COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager

Date: December 26, 2012
Board Meeting Date: January 8, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Adoption of Employer and Member Retirement Contribution Rates for January 1, 2013 through June 30, 2013 for PEPRA Plan members and FY 2013-2014 for all members.

RECOMMENDATION:
Adopt a Resolution setting the employer and member contribution rates for the San Mateo County Employee's Retirement Association (SamCERA) for January 1, 2013 through June 30, 2013 for PEPRA Plan members and for FY 2013-2014 for all members in accordance with Government Code Sections 31453 and 31454.

BACKGROUND:
Adoption of the attached Resolution will set employer and member contribution rates as needed for positions covered by all currently existing retirement plans as well as the new plans required under the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). Because the new PEPRA plans commence January 1, 2013, and the Board has not yet set rates for these members, the resolution will set the PEPRA Plan rates for periods of January 1, 2013 through June 30, 2013 and FY 2013-2014.

The actuarially determined rates are recommended by the Board of Retirement. This agenda item is to facilitate formal adoption of the rates as required by Government Code Sections 31453 and 31454.

DISCUSSION:
Government Code Section 31453 requires the Board of Retirement to conduct periodic actuarial valuations of the retirement system and to recommend contribution rates to the Board of Retirement. Section 31454 requires the Board of Supervisors not later than 90 days after the beginning of the immediately succeeding fiscal year, to adjust the rates of interest, the rates of contributions of members, and county and district appropriations in accordance with the recommendations of the Board of Retirement. These rates are reflective of the Board of Retirement's adoption, based upon the recommendation of the

its actuary, of an assumed investment return of 7.5% annually. Last fiscal year, the assumed rate was 7.75%.

Single Contribution Rate For Each PEPRA Plan
Current members' contributions are calculated under "age of entry" pursuant to County Employees Retirement Law ("CERL"). Under this method, each member pays a contribution rate that is based on their plan and the age at which they entered the system. Members entering at younger ages pay lower rates than members entering at older ages on the assumption that the system will have longer to invest and earn sufficient amounts to pay for the benefits of younger entrants. Single rates have no age component. All members of a plan pay the same rate. The single rate method is the most common rate calculation approach used for U.S. pension plans.

Due to the mandates of PEPRA, the Board of Retirement adopted a single rate for each PEPRA Plan. PEPRA mandates SamCERA to "modify its plan or plans to comply with the requirements of this section" and mandates "an initial contribution rate of at least 50 percent of the normal cost rate for that defined benefit plan, rounded to the nearest quarter of 1 percent..." (GC §§7522.10 (a), 7522.30 (c)). PEPRA defines "normal cost rate" as the normal cost for "the defined benefit plan of an employer." (GC §7522.30 (b)). SamCERA is mandated by PEPRA to implement new plans for general members and safety members. There is no requirement or authority to implement a separate plan for each entry age in each member category. Therefore, SamCERA is directed to implement single rates for these plans in order to calculate what is 50% of the normal contribution rate of each plan. Both CalPERS and CalSTRS, to which PEPRA also applies, currently charge single rates. They will charge single rates for their PEPRA plans.

The Board of Retirement recommends contribution rates as set forth in the attached resolution and accompanying letter from the SamCERA Chief Executive Officer. The resolution has been reviewed and approved by County Counsel as to form and content.

Approval of this resolution contributes to the Shared Vision 2025 outcome of a Collaborative Community by managing the financial assets of the County and maintaining the appropriate level of contributions to the retirement fund.

FISCAL IMPACT:
The County's budgeted appropriation for retirement contributions in FY 2012-13 is $145.1 million, most of which is appropriated in the General Fund ($118.2 million). This figure includes the County's employer contribution of $139.2 million plus the amount of employee contributions the County covers pursuant to negotiated MOUs with employee bargaining units of $5.9 million. It is estimated that the new rates will result in an increase of $8.5 million countywide, primarily due to the reduction of the assumed rate from 7.75% to 7.5% and the ongoing smoothing of investment losses sustained in FY

2008-09. The immediate fiscal impact of the new PEPRA rates will be minimal since only employees hired after January 1, 2013 will be affected.