

SAN DIEGO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

***New "Tier B" General 2.62% @ 62 (Section 31676.12) and
Safety 3.0% @ 55 (Section 31664.2) Benefit Valuation***

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June 12, 2009

*Board of Retirement
San Diego County Employees Retirement Association
2275 Rio Bonito Way, Suite 200
San Diego, CA 92108-1685*

Dear Board Members:

We are pleased to submit our study of the new General Tier B: 2.62% @ 62 (Section 31676.12) and Safety Tier B: 3.0% @ 55 (Section 31664.2) benefits for members of the San Diego County Employees Retirement Association (SDCERA).


As these tiers would only be offered to new employees, and data for these employees are not currently available, we have assumed in this valuation that their demographic profiles (e.g., entry age, composition of male versus female, etc.) can be approximated by the data profiles of current General and Safety active members hired in the three years prior to the last valuation as of June 30, 2008. No current inactive vested members, retirees or beneficiaries have been included in this valuation. With the exception of the service retirement assumptions, this study utilizes the actuarial assumptions and methodologies adopted by the Board for use in the June 30, 2008 valuation. A brief description of the methodology we used to select the service retirement assumptions for the new tiers are provided in Section 1.

The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary.

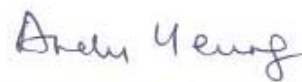
We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,

THE SEGAL COMPANY

By: 

*Paul Angelo, FSA, MAAA, EA
Senior Vice President and Actuary*



*Andy Yeung, ASA, MAAA, EA
Vice President and Associate Actuary*

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**SECTION 1: Benefit Changes for New General and Safety Members of the SDCERA
Review Summary**

CONTRIBUTION RECOMMENDATIONS

- To estimate the potential cost impact, this study assumes that the demographic profiles of the members entering the new tiers would be comparable to current General Tier A and Safety Tier A active members hired in the three years prior to the June 30, 2008 actuarial valuation. For comparison purposes only, we have calculated the employer Normal Cost contribution rates for this group of members under either General Tier B or Safety Tier B as of June 30, 2008, and compared these rates to the employer Normal Cost contribution rates under their current tier of membership (General Tier A or Safety Tier A).
- We have shown the employer Normal Cost rates for the new tiers in Section 2B of this report. However, even though the new tiers have been adopted effective August 28, 2009, we are not recommending any immediate changes in the employer Normal Cost rates adopted by the Board for the June 30, 2008 valuation. This is because, under SDCERA's current practice for the valuation, a composite Normal Cost contribution rate is determined for the employer based on the proportion of the tier-specific Normal Costs and payrolls for employees in each of those tiers. For instance, in the June 30, 2008 valuation, we determined the Normal Cost for General by weighting the Normal Cost rates for General Tier 1 and Tier A by the payrolls for those two tiers reported as of June 30, 2008. Under that approach, as Tier B payroll would only build up gradually, we anticipate that it may take some years before the Tier B employer Normal Cost rates would have a significant impact on the employer Normal Cost in the valuation.
- In addition to the employer Normal Cost rates provided in Section 2B, it is anticipated that the employer would have to continue to contribute the same UAAL rates of 3.99% and 5.87% for General and Safety members, respectively, determined in the June 30, 2008 valuation. This is because the UAAL rates were determined as of June 30, 2008 assuming the UAAL determined in that valuation would be paid off by contributions based on payrolls for all current and new entrants who entered the Association after June 30, 2008.
- In Section 2B, we compare the employee rates for General Tier A and Safety Tier A with those determined under General Tier B and Safety Tier B based on the demographic profiles of the members hired in the three years prior to the June 30, 2008 actuarial valuation. The tables in Section 2B summarize the SDCERA member contribution rates for the new General Tier B and the Safety Tier B members utilizing the same estimated data used for calculating the employer contribution rates. The detailed entry age based employee rates are provided in Section 3, Exhibit II.
- Most of the actuarial assumptions used in this study are those adopted by the Retirement Board for use in the June 30, 2008 valuation. We have used new retirement rate assumptions for the General Tier B and Safety Tier B members in anticipation of members retiring later under the modified formulas. In selecting these new service retirement assumptions, we have reviewed the Association's service retirement rates prior to the General Tier A and Safety Tier A improvements. We have also looked at the adjustments made by other Segal 1937 Act County clients that have recently implemented lower benefit formulas.

**SECTION 2: Benefit Changes for New General and Safety Members of the SDCERA
Valuation Results**

A. Demographics as of June 30, 2008

| Category | General Tier B | Safety Tier B |
|--------------------------------------|-----------------------|----------------------|
| Active members in valuation*: | | |
| Average entry age | 35.7 | 30.1 |
| Projected average compensation | \$ 50,200 | \$ 53,500 |

** The data used for this study for new General Tier B and Safety Tier B members is based on the June 30, 2008 valuation member data for active General Tier A and Safety members hired in the three years prior to the June 30, 2008 actuarial valuation.*

**SECTION 2: Benefit Changes for New General and Safety Members of the SDCERA
Valuation Results**

B. Comparison of Contribution Rates Before and After Change in Benefit Formula:

Under Current Tier A Benefit Formula

| | Employer Rate | | Average Member Rate | |
|-----------------------------|---------------------|---|---------------------|---|
| | <u>% of Payroll</u> | <u>Estimated Average Annual Amount*</u> | <u>% of Payroll</u> | <u>Estimated Average Annual Amount*</u> |
| General Members Normal Cost | 12.57% | \$6,300 | 10.73% | \$5,400 |
| Safety Members Normal Cost | 19.71% | \$10,500 | 12.78% | \$6,800 |

Under New Tier B Benefit Formula

| | Employer Rate | | Average Member Rate | |
|-----------------------------|---------------------|---|---------------------|---|
| | <u>% of Payroll</u> | <u>Estimated Average Annual Amount*</u> | <u>% of Payroll</u> | <u>Estimated Average Annual Amount*</u> |
| General Members Normal Cost | 8.49% | \$4,300 | 7.65% | \$3,800 |
| Safety Members Normal Cost | 15.14% | \$8,100 | 10.24% | \$5,500 |

**These per member amounts are based on June 30, 2008 average annual payroll for General Tier A and Safety active members hired within the past three years:*

| | |
|---------|----------|
| General | \$50,200 |
| Safety | 53,500 |

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

EXHIBIT I

Actuarial Assumptions and Plan Summary for General Tier B and Safety Tier B Members

Actuarial Assumptions:

The service retirement assumptions that are used in determining results under the Tier B benefit study are shown on the next page. All the other actuarial assumptions are the same as those adopted by the Retirement Board for use in the June 30, 2008 actuarial valuation.

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

Retirement Rates:

| Age | Rate (%) | |
|-----|----------------|---------------|
| | General Tier B | Safety Tier B |
| 48 | 0.00 | 3.00 |
| 49 | 0.00 | 3.00 |
| 50 | 0.00 | 12.00 |
| 51 | 0.00 | 12.00 |
| 52 | 0.00 | 12.00 |
| 53 | 0.00 | 12.00 |
| 54 | 0.00 | 12.00 |
| 55 | 6.00 | 19.00 |
| 56 | 7.00 | 23.00 |
| 57 | 9.00 | 27.00 |
| 58 | 9.00 | 32.00 |
| 59 | 9.00 | 32.00 |
| 60 | 10.00 | 45.00 |
| 61 | 14.00 | 45.00 |
| 62 | 20.00 | 45.00 |
| 63 | 20.00 | 45.00 |
| 64 | 20.00 | 45.00 |
| 65 | 30.00 | 100.00 |
| 66 | 30.00 | 100.00 |
| 67 | 30.00 | 100.00 |
| 68 | 30.00 | 100.00 |
| 69 | 30.00 | 100.00 |
| 70 | 100.00 | 100.00 |

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

Plan Provisions: Please note that with the exception of the plan provisions described below, all the other plan provisions are assumed to be the same as those used in the June 30, 2008 valuation.

Membership Eligibility:

General Tier B All General members hired on or after August 28, 2009.

Safety Tier B All Safety members hired on or after August 28, 2009.

**Final Compensation for
Benefit Determination:**

*General Tier B
and Safety Tier B* Highest consecutive 78 bi-weekly pay periods (i.e., three years) of compensation earnable (§31462) (F3AC).

Service Retirement Eligibility:

General Tier B Age 55 with 10 years of service credit, or age 70 regardless of service credit, or after 30 years of service credit, regardless of age (§31672).

Retirement Benefit Formula:

General Tier B (§31676.12)

| <u>Retirement Age</u> | <u>Benefit Formula</u> |
|-----------------------|--|
| 50 | $(1.34\% \times F3AC - 1/3 \times 1.34\% \times \$350 \times 12) \times \text{Years of Service}$ |
| 55 | $(1.77\% \times F3AC - 1/3 \times 1.77\% \times \$350 \times 12) \times \text{Years of Service}$ |
| 60 | $(2.34\% \times F3AC - 1/3 \times 2.34\% \times \$350 \times 12) \times \text{Years of Service}$ |
| 62 | $(2.62\% \times F3AC - 1/3 \times 2.62\% \times \$350 \times 12) \times \text{Years of Service}$ |
| 65+ | $(2.62\% \times F3AC - 1/3 \times 2.62\% \times \$350 \times 12) \times \text{Years of Service}$ |

Safety Tier B

(Non-Integrated) (§31664.2)

| <u>Retirement Age</u> | <u>Benefit Formula</u> |
|-----------------------|---|
| 50 | $2.29\% \times F3AC \times \text{Years of Service}$ |
| 55 | $3.00\% \times F3AC \times \text{Years of Service}$ |
| 60+ | $3.00\% \times F3AC \times \text{Years of Service}$ |

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

Maximum Benefit: 100% of Final Three-Year Average Compensation (§31676.12, §31664.2)

**Post-retirement
Cost-of-Living Benefits:**

*General Tier B
and Safety Tier B*

Future changes based on changes to the Consumer Price Index for the San Diego area to a maximum of 2% per year, excess “banked.” (§31870)

Member Contributions:

Please refer to Exhibit II for the specific rates.

General Tier B

Basic

Provide for an average annuity at age 60 equal to 1/100 of F3AC. (§31621.2)

Cost-of-Living

Provide for one-half of future Cost-of-Living costs.

Safety Tier B

Basic

Provide for an average annuity at age 50 equal to 1/100 of F3AC. (§31639.25)

Cost-of-Living

Provide for one-half of future Cost-of-Living costs.

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

EXHIBIT II

Individual Member Contribution Rates

| Proposed General Tier B Member Contribution Rates Expressed as a Percentage of Monthly Compensation | | | | | | |
|--|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| Entry Age | Basic | | COLA | | Total | |
| | First \$350 | Over \$350 | First \$350 | Over \$350 | First \$350 | Over \$350 |
| 15 | 3.21% | 4.81% | 0.58% | 0.87% | 3.79% | 5.68% |
| 16 | 3.21% | 4.81% | 0.58% | 0.87% | 3.79% | 5.68% |
| 17 | 3.26% | 4.89% | 0.59% | 0.89% | 3.85% | 5.78% |
| 18 | 3.31% | 4.97% | 0.60% | 0.90% | 3.91% | 5.87% |
| 19 | 3.37% | 5.06% | 0.61% | 0.92% | 3.98% | 5.98% |
| 20 | 3.43% | 5.14% | 0.62% | 0.93% | 4.05% | 6.07% |
| 21 | 3.49% | 5.23% | 0.63% | 0.95% | 4.12% | 6.18% |
| 22 | 3.55% | 5.32% | 0.64% | 0.97% | 4.19% | 6.29% |
| 23 | 3.61% | 5.41% | 0.65% | 0.98% | 4.26% | 6.39% |
| 24 | 3.67% | 5.50% | 0.67% | 1.00% | 4.34% | 6.50% |
| 25 | 3.73% | 5.59% | 0.68% | 1.01% | 4.41% | 6.60% |
| 26 | 3.79% | 5.68% | 0.69% | 1.03% | 4.48% | 6.71% |
| 27 | 3.85% | 5.77% | 0.70% | 1.05% | 4.55% | 6.82% |
| 28 | 3.91% | 5.87% | 0.71% | 1.06% | 4.62% | 6.93% |
| 29 | 3.98% | 5.97% | 0.72% | 1.08% | 4.70% | 7.05% |
| 30 | 4.04% | 6.06% | 0.73% | 1.10% | 4.77% | 7.16% |
| 31 | 4.11% | 6.16% | 0.75% | 1.12% | 4.86% | 7.28% |
| 32 | 4.17% | 6.26% | 0.76% | 1.14% | 4.93% | 7.40% |
| 33 | 4.25% | 6.37% | 0.77% | 1.16% | 5.02% | 7.53% |
| 34 | 4.31% | 6.47% | 0.78% | 1.17% | 5.09% | 7.64% |
| 35 | 4.38% | 6.57% | 0.79% | 1.19% | 5.17% | 7.76% |
| 36 | 4.45% | 6.68% | 0.81% | 1.21% | 5.26% | 7.89% |
| 37 | 4.53% | 6.79% | 0.82% | 1.23% | 5.35% | 8.02% |
| 38 | 4.60% | 6.90% | 0.83% | 1.25% | 5.43% | 8.15% |
| 39 | 4.67% | 7.01% | 0.85% | 1.27% | 5.52% | 8.28% |
| 40 | 4.75% | 7.12% | 0.86% | 1.29% | 5.61% | 8.41% |
| 41 | 4.83% | 7.24% | 0.87% | 1.31% | 5.70% | 8.55% |
| 42 | 4.90% | 7.35% | 0.89% | 1.33% | 5.79% | 8.68% |

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

**Proposed General Tier B Member Contribution Rates
Expressed as a Percentage of Monthly Compensation**

| Entry Age | Basic | | COLA | | Total | |
|-----------|-------------|------------|-------------|------------|-------------|------------|
| | First \$350 | Over \$350 | First \$350 | Over \$350 | First \$350 | Over \$350 |
| 43 | 4.98% | 7.47% | 0.91% | 1.36% | 5.89% | 8.83% |
| 44 | 5.06% | 7.59% | 0.92% | 1.38% | 5.98% | 8.97% |
| 45 | 5.14% | 7.71% | 0.93% | 1.40% | 6.07% | 9.11% |
| 46 | 5.23% | 7.84% | 0.95% | 1.42% | 6.18% | 9.26% |
| 47 | 5.31% | 7.97% | 0.97% | 1.45% | 6.28% | 9.42% |
| 48 | 5.40% | 8.10% | 0.98% | 1.47% | 6.38% | 9.57% |
| 49 | 5.49% | 8.24% | 0.99% | 1.49% | 6.48% | 9.73% |
| 50 | 5.59% | 8.38% | 1.01% | 1.52% | 6.60% | 9.90% |
| 51 | 5.68% | 8.52% | 1.03% | 1.55% | 6.71% | 10.07% |
| 52 | 5.79% | 8.68% | 1.05% | 1.57% | 6.84% | 10.25% |
| 53 | 5.88% | 8.82% | 1.07% | 1.60% | 6.95% | 10.42% |
| 54 | 5.95% | 8.93% | 1.08% | 1.62% | 7.03% | 10.55% |
| 55 | 6.00% | 9.00% | 1.09% | 1.63% | 7.09% | 10.63% |
| 56 | 6.03% | 9.04% | 1.09% | 1.64% | 7.12% | 10.68% |
| 57 | 6.02% | 9.03% | 1.09% | 1.64% | 7.11% | 10.67% |
| 58 | 6.26% | 9.39% | 1.14% | 1.70% | 7.40% | 11.09% |
| 59 & Over | 6.51% | 9.76% | 1.18% | 1.77% | 7.69% | 11.53% |

Interest: 8.25%

Inflation: 3.75%

Across the board increase: 0.50%

COLA: 2.00%

COLA Loading Factor: 18.14%

Mortality: 1994 Group Annuity Mortality Table weighted 30% male and 70% female

Salary Increase: 5 Year Select and Ultimate Salary Increase Assumptions (see Exhibit IV of the June 30, 2008 actuarial valuation report)

Note: These rates are determined before any pickups by the employer.

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

**Proposed Safety Tier B Member Contribution Rates
Expressed as a Percentage of Monthly Compensation**

| Entry Age | Basic | COLA | Total |
|------------------|--------------|-------------|--------------|
| 15 | 6.87% | 1.96% | 8.83% |
| 16 | 6.87% | 1.96% | 8.83% |
| 17 | 6.87% | 1.96% | 8.83% |
| 18 | 6.87% | 1.96% | 8.83% |
| 19 | 6.87% | 1.96% | 8.83% |
| 20 | 6.87% | 1.96% | 8.83% |
| 21 | 6.87% | 1.96% | 8.83% |
| 22 | 6.99% | 1.99% | 8.98% |
| 23 | 7.10% | 2.02% | 9.12% |
| 24 | 7.22% | 2.06% | 9.28% |
| 25 | 7.34% | 2.09% | 9.43% |
| 26 | 7.46% | 2.12% | 9.58% |
| 27 | 7.58% | 2.16% | 9.74% |
| 28 | 7.71% | 2.20% | 9.91% |
| 29 | 7.84% | 2.23% | 10.07% |
| 30 | 7.97% | 2.27% | 10.24% |
| 31 | 8.10% | 2.31% | 10.41% |
| 32 | 8.23% | 2.34% | 10.57% |
| 33 | 8.37% | 2.38% | 10.75% |
| 34 | 8.51% | 2.42% | 10.93% |
| 35 | 8.66% | 2.47% | 11.13% |
| 36 | 8.81% | 2.51% | 11.32% |
| 37 | 8.96% | 2.55% | 11.51% |
| 38 | 9.12% | 2.60% | 11.72% |
| 39 | 9.29% | 2.65% | 11.94% |
| 40 | 9.46% | 2.69% | 12.15% |
| 41 | 9.65% | 2.75% | 12.40% |
| 42 | 9.85% | 2.81% | 12.66% |
| 43 | 10.02% | 2.85% | 12.87% |
| 44 | 10.12% | 2.88% | 13.00% |

**SECTION 3: Benefit Changes for New General and Safety Members of the SDCERA
Supporting Exhibits**

| Proposed Safety Tier B Member Contribution Rates Expressed as a Percentage of Monthly Compensation | | | |
|---|--|-------------|--------------|
| Entry Age | Basic | COLA | Total |
| 45 | 10.14% | 2.89% | 13.03% |
| 46 | 10.10% | 2.88% | 12.98% |
| 47 | 9.99% | 2.85% | 12.84% |
| 48 | 10.37% | 2.95% | 13.32% |
| 49 & Over | 10.78% | 3.07% | 13.85% |
| Interest: | 8.25% | | |
| Inflation: | 3.75% | | |
| Across the board increase: | 0.50% | | |
| COLA: | 2.00% | | |
| COLA Loading Factor: | 28.48% | | |
| Mortality: | 1994 Group Annuity Mortality Table weighted 75% male and 25% female (with ages set back one year) | | |
| Salary Increase: | 5 Year Select and Ultimate Salary Increase Assumptions (see Exhibit IV of the June 30, 2008 actuarial valuation report) | | |
| Note: | These rates are determined before any pickups by the employer. | | |

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