2014	34.60%	611,728

The average potential annual increase over the next five years ranges from \$25,327/yr. (Alternative Option 3) to \$76,024/yr (Current Funding Policy). Staff estimates that SBCAG could absorb approximately \$50,000/yr. by drawing down its PL Fund balance. PL funds are federal funds allocated to SBCAG annually to meet federal MPO planning requirements. These funds cannot be used for other purposes (e.g., highway or transit projects) or allocated to other agencies. Any increase in SBCAG's contribution above \$50,000/yr would likely require SBCAG to draw on its general fund budget. These assumptions do not take into consideration any future changes in staffing or revenue.

These increases in contribution rates under the SBCERS current funding policy could ultimately impact SBCAG's ability to deliver services and maintain staff levels over the five year period and ultimately either deplete the General Fund entirely or result in a staff reduction of anywhere

from 1.67 FTE in year one to 2.90FTE in year five. SBCAG is a relatively small agency with only 20 FTEs. Therefore a reduction of 1.67 FTEs in year one equates to an 8% reduction in staff whereas a reduction of 2.90 FTEs in year five equates to a 15% reduction in staff. Assuming SBCAG could absorb \$50,000 of the increase each year from PL funds the potential impact to staff over the five year period ranges from reduction of 1.2 FTEs in year one, to a reduction of 1.49 FTEs in year five.

Note: At the August 26<sup>th</sup> Retirement Board meeting, Jason Stillwell, Budget Director for the County of Santa Barbara, presented the County's recommendation that the Retirement Board move to adopt Option 2 as it is one of only two options which does not include negative amortization and distributes the increases over a 17 year period. Representatives of the various collective bargaining units within the County also presented their recommendation for Option 3 as it is the least impactful to staff positions.

The Retirement Board is not bound by the recommendations of its member agencies and will ultimately decide which option to implement. SBCAG staff proposes to respond to the SBCERS inquiry by providing the information contained herein regarding the financial impact of maintaining the Current Funding Policy on SBCAG over the five year period commencing with FY 2010-2011.

**ATTACHMENTS:**

Milliman Report

Letter from Vincent Brown, CEO, SBCERS

SBCAG Employer Contribution Rates by Year

# Attachment 1

## Milliman Report



1301 Fifth Avenue  
Suite 3800  
Seattle, WA 98101-2605  
USA

Tel +1 206 624 7940  
Fax +1 206 623 3485

milliman.com

August 11, 2009

Mr. Vincent Brown  
Chief Executive Officer  
Santa Barbara County Employees' Retirement System  
3916 State Street, Suite 210  
Santa Barbara, CA 93105

Re: Various Amortization Schedules for the Unfunded Actuarial Accrued Liability

Dear Vince:

At the July 22, 2009 Board of Retirement meeting, the Board reviewed several options for its funding policy and narrowed the focus to five different amortization schedules for the amortization of the Unfunded Actuarial Accrued Liability (UAAL). These options can be summarized as follows:

- Maintain the current funding policy.
- Alternative Scenario 1: 20-year open/rolling amortization method.
- Alternative Scenario 2: 17-year open/rolling amortization method.
- Alternative Scenario 3: 30-year closed. After 15 years, become either 15-year open/rolling or 15-year layered.
- Alternative Scenario 4: 30-year amortization of losses recognized in the 2009 valuation, reverting to the current funding policy for subsequent years.

We believe that each of these amortization schedules will provide a reasonable funding approach for the System and satisfy the requirements of the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law (CERL) of 1937. We also believe that each of these amortization schedules has advantages and disadvantages, as we will discuss in this letter. However, it should be pointed out that each of these funding policies is less conservative than the current funding approach. By less conservative, we mean the UAAL will be amortized over a longer period of time.

We have created projections of the employer contribution rates and funded ratios, reflecting an anticipated investment return of -20% for the 2008-09 fiscal year, with 8.16% increases expected after that time. We assume that there are no actuarial gains or losses other than those arising from the asset losses and the actuarial method for recognizing those losses. The return assumption for the 2008-2009 fiscal year is based on information supplied by Lila Deeds on July 9, 2009. Exhibit 1 displays the resulting contribution rates and Exhibit 2 displays the funded ratios. Exhibit 3 displays the same numbers in tabular format. Keep in mind that the precise contribution rates and funded ratios will be very sensitive to the actual plan experience.

This work product was prepared solely for SBCERS for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Exhibit 4 displays the projections for the total employer payroll, the expected UAAL, and the employer contributions for normal cost and the UAAL amortization payments. These projections are based on the investment return assumptions above, an assumption that the payroll will grow at 4% per year, and the assumption that there are no gains or losses in liabilities.

Under each scenario considered, the employer contribution rate consists of the employer portion of the normal cost rate, plus an amortization of the UAAL. The UAAL is equal to the Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA). The AVA is based upon Market Value of Assets (MVA), but is a smoothed value that recognizes, over a five-year period, investment earnings less than (or greater than) the assumed investment return. When a loss (or gain) occurs, 20% of that amount is recognized each year until it is fully recognized in the fifth year.

Under all of the scenarios considered, the Board's current practice to apply an asset corridor limit on the AVA, such that the AVA stays within 20% of the MVA will continue. After the smoothed value of assets is calculated, it is compared to 80% of MVA and 120% of MVA. If the smoothed value is within that range, the smoothed value is used. If the smoothed value is higher than 120% of MVA, then the AVA is set equal to 120% of MVA. Similarly, if the smoothed value is lower than 80% of MVA, the AVA is set equal to 80% of MVA.

### **Current Funding Policy**

The Board's current funding policy calls for a 15-year layered amortization of the UAAL. Under the current layered method, each year the difference between the actual UAAL and the expected UAAL is amortized over a closed 15-year period. A new layer is created each year for General, Safety, and APCD. The layer established at the previous valuation is amortized over 14 years; the layer established in the valuation prior to the previous valuation is amortized over 13 years, and so on.

The expected employer contribution rates are expected to increase substantially over a short period of time under the current funding policy, due to the significant decrease in the MVA in fiscal year 2008-2009.

### **Advantages of the Current Funding Policy**

- It is the currently established practice for SBCERS.
- The contribution rates under the current funding policy are accelerated when compared to the other scenarios. This means that the Funded Ratio will increase more quickly, where the Funded Ratio is defined as the Actuarial Value of Assets divided by the Actuarial Accrued Liability.
- It is more conservative to receive higher contributions earlier and then lower contributions later.

- Some argue it is better for interperiod equity to recognize gains and losses over the future working lifetime of current active members. The average future working lifetimes of current members was 11 years for General members and 12 years for Safety members when we last studied this measure, based upon our actuarial assumptions and the demographics of the group.
- There is a high level of visibility of recent gains and losses with a layered amortization approach. This can highlight how recent plan experience compares to assumptions.
- The UAAL and the change in UAAL determined at each valuation are expected to be completely paid off at the end of the amortization period if all assumptions are met.
- This is the only alternative that results in a 100% funded ratio over the 20-year projection period if all assumptions are met.

#### *Disadvantages of the Current Funding Policy*

- The expected employer contribution rates increase from approximately 23% of payroll for the 2009-10 fiscal year to 33% for 2010-11. The size of this increase may result in difficulties for the employers to meet this increased rate.
- If all assumptions are met, after the investment losses from the past year work their way through the smoothing mechanism, the employer contribution rates are expected to approach and remain at 44% into the middle of the next decade. Adverse experience would result in even higher rates, while positive experience would result in lower rates.
- The current layered method will eventually result in 46 different amortization layers (15 for each of Safety, General, and APCD, along with one for Safety Plan 6). This additional complexity does not necessarily result in a more "accurate" contribution rate or create clearer visibility.
- Contribution rates can change dramatically based upon experience that is 15 years old with the layered approach (i.e., when the 2008-09 large investment loss is fully amortized, a huge drop in rates will occur at the end of that layer).

#### **Alternative Scenario 1: 20-year open/rolling amortization method**

Under an "open/rolling" amortization period, the entire UAAL is amortized over a constant period, year-after-year. For example, under Alternative Scenario 1, a 20-year amortization factor is applied to the entire UAAL each and every year. The factor does not change unless the discount rate or salary scale is changed.

#### *Advantages of Alternative Scenario 1*

- The amortization schedule is more conservative in the early years than Alternative Scenario 3. This results in a more rapid amortization and a higher funded ratio.
- Employer contribution rate increases are more moderate than under the Current Scenario or Alternatives 2 and 4.

- Twenty years is the longest open/rolling amortization schedule that we would normally recommend. Even when assumptions are met, a "negative amortization" is created as the dollar amortization payment is less than the interest accruing on the total UAAL dollar amount. However, the funded ratio is expected to increase over time and the UAAL is expected to be a decreasing percentage of the total payroll. Twenty years is more conservative than the longest period of 30 years permitted in the 37 Act.
- If all assumptions are met, the employer contribution rates are expected to remain below 33.5% throughout the period studied.

#### *Disadvantages of Alternative Scenario 1*

- A "negative amortization" is created. This means that the UAAL dollar amount will continue to increase even when all assumptions are met.
- The funded ratio does not increase as quickly as it does under the Current Scenario or Alternatives 2 and 4.
- Employer contribution rates are expected to exceed those under Alternative Scenario 3 through the 2017-2018 fiscal year.

#### **Alternative Scenario 2: 17-year open/rolling amortization method**

As with Alternative Scenario 1, the entire UAAL is amortized over a constant period, year-after-year. However, under this alternative, a 17-year amortization factor is applied to the entire UAAL each and every year. The factor does not change unless the discount rate or salary scale is changed.

#### *Advantages of Alternative Scenario 2*

- It is more conservative than Alternative Scenario 1. This results in a more rapid amortization and a higher funded ratio.
- If assumptions are met, this method avoids the "negative amortization" associated with Alternative Scenario 1.

#### *Disadvantages of Alternative Scenario 2*

- The expected employer contribution rates increase from approximately 23% of payroll for the 2009-10 fiscal year to 29% for 2010-11.
- If all assumptions are met, after the investment losses from the past year work their way through the smoothing mechanism, the employer contribution rates are expected to approach 35% in the middle of the next decade.

**Alternative Scenario 3: 30-year closed. After 15 years, become either 15-year open/rolling or 15-year layered.**

Under a "closed" amortization period, the entire UAAL is amortized over a period of time that declines by one year from year-to-year. For example, under Alternative Scenario 3, the entire UAAL will be amortized using a 30-year factor for the 2009 valuation. For the 2010 valuation, this will change to a 29-year amortization; for the 2011 valuation, a 28-year amortization would be used, and so on. For the 2024 valuation, when the amortization period shrinks to 15 years, we recommend changing to a 15-year open/rolling amortization or a 15-year layered amortization. An amortization period of less than 15 years results in employer contribution rates that can be too volatile.

*Advantages of Alternative Scenario 3*

- The longer the amortization period, the more stable the contribution rates.
- Spreading the historically large asset loss recently experienced over a longer period means lower contributions now. It could be argued that the current generation is paying too much for a historically large loss if the loss is not spread over time.
- If/when the plan returns to a surplus position, a longer amortization will tend to preserve the surplus for a longer period of time. This assumes parity between amortizing the UAAL and any surplus.
- Amortization periods up to 30 years are permissible under both Governmental Accounting Standards and the County Employees Retirement Law (CERL).
- Over the short term and intermediate term, the employer contribution rates are the lowest under this scenario.
- While there is a negative amortization in the early years, the UAAL amount is expected to decrease as the amortization period diminishes.
- If all assumptions are met, the employer contribution rates are expected to peak at approximately 31% of payroll.

*Disadvantages of Alternative Scenario 3*

- The longer amortization periods will result in a "negative amortization" over the next 12 years as the payment is less than the interest on the UAAL. This results in an expected growth of the UAAL until the amortization period declines.
- The longer amortization period will keep the Funded Ratio lower for a longer period of time.
- If assumptions are met, the aggregate contributions over time are greater with longer amortization periods than they are with shorter amortization periods. With shorter amortization periods, the contributions in the earlier years are greater and are able to earn additional investment income over time.

- If subsequent experience results in additional actuarial losses, the amortization period will be at a high level, offering no potential rate relief by extending the period again.

**Alternative Scenario 4: 30-year amortization of losses recognized in the 2009 valuation, reverting to the current funding policy for subsequent years.**

This approach is a variation of the layered approach used under the current funding policy. Under this scenario, the losses recognized in 2009 would be amortized over 30 years. Bases established prior to the 2009 valuation would continue under their current schedule. Following years would revert to the 15-year layered approach.

*Advantages of Alternative Scenario 4*

- This scenario maintains most of the characteristics of the current funding policy. However, it does provide some recognition and contribution rate relief to reflect the historically bad market returns during the 2008-2009 fiscal year.

*Disadvantages of Alternative Scenario 4*

- This is the most complicated amortization schedule of all scenarios considered in this letter.
- Due to the asset smoothing method, not all of the losses from the 2008-2009 market will be recognized with the 2009 actuarial valuation. The losses that are recognized during the 2010-2013 actuarial valuations will be amortized over 15 years in accordance with the current funding policy.
- If all assumptions are met, the employer contribution rates are expected to approach and remain at 40% into the middle of the next decade.

**Certification**

In preparing this analysis and the June 30, 2008 valuation we relied, without audit, on information (some oral and some in writing) supplied by the SBCERS staff. This information includes, but is not limited to, asset information, statutory provisions, and employee data. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. Since these results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Except as otherwise indicated in this analysis, our calculations are based upon the results of the June 30, 2008 Actuarial Report dated November 11, 2008. The explanatory notes contained in that report, including statements of reliance and limitation on use, continue to apply.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into

account the experience of the System and reasonable expectations), and which, in combination, offer our best estimate of anticipated experience affecting the System.

Milliman's work product was prepared exclusively for SBCERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning SBCERS's operations. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

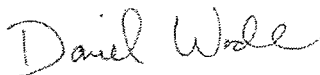
These cost estimates in this letter are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. **Thus, the emerging costs will vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.**

As you are aware, we are not attorneys and cannot give legal advice on such issues. We suggest that before you take any action with regard to the information provided in this letter, you discuss it with your legal counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, the attached information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

We are consulting actuaries for Milliman, Inc. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

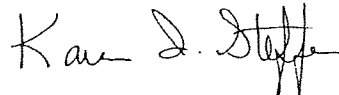
Sincerely,



Daniel Wade, FSA, EA, MAAA  
Consulting Actuary

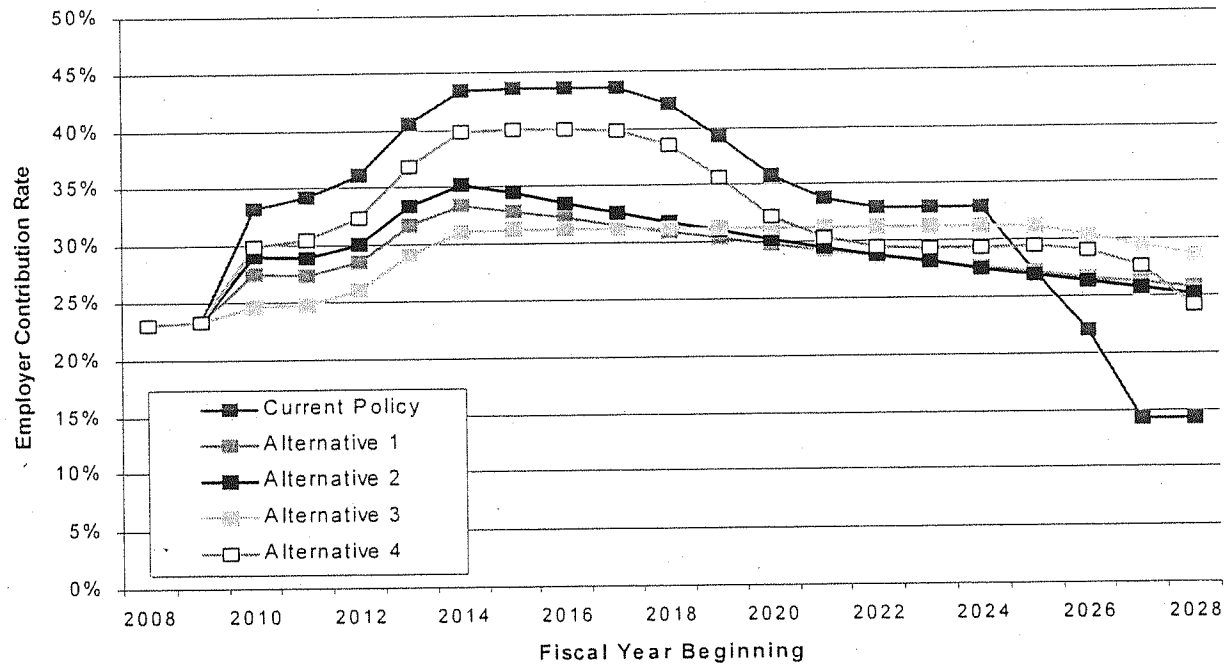
DRW/KIS/nlo

Enclosures



Karen I. Steffen, FSA, EA, MAAA  
Consulting Actuary

### Projected Employer Contribution Rate

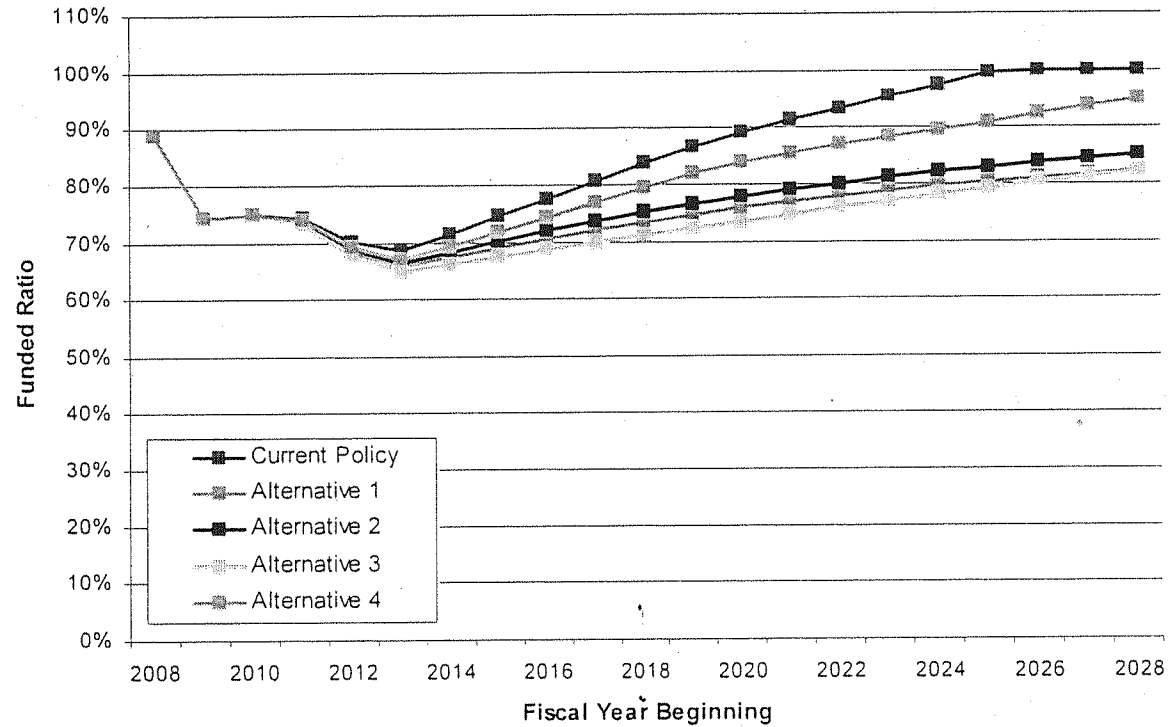


- Current Policy – 15-year layered amortization
- Alternative 1 – 20-year open/rolling amortization
- Alternative 2 – 17-year open/rolling amortization
- Alternative 3 – 30-year closed, declining until 15 years, then becoming a 15-year open/rolling amortization
- Alternative 4 – same as Current Policy, except 2009 recognized losses amortized over 30 years

These projections are based upon the following assumptions:  
 -20% investment return on market value in 2008-9, followed by 8.16% thereafter.  
 No liability gains or losses.  
 4.0% payroll growth per year.  
 Actual results will vary based upon actual experience.

This work product was prepared solely for SBCERS for the purposes described herein and may not be appropriate to use for other purposes.  
 Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Projected Funded Ratio



- Current Policy – 15-year layered amortization
- Alternative 1 – 20-year open/rolling amortization
- Alternative 2 – 17-year open/rolling amortization
- Alternative 3 – 30-year closed, declining until 15 years, then becoming a 15-year open/rolling amortization
- Alternative 4 – same as Current Policy, except 2009 recognized losses amortized over 30 years

These projections are based upon the following assumptions:  
 -20% investment return on market value in 2008-9, followed by 8.16% thereafter.  
 No liability gains or losses.  
 4.0% payroll growth per year.  
 Actual results will vary based upon actual experience.

This work product was prepared solely for SBCERS for the purposes described herein and may not be appropriate to use for other purposes.  
 Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Projected Employer Contribution Rate and Funded Ratio

Fiscal Year	Employer Contribution Rate					Funded Ratio				
	Current Policy	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Current Policy	Alternative 1	Alternative 2	Alternative 3	Alternative 4
2008	23.06%	23.06%	23.06%	23.06%	23.06%	88.7%	88.7%	88.7%	88.7%	88.7%
2009	23.30%	23.30%	23.30%	23.30%	23.30%	74.2%	74.2%	74.2%	74.2%	74.2%
2010	33.23%	27.48%	29.03%	24.64%	29.85%	75.0%	75.0%	75.0%	75.0%	75.0%
2011	34.14%	27.37%	28.92%	24.74%	30.46%	74.4%	73.6%	73.8%	73.2%	73.9%
2012	36.00%	28.43%	29.97%	25.97%	32.32%	70.1%	68.4%	68.8%	67.6%	69.1%
2013	40.50%	31.62%	33.39%	29.03%	36.84%	68.7%	65.9%	66.5%	64.8%	67.2%
2014	43.38%	33.34%	35.18%	30.99%	39.74%	71.4%	67.4%	68.3%	65.9%	69.4%
2015	43.59%	32.83%	34.44%	31.13%	39.96%	74.5%	69.0%	70.2%	67.2%	71.9%
2016	43.54%	32.17%	33.52%	31.15%	39.93%	77.5%	70.6%	72.0%	68.5%	74.4%
2017	43.47%	31.52%	32.64%	31.15%	39.86%	80.6%	72.0%	73.6%	69.8%	76.9%
2018	42.13%	30.90%	31.79%	31.15%	38.56%	83.6%	73.4%	75.2%	71.0%	79.5%
2019	39.22%	30.29%	30.97%	31.16%	35.65%	86.6%	74.6%	76.5%	72.2%	81.8%
2020	35.74%	29.70%	30.21%	31.15%	32.19%	89.2%	75.8%	77.8%	73.4%	83.8%
2021	33.83%	29.15%	29.46%	31.15%	30.30%	91.4%	76.8%	79.0%	74.6%	85.5%
2022	32.95%	28.60%	28.76%	31.15%	29.42%	93.4%	77.8%	80.1%	75.7%	86.9%
2023	32.86%	28.08%	28.09%	31.16%	29.35%	95.4%	78.7%	81.1%	76.9%	88.2%
2024	32.88%	27.58%	27.46%	31.17%	29.37%	97.4%	79.6%	82.0%	78.0%	89.5%
2025	27.14%	27.09%	26.86%	31.17%	29.42%	99.4%	80.3%	82.9%	79.1%	90.8%
2026	22.01%	26.63%	26.28%	30.33%	29.04%	100.0%	81.0%	83.6%	80.2%	92.2%
2027	14.20%	26.18%	25.73%	29.45%	27.65%	100.0%	81.6%	84.3%	81.3%	93.6%
2028	14.20%	25.76%	25.21%	28.61%	24.09%	100.0%	82.2%	84.9%	82.2%	94.9%

Current Policy - 15 year layered amortization  
 Alternative 1 - 20 year open/rolling amortization  
 Alternative 2 - 17 year open/rolling amortization  
 Alternative 3 - 30 year closed, declining until 15 years, then becoming a 15 year open/rolling amortization  
 Alternative 4 - same as Current Policy, except 2009 recognized losses amortized over 30 years

These projections are based upon the following assumptions:  
 -20% investment return on market value in 2008-9, followed by 8.16% thereafter.  
 No liability gains or losses.  
 4.0% payroll growth per year.  
 Actual results will vary based upon actual experience.

This work product was prepared solely for SBCERS for the purposes described herein and may not be appropriate to use for other purposes.  
 Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

**Santa Barbara County Employees Retirement System  
Projected Payroll, UAAL and Employer Contributions**

(All figures are in millions of dollars)

Fiscal Year Beginning	Projected Payroll	Current Policy				Total Employer Contribution
		UAAL	UAAL as a % of Projected Payroll	Employer Normal Cost	Employer UAAL Contribution	
2008	\$ 313.4	\$ 244.5	78.0%	\$ 43.7	\$ 28.6	\$ 72.3
2009	325.9	588.2	180.5%	46.3	29.6	75.9
2010	339.0	606.9	179.0%	48.1	64.5	112.6
2011	352.5	660.7	187.4%	50.1	70.3	120.4
2012	366.6	819.6	223.6%	52.1	79.9	132.0
2013	381.3	910.2	238.7%	54.1	100.3	154.4
2014	396.5	880.0	221.9%	56.3	115.7	172.0
2015	412.4	830.7	201.4%	58.6	121.2	179.8
2016	428.9	771.8	179.9%	60.9	125.8	186.7
2017	446.0	702.5	157.5%	63.3	130.5	193.8
2018	463.9	623.2	134.3%	65.9	129.6	195.5
2019	482.4	538.3	111.6%	68.5	120.7	189.2
2020	501.7	456.0	90.9%	71.2	108.1	179.3
2021	521.8	380.5	72.9%	74.1	102.5	176.6
2022	542.7	304.8	56.2%	77.1	101.7	178.8
2023	564.4	224.1	39.7%	80.1	105.3	185.4
2024	587.0	133.1	22.7%	83.3	109.6	192.9
2025	610.4	30.1	4.9%	86.7	79.0	165.7
2026	634.9	-	0.0%	90.2	49.6	139.8
2027	660.3	-	0.0%	93.8	-	93.8
2028	686.7	-	0.0%	97.5	-	97.5

**Current Policy - 15 year layered amortization**

These projections are based upon the following assumptions:

-20% investment return on market value in 2008-9, followed by 8.16% thereafter.

No liability gains or losses.

4.0% payroll growth per year.

Actual results will vary based upon actual experience.

**Santa Barbara County Employees Retirement System  
Projected Payroll, UAAL and Employer Contributions**

(All figures are in millions of dollars)

Fiscal Year Beginning	Projected Payroll	Alternative 1				
		UAAL	UAAL as a % of Projected Payroll	Employer Normal Cost	Employer UAAL Contribution	Total Employer Contribution
2008	\$ 313.4	\$ 244.5	78.0%	\$ 43.7	\$ 28.6	\$ 72.3
2009	325.9	588.2	180.5%	46.3	29.6	75.9
2010	339.0	606.9	179.0%	48.1	45.0	93.1
2011	352.5	681.5	193.3%	50.1	46.4	96.5
2012	366.6	867.8	236.7%	52.1	52.2	104.3
2013	381.3	991.7	260.1%	54.1	66.4	120.5
2014	396.5	1,004.1	253.2%	56.3	75.9	132.2
2015	412.4	1,007.4	244.3%	58.6	76.8	135.4
2016	428.9	1,009.7	235.4%	60.9	77.1	138.0
2017	446.0	1,012.1	226.9%	63.3	77.3	140.6
2018	463.9	1,014.2	218.6%	65.9	77.5	143.4
2019	482.4	1,016.5	210.7%	68.5	77.6	146.1
2020	501.7	1,019.1	203.1%	71.2	77.8	149.0
2021	521.8	1,021.4	195.7%	74.1	78.0	152.1
2022	542.7	1,023.7	188.6%	77.1	78.1	155.2
2023	564.4	1,026.0	181.8%	80.1	78.3	158.4
2024	587.0	1,028.5	175.2%	83.3	78.5	161.8
2025	610.4	1,031.2	168.9%	86.7	78.7	165.4
2026	634.9	1,034.0	162.9%	90.2	78.9	169.1
2027	660.3	1,037.5	157.1%	93.8	79.1	172.9
2028	686.7	1,040.5	151.5%	97.5	79.4	176.9

**Alternative 1 - 20 year open/rolling amortization**

These projections are based upon the following assumptions:

-20% investment return on market value in 2008-9, followed by 8.16% thereafter.

No liability gains or losses.

4.0% payroll growth per year.

Actual results will vary based upon actual experience.

**Santa Barbara County Employees Retirement System  
Projected Payroll, UAAL and Employer Contributions**

(All figures are in millions of dollars)

Fiscal Year Beginning	Projected Payroll	Alternative 2				
		UAAL	UAAL as a % of Projected Payroll	Employer Normal Cost	Employer UAAL Contribution	Total Employer Contribution
2008	\$ 313.4	\$ 244.5	78.0%	\$ 43.7	\$ 28.6	\$ 72.3
2009	325.9	588.2	180.5%	46.3	29.6	75.9
2010	339.0	606.9	179.0%	48.1	50.3	98.4
2011	352.5	676.2	191.8%	50.1	51.9	102.0
2012	366.6	855.9	233.5%	52.1	57.8	109.9
2013	381.3	973.0	255.2%	54.1	73.2	127.3
2014	396.5	976.6	246.3%	56.3	83.2	139.5
2015	412.4	969.4	235.1%	58.6	83.5	142.1
2016	428.9	961.9	224.3%	60.9	82.9	143.8
2017	446.0	954.4	214.0%	63.3	82.3	145.6
2018	463.9	946.4	204.0%	65.9	81.6	147.5
2019	482.4	939.5	194.8%	68.5	80.9	149.4
2020	501.7	931.8	185.7%	71.2	80.3	151.5
2021	521.8	924.5	177.2%	74.1	79.6	153.7
2022	542.7	917.1	169.0%	77.1	79.0	156.1
2023	564.4	910.6	161.3%	80.1	78.4	158.5
2024	587.0	904.0	154.0%	83.3	77.8	161.1
2025	610.4	897.4	147.0%	86.7	77.3	164.0
2026	634.9	890.6	140.3%	90.2	76.7	166.9
2027	660.3	884.4	133.9%	93.8	76.1	169.9
2028	686.7	878.4	127.9%	97.5	75.6	173.1

**Alternative 2 - 17 year open/rolling amortization**

These projections are based upon the following assumptions:

-20% investment return on market value in 2008-9, followed by 8.16% thereafter.

No liability gains or losses.

4.0% payroll growth per year.

Actual results will vary based upon actual experience.

**Santa Barbara County Employees Retirement System  
Projected Payroll, UAAL and Employer Contributions**

(All figures are in millions of dollars)

Fiscal Year Beginning	Projected Payroll	Alternative 3		Employer Normal Cost	Employer UAAL Contribution	Total Employer Contribution
		UAAL	UAAL as a % of Projected Payroll			
2008	\$ 313.4	\$ 244.5	78.0%	\$ 43.7	\$ 28.6	\$ 72.3
2009	325.9	588.2	180.5%	46.3	29.6	75.9
2010	339.0	606.9	179.0%	48.1	35.4	83.5
2011	352.5	691.4	196.1%	50.1	37.2	87.3
2012	366.6	888.1	242.3%	52.1	43.2	95.3
2013	381.3	1,023.2	268.3%	54.1	56.5	110.6
2014	396.5	1,048.7	264.5%	56.3	66.6	122.9
2015	412.4	1,065.5	258.4%	58.6	69.8	128.4
2016	428.9	1,079.9	251.8%	60.9	72.7	133.6
2017	446.0	1,092.8	245.0%	63.3	75.6	138.9
2018	463.9	1,103.6	237.9%	65.9	78.6	144.5
2019	482.4	1,111.6	230.4%	68.5	81.8	150.3
2020	501.7	1,117.0	222.6%	71.2	85.0	156.2
2021	521.8	1,119.9	214.6%	74.1	88.4	162.5
2022	542.7	1,119.5	206.3%	77.1	92.0	169.1
2023	564.4	1,115.7	197.7%	80.1	95.7	175.8
2024	587.0	1,107.5	188.7%	83.3	99.6	182.9
2025	610.4	1,094.7	179.3%	86.7	103.6	190.3
2026	634.9	1,076.1	169.5%	90.2	102.4	192.6
2027	660.3	1,057.6	160.2%	93.8	100.7	194.5
2028	686.7	1,039.6	151.4%	97.5	98.9	196.4

**Alternative 3 - 30 year closed, declining until 15 years, then becoming a 15 year  
open/rolling amortization**

These projections are based upon the following assumptions:

-20% investment return on market value in 2008-9, followed by 8.16% thereafter.

No liability gains or losses.

4.0% payroll growth per year.

Actual results will vary based upon actual experience.

**Santa Barbara County Employees Retirement System  
Projected Payroll, UAAL and Employer Contributions**

(All figures are in millions of dollars)

Fiscal Year Beginning	Alternative 4					
	Projected Payroll	UAAL	UAAL as a % of Projected Payroll	Employer Normal Cost	Employer UAAL Contribution	Total Employer Contribution
2008	\$ 313.4	\$ 244.5	78.0%	\$ 43.7	\$ 28.6	\$ 72.3
2009	325.9	588.2	180.5%	46.3	29.6	75.9
2010	339.0	606.9	179.0%	48.1	53.0	101.1
2011	352.5	673.4	191.0%	50.1	57.3	107.4
2012	366.6	847.5	231.2%	52.1	66.4	118.5
2013	381.3	954.9	250.4%	54.1	86.3	140.4
2014	396.5	943.0	237.8%	56.3	101.3	157.6
2015	412.4	914.4	221.7%	58.6	106.2	164.8
2016	428.9	877.7	204.6%	60.9	110.3	171.2
2017	446.0	834.2	187.0%	63.3	114.5	177.8
2018	463.9	782.4	168.7%	65.9	113.0	178.9
2019	482.4	728.4	151.0%	68.5	103.5	172.0
2020	501.7	679.6	135.5%	71.2	90.3	161.5
2021	521.8	641.3	122.9%	74.1	84.0	158.1
2022	542.7	606.4	111.7%	77.1	82.6	159.7
2023	564.4	570.2	101.0%	80.1	85.5	165.6
2024	587.0	528.4	90.0%	83.3	89.1	172.4
2025	610.4	479.4	78.5%	86.7	92.9	179.6
2026	634.9	422.7	66.6%	90.2	94.2	184.4
2027	660.3	359.6	54.5%	93.8	88.8	182.6
2028	686.7	297.6	43.3%	97.5	67.9	165.4

**Alternative 4 - same as Current Policy, except 2009 recognized losses amortized over 30 years.**

These projections are based upon the following assumptions:

-20% investment return on market value in 2008-9, followed by 8.16% thereafter.

No liability gains or losses.

4.0% payroll growth per year.

Actual results will vary based upon actual experience.



Santa Barbara County Employees' Retirement System

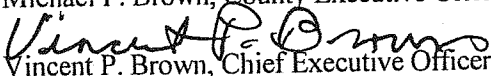
## Attachment 2

### Vincent Brown Letter

Vincent P. Brown Chief Executive Officer

DATE: September 1, 2009

TO: Michael F. Brown, County Executive Officer

FROM:   
Vincent P. Brown, Chief Executive Officer

RE: Employer Contribution Rates

cc: Santa Barbara County Employees' Retirement System Board Trustees  
All SBCERS Plan Sponsors  
Lila Deeds, Assistant Chief Executive Officer  
Susan Paul, Assistant CEO/HR Director  
Jason Stilwell, Assistant CEO/Budget Director  
Robert Geis, Auditor-Controller

---

Thank you for your August 25, 2009 Memo and Mr. Stilwell's presentation at the Santa Barbara County Employees' Retirement System (SBCERS) August 26, 2009 Board meeting. Unfortunately, we had a miscommunication regarding the type information the Board of Retirement seeks in order to make a prudent determination whether to alter SBCERS' current funding policy. As I indicated in my August 11, 2009 Memo to you:

"In particular, the Board of Retirement requests your comments regarding the impact of the employer contributions on your General Fund expenditures during fiscal years 2009-10 to 2013-14."

Specifically, the Board of Retirement requests examples of the potential impact to your budget over the next five fiscal years if our current funding policy is continued. The receipt of this type of information will enable the Retirement Board to consider altering its funding policy to mitigate increases in employer contributions into the system that would otherwise result from its current policy. For example, you may provide information regarding potential budget cuts to programs that reduce services, or employee layoffs or alternative compensation reductions, that might result from projected increases in pension costs. You could also cite the loss of revenues due to the recession as a further factor of hardship. The Board of Retirement does not need confidential information or specific budget proposals under consideration to make a decision to alter the funding method. However, they do need examples of likely budget reductions or other actions the County and other plan sponsors may need to take to pay the unanticipated projected higher employer contributions.

As you know, the Board of Retirement tabled a decision regarding the funding policy until our September 23, 2009 meeting. We would appreciate receiving your written comments prior to our September SBCERS Board meeting. If you or your staff have any questions, do not hesitate to contact me. I look forward to working cooperatively with you on this issue.

3916 State Street Suite 210 • Santa Barbara, California 93105 • Phone 805-568-2940 • Fax 805-560-1086

2400 Professional Pkwy Suite 150 • Santa Maria, California 93455 • Phone 805-739-8686 • Fax 805-739-8689

Payperiod Costs 68,000.00

SBCAG Employer Contribution Rates by Fiscal Year - 2009 - 2028

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total Cost All Years	
<b>Current Policy</b>	Salary	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	
	Rate	21.06%	30.99%	31.90%	33.76%	38.26%	41.14%	41.35%	41.30%	41.23%	39.89%	36.98%	33.50%	31.59%	30.71%	30.62%	30.64%	24.90%	19.77%	11.96%	11.96%		
	<b>Total Costs by Year</b>	<b>372,340.80</b>	<b>547,903.20</b>	<b>563,992.00</b>	<b>596,876.80</b>	<b>676,436.80</b>	<b>727,355.20</b>	<b>731,068.00</b>	<b>730,184.00</b>	<b>730,184.00</b>	<b>728,946.40</b>	<b>705,255.20</b>	<b>653,806.40</b>	<b>592,280.00</b>	<b>558,511.20</b>	<b>542,952.80</b>	<b>541,361.60</b>	<b>541,715.20</b>	<b>440,232.00</b>	<b>349,533.60</b>	<b>211,452.80</b>	<b>211,452.80</b>	<b>11,023,656.80</b>
<b>Alternative 1</b>	Salary	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	
	Rate	21.06%	25.24%	25.13%	26.19%	29.38%	31.10%	30.59%	29.93%	29.28%	28.66%	28.05%	27.46%	26.91%	26.36%	25.84%	25.34%	24.85%	24.39%	23.94%	23.52%		
	<b>Total Costs by Year</b>	<b>372,340.80</b>	<b>446,243.20</b>	<b>444,298.40</b>	<b>463,039.20</b>	<b>519,436.40</b>	<b>549,848.00</b>	<b>540,831.20</b>	<b>529,162.40</b>	<b>517,670.40</b>	<b>506,708.80</b>	<b>495,924.00</b>	<b>485,492.80</b>	<b>475,768.80</b>	<b>466,044.80</b>	<b>456,851.20</b>	<b>448,011.20</b>	<b>439,348.00</b>	<b>431,215.20</b>	<b>423,259.20</b>	<b>415,833.60</b>	<b>9,427,329.60</b>	
<b>Alternative 2</b>	Salary	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	
	Rate	21.06%	26.79%	26.68%	27.73%	31.15%	32.94%	32.20%	31.28%	30.40%	29.55%	28.73%	27.97%	27.22%	26.52%	25.85%	25.22%	24.62%	24.04%	23.49%	22.97%		
	<b>Total Costs by Year</b>	<b>372,340.80</b>	<b>473,647.20</b>	<b>471,702.40</b>	<b>490,266.40</b>	<b>550,732.00</b>	<b>582,379.20</b>	<b>569,296.00</b>	<b>553,030.40</b>	<b>537,472.00</b>	<b>522,444.00</b>	<b>507,946.40</b>	<b>494,509.60</b>	<b>481,249.60</b>	<b>468,873.60</b>	<b>457,028.00</b>	<b>445,889.60</b>	<b>435,281.60</b>	<b>425,027.20</b>	<b>415,303.20</b>	<b>406,109.60</b>	<b>9,660,528.80</b>	
<b>Alternative 3</b>	Salary	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	
	Rate	21.06%	22.40%	22.50%	23.73%	26.79%	28.75%	28.89%	28.91%	28.91%	28.91%	28.92%	28.91%	28.91%	28.91%	28.92%	28.93%	28.93%	28.09%	27.21%	26.37%		
	<b>Total Costs by Year</b>	<b>372,340.80</b>	<b>396,032.00</b>	<b>397,800.00</b>	<b>419,546.40</b>	<b>473,647.20</b>	<b>508,300.00</b>	<b>510,775.20</b>	<b>511,128.80</b>	<b>511,128.80</b>	<b>511,128.80</b>	<b>511,305.60</b>	<b>511,128.80</b>	<b>511,128.80</b>	<b>511,128.80</b>	<b>511,305.60</b>	<b>511,482.40</b>	<b>511,482.40</b>	<b>496,631.20</b>	<b>481,072.80</b>	<b>466,221.60</b>	<b>9,634,716.00</b>	
<b>Alternative 4</b>	Salary	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	1,768,000.00	
	Rate	21.06%	27.61%	28.22%	30.08%	34.60%	37.50%	37.72%	37.69%	37.62%	36.32%	33.41%	29.95%	28.06%	27.18%	27.11%	27.13%	27.18%	26.80%	25.41%	21.85%		
	<b>Total Costs by Year</b>	<b>372,340.80</b>	<b>488,144.80</b>	<b>498,929.60</b>	<b>531,814.40</b>	<b>611,728.00</b>	<b>663,000.00</b>	<b>666,889.60</b>	<b>666,359.20</b>	<b>665,121.60</b>	<b>642,137.60</b>	<b>590,688.80</b>	<b>529,516.00</b>	<b>496,100.80</b>	<b>480,542.40</b>	<b>479,304.80</b>	<b>479,658.40</b>	<b>480,542.40</b>	<b>473,824.00</b>	<b>449,248.80</b>	<b>386,308.00</b>	<b>10,652,200.00</b>	

