"Journalism consists in buying white paper at two cents a pound and selling it at ten cents a pound."

-Charles A. Dana (1819-97)

December 2003

Volume 6, Issue 1

The Finish Line

A Publication for Active Members of the Sacramento County Employees' Retirement System

Inside this issue:

Ventura Settlement Agreement

The so-called "Ventura" lawsuits are quite nearly behind us, thanks to a Settlement Agreement between the SCERS Board and Board of Supervisors (defendants) and the plaintiffs (active, retired and deferred SCERS members) approved by the San Francisco County Superior Court.

For "actives" (non-retired members of the class) the agreement eliminates the possibility of current employees having to pay retroactive contributions for increased benefits arising out of the original "Ventura" Supreme Court decision and SCERS implementation thereof. In return, employees are giving up the right to continue to argue that they are entitled to additional items of compensation, (e.g., "terminal pay") to be considered as "compensation earnable" and thereby considered in computation of a retiring member's "final compensation" , i.e., one element in calculation of a retirement benefit.

For those already retired, the Settlement Agreement provides that those whose retirement benefit was based upon compensation earnable prior to December 1997 will be paid certain lump-sum amounts up to January 1, 2004 (a value of $25.9 million) and a going-forward increase to their monthly allowances (a value of $29.1 million) will be applied February 1, 2004. Total value of benefits to be paid, including attorney fees, is $55 million. These benefits are only applicable to monthly annuitants included on the SCERS pension payroll as of January 1, 2004.

Important Telephone Numbers

SCERS:

916-874-9119

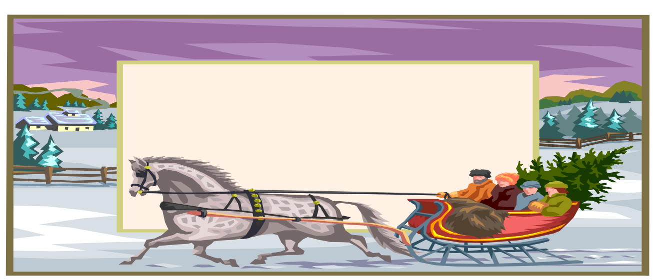
SCERS FAX:

916-874-6060

SCERS TOLL FREE No:

1-800-336-1711

E-mail address:
saccounty.net/retirement



"COUNTY PENSION FUND STRUGGLES…?!??"

- SCERS' Administrator's Response -

In an example of highly sensational, factually misleading and insensitive reporting, the Sacramento Bee on November 21, 2003 published a leading story on the front page of its Metro section with the heading "County pension fund struggles…"

The effect of the article was to cause unnecessary anxieties and apprehension for SCERS monthly annuitants, for soon-to-be-retired active SCERS members, as well as for each and every retired or active member concerned with the financial solvency of the retirement system and security of promised benefits.

In the article, among other misleading characterizations, the Bee:

- describes the pension fund's finances as "shaky";
- informs the readers that the SCERS Board voted to "cut" benefits to monthly annuitants (i.e., medical premium offsets); and,
- suggests that the county is considering issuing pension obligation bonds to "stabilize the system".

The article arose following the November 20, 2003 meeting of the SCERS Board at which the Board: 1) established a contingency reserve of 1% of assets; 2) adopted a thirty-year amortization schedule for previously unfunded liabilities (e.g., liability arising out of retroactive conversion of members' service credits to the new "enhanced" formulas); 3) adopted actuarially-recommended employee and employer contribution rates to be effective July 2004; 4) adopted a 2.65% semi-annual interest crediting rate to members' accounts as of December 31, 2003; and, 5) acknowledged the non-availability, i.e., the lack of "excess earnings" as a source for payment in fiscal year 2004-2005 of the non-vested retiree medical and dental premium offsets.

But, The System Is Well Funded!

In fact, the system's finances are not "shaky". It is true that SCERS, as with other institutional (and private) investors, experienced a downturn in portfolio performance over the most recent several years, largely attributable to lagging economies and the extended (and historic) "bear" markets which, in turn, were exacerbated by the non-routine and wholly unexpected such as international terrorism and corporate fraud scandals, and their repercussions, e.g., a lack of consumer confidence and squeamish investors. This negative performance is, indeed, reflected in SCERS financial statements as well as the most recent actuarial valuation report.

What the article failed to report was that the SCERS Board at its November 20, 2003 meeting was also advised that, due to its prudent policies and investment practices implemented by staff and professional money managers, the system is currently "funded" at 94% of projected liabilities. Further, should investment performance not improve or meet or exceed the Board's long-term investment performance assumption of 8%, even in a worst case scenario, the system could be placed in a 79% funded status which is a funding percentage not uncommon for most funds and which would not imperil payment of promised benefits. That said, the Board was also told that such likelihood is becoming less and less with the positive effects of federal administration and governmental fiscal and monetary policies, the improvement in the national economy, the absence of a repeat "9/11" terrorist attack, the winning of the wars in Afghanistan and Iraq and return of consumer confidence.

Signs are good. As of September 30, 2003, for the prior 12 month period, SCERS investment performance return was approximately 20%, exceeding by 12% the 8% long-term investment performance assumption.

"Cutting" Benefits ?!?!

It is imperative for all of SCERS' monthly annuitants and non-retired members to understand that the system is very well managed, administered and funded, and that promised or legally-required benefits of all types, i.e., service and disability monthly retirement allowances, monthly allowances to beneficiaries and survivors, cost-of-living increases, lump sum and continuing death benefits are not in peril due to recent declines in investment performance in any way, shape or form.

The existing medical and dental coverage premium offsets for SCERS monthly annuitants are not, however, promised or legally-required, and have never been. They have been provided on a strictly "non-vested" basis without any continuing promise whatsoever as to the amount, eligibility criteria, or duration of the benefit. They have been provided contingent upon the existence of, and SCERS Board's authorization to utilize, system "excess earnings".

[For a historical perspective and comprehensive understanding on use of SCERS earnings to provide retiree medical and dental premium offsets, see the September 2002 edition of SCERS newsletter for retirees *The Latest Wrinkle* and the December 2002 edition of *The Finish Line*, available on SCERS website at www.saccounty.net/retirement]

Continued on page 3

Continued from page 2

At the SCERS Board meeting of November 20 the Board was advised of and acknowledged the non existence of system “excess earnings” as a source for FY 04-05 medical and dental premium offsets, due to investment performance. It follows, therefore, that without some determination by membership employers to pay FY 04-05 health benefit premium offsets, such payments will cease. “Coverage” would continue of course, at the option of the annuitant.

At the meeting the Board members also acknowledged their understanding that the County Executive is studying the possibility of the county (for “county” retirees) paying some form and amount subject to some yet-to-be-determined criteria for FY 04-05 annuitant health care premium offsets.

<u>In Re Pension Obligation Bonds</u>

The article’s reference to the county’s potential interest in issuing pension obligation bonds to “stabilize the system” is a misinterpretation of one county official’s comments to the SCERS Board. The “system” will be stable whether or not these bonds are issued.

The combined impact of fund underperformance over recent years and, largely, new liabilities arising out of collectively-bargained agreements, e.g., benefit enhancements, and litigation, i.e., “Ventura” lawsuits, have created significant “unfunded” (meaning for which contributions were not provided and set aside in prior years) liabilities. SCERS’ “unfunded” liabilities are, in reality, the responsibility of SCERS’ membership employers. Such liabilities are paid for through application of annually adjusted employer contribution rates.

To meet such liabilities, i.e., to pay down those liabilities over a period, the SCERS Board on November 20, set a 30-year amortization period. This is to say that the Board has agreed to allow annual county payments to pay off unfunded accrued actuarial liabilities for 30 years (much like a mortgage payment) to be made at an amount of interest to be set at the Board-adopted “investment interest performance assumption rate” of 8%.

The county, however, finds that it may be able to issue bonds in the amount of a portion of the county’s share of these liabilities, but at interest rates less than the Board rate of interest of 8%.

The county’s intent, therefore, would be to issue bonds and pay the retirement system the proceeds of such bonds, thus eliminating a portion of the county debt to the system, and replacing it with the lesser burden of paying off the bonds issued at various denominations, durations and interest rates. In doing so, the system gains the money sooner rather than later, and the county gains greater flexibility.

<u>Disappointing Reporting</u>

Telephone calls and letters and walk-in commentary by SCERS members and monthly annuitants following publication of the November 21 Bee article show the effect of this highly sensational, factually misleading and wholly insensitive article. Anxieties and apprehensions were raised, and unfounded fears prevailed. Planned retirements for some were temporarily put on hold because of these emotions.

The article, in my opinion, unnecessarily alarmed SCERS’ benefit recipients and particularly those who one might, from past experience, characterize as “excitable”, and other employees not yet retired who are considering the possibility of retiring in coming months.

The article unfairly and inaccurately cast the SCERS Board in bad light by characterizing the pension fund’s “finances” as “shaky”. It ambiguously addressed my concerns, expressed repeatedly to responsible county officials, representatives of county retirees, recognized bargaining organization representatives, and interested readers and visitors to SCERS’ website, over the continuation or non-continuation of non-vested (non-promised-in-perpetuity) health premium offsets, and subtly implied, especially by its headline, that there is concern over our abilities to provide for the “pensions” themselves.

I found the article to be untrue, unreal, and unfortunate, and very disappointing. In my opinion, it was sensational journalism. It was journalistic flatulence.

-John R. Descamp,
SCERS Chief Executive Officer

Interesting Info From The Annual Actuarial Valuation Report As Of June 30, 2003

Summary of Significant Actuarial Statistics and Measures

	June 30, 2003	June 30, 2002	Increase/ (Decrease)
System Membership			
Active Members			
1. Number of Members	14,133	14,033	1%
2. Total Active Payroll	$733,296,000 (i)	$695,259,000	5%
3. Average Monthly Salary	$4,324	$4,129	5%
Retired Members			
1. Number of Members			
Service Retirement	4,220	4,119	2%
Disability Retirement	679	674	1%
Beneficiaries	983	949	4%
Total	5,882	5,742	2%
2. Total Retired Payroll	$115,819,000	$108,538,000	7%
3. Average Monthly pension	$1,641	$1,575	4%
Inactive Vested Members			
1. Number of Members	1,885	1,994	(5%)
Asset Values (net)			
Market Value	$3,238,826,000	$3,199,234,000	1%
Return on Market Value	2.17%	-5.81%	
Actuarial Value	$3,864,400,000	$3,839,081,000	1%
Return on Actuarial Value	1.43%	4.16%	
Liability Values			
Actuarial Accrued Liability	$4,108,294,000	$3,586,250,000	15%
Unfunded Actuarial Accrued Liability (UAAL)	$243,894,000	($252,831,000)	(196%)
Funding Ratios			
GASB No. 25	94.1%	107.1%	-13%

(i) Total active payroll as of June 30, 2003 was $733,296,000. However, for purposes of developing the rates for 2004-2005, the active payroll has been reduced to $724,582,000 to take into account the reduction in expected payroll at the County for the 2003-2004 plan year.

Employer and Member Contribution Rates

The following table provides a comparison of the actuarially recommended and SCERS Board adopted Employer and Member contribution rates and estimated annual contribution amounts under the actuarial assumption set. The estimated annual contribution amounts are based upon annual payroll as of the actuarial valuation date.

Contribution Rates and Estimated Annual Contributions

Valuation Basis (Inflation/Investment Return Salary Increase)	Employer Contributions		Member Contributions	
	Rate	Annual Amount	Rate	Annual Amount*
2003/2004 Rates (Before Benefit Enhancement) (4.25%/8.0%/5.75%)	7.72%	$55,867,000	5.51%	$ 40,375,000
2003/2004 Rates (After Benefit Enhancement) (4.25%/8.0%/5.75%)	17.33%	$125,604,000	3.70%	$ 27,108,000
Recommended 2004/2005 Rates ** (3.00%/8.0%/5.75%)	17.75%	$128,640,000	4.24%	$ 31,071,000
Adopted 2004/2005 Rates With 30 Year Amortization Of Unfunded Accrued Actuarial Liabilities	17.01%	$123,287,000	4.24%	$ 31,071,000

* Based on adjusted total annual salaries as of June 30, 2003 of $724,582,000.

** Based upon 19 year remaining amortization period for unfunded accrued actuarial liabilities

AB 55 – aka "Air Time", aka "ARC"

AB 55, Chapter 261, Statutes of 2003, signed into law on September 3, 2003 has received a great deal of attention and built great expectations among public employee members of retirement systems enacted under the County Employees Retirement Law of 1937, SCERS among them.

This bill, made effective immediately, is not applicable in a county system until adopted by the county's Board of Supervisors. If made applicable to SCERS it would permit SCERS members with five or more years of credited service to purchase up to five years of "additional service credit" (i.e. "ARC") to be used in the calculation of the SCERS defined benefit.

The statute does not provide an unambiguous, discernible methodology for determining member cost to purchase. The only guidance given in the text is that the member is to pay "…an amount that, at time of commencement of purchase, in the opinion of the (retirement) board and actuary, is sufficient to not place any additional financial burden upon the retirement system". Thus, counsel opines, the member must bear the entire burden of what would otherwise be the combined contributions of both the member and membership employer.

It follows that, in order not to place any additional financial burden upon the retirement system, (and, therefore, on the membership employers), the cost to the purchasing member would be considerable.

In interest of getting a sense of member cost of purchasing air time, SCERS asked its retained actuary to take a look. Recognizing the ambiguities in the text and giving qualified projections without obligating SCERS to the cost calculation methodology being used, the actuary affirmed the likely huge cost of purchasing air time service credits for most members. Conclusion: for most SCERS members, the cost to the members would be prohibitively expensive.

A table has been prepared to give you an idea of the average employee cost of an air time purchase based on the average age and salary as of June 30, 2003, under each of SCERS' plans and tiers. Assuming the employee purchases the service at the age shown, the employee cost is as follows:

- Sampling For Illustrative Purposes Only-

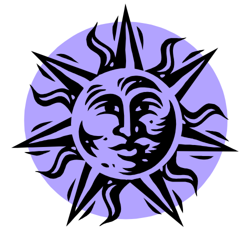
------------------	**General Tier 1**	**General Tier 2**	**General Tier 3**	**Safety Tier 1**	**Safety Tier**
Average Age As of June 30, 2003	55	48	43	45	35
Average Salary as of June 30, 2003	$64,800	$56,700	$49,200	$74,300	$56,900
Assumed Years of Service Purchased	5	5	5	5	5
Average Employee Cost to Purchase Service	$106,900	$50,700	$49,000	$176,800	$83,600

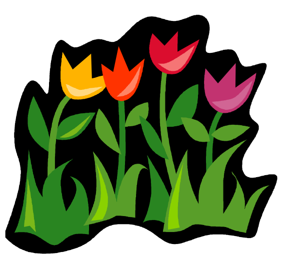
Continued from page 5

The Board of Supervisors' determination as to whether or not to adopt a resolution making AB 55's provisions operative in Sacramento County and applicable to SCERS is a matter subject to collective bargaining. County representatives have met with and advised recognized employee organizations that the Board of Supervisors would not implement these provisions, for the following, among other, reasons:

- The subject matter is bargainable, with most County labor agreements not expiring until June 30, 2006.
- Retirement enhancements, including employee purchase of up to four years prior public service, became effective June 29, 2003, after more than two years of contract negotiations.
- Agreement with all recognized employee organizations on the same formula calculation for the purchase of "air time" to be "true cost neutral" to the retirement system would be difficult and could pose legal problems.
- Employee purchase of "air time" would be very expensive with only a few takers.
- The liability for future SCERS investment performance variations, as well as other actuarial factors, would rest with the County.
- With recent criticism of retirement enhancements for public pension plans in California, "air time" credit will add fuel to the fire to negative public reaction.

Over the last four years well-intentioned SCERS members have delayed their retirements awaiting outcome of new or rumored benefit enhancements. In 1999 the delay was pertinent to the 3% @ 50 and 2% @ 55 ½ service retirement formulas which took four years to implement. This included the public service credit purchase provision. For three years now, members anecdotally discussed with SCERS staff rumored "golden handshake" possibilities (e.g. the "two and two" recently vetoed by the Governor) and delayed intended retirements awaiting the outcome. Now comes AB 55, with all its complexities for implementation and questionable value to most members, presumably subject to the collective bargaining process. SCERS asks: Is it reasonable to put off your retirement today for what may or may not ever be applicable tomorrow? Perhaps it would be better to realize that, if you are physically and mentally "ready" to retire now, you should do so, and be done with it.





Sacramento County Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814