SCERS
SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

M I N U T E S

RETIREMENT BOARD MEETING, WEDNESDAY, DECEMBER 5, 2012

A special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Wednesday, December 5, 2012, and commenced at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud reminded the Board that the regular December Board Meeting would be held on Wednesday, December 19th at 10 a.m.

ADMINISTRATIVE MATTERS:

2. Chief Executive Officer Richard Stensrud introduced the presentation of a report prepared by The Segal Company containing the recommended employer and employee contribution rates for the new benefit tiers being implemented on January 1, 2013 as a result of the California Public Employees' Pension Reform Act of 2013 (CalPEPRA). Mr. Stensrud noted that for the new tiers to be effective January 1st, the contribution rates needed to be approved by the SCERS Board at the special board meeting so that they could be implemented by the Sacramento County Board of Supervisors at their final meeting of 2012, being held on Tuesday, December 11th.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud summarized the assumptions and methodologies underlying the calculation of the new contribution rates. They include the following:

- Because the new tiers will be implemented in the current 2012-2013 fiscal year, except for the retirement rate assumption, Segal utilized the economic and demographic assumptions for the June 30, 2011 valuation since that valuation and those assumptions are the basis for the contribution rates currently in effect for the existing tiers. The retirement rate assumption was modified to reflect the expectation that members in the new tiers will tend to retire somewhat later than members in current tiers because of the lower benefit formula under the new tiers.

- In addition to the normal cost for members in the new tiers, participating employers will also have a contribution component for the current unfunded actuarial accrued liability (UAAL) of the retirement system. The UAAL contribution rate will be the same as that paid for current members of the system. This is consistent with the current practice of applying the UAAL component to new members entering the system.

- The employer and employee contribution rates recommended in the current Segal report will be in effect from January 1, 2013 to June 30, 2013. In early 2013, Segal will present recommended contribution rates for the 2013-2014 fiscal year based on the June 30, 2012 valuation and the assumptions utilized in that valuation. The 2013-2014 fiscal year contribution rates will need to be approved by the SCERS Board at that time and transmitted to the Board of Supervisors for implementation with the 2013-2014 fiscal year contribution rates for the existing tiers.

- The normal cost for members in the new tiers will take into account the CalPEPRA limit on the annual total retirement-eligible compensation that will count toward the member's pension benefit. In 2013, that limit is equal to the maximum Social Security Taxable Wage Base of $113,700. Going forward, the cap on eligible annual compensation will be adjusted each year based on the change in the Consumer Price Index for all Urban Consumers (CPI).

- Per CalPEPRA, members in the new tiers will have a three year final average salary period.

- Per CalPEPRA, the new tiers will have the same annual retiree benefit cost-of-living adjustment (COLA) as that applicable to the current open tiers (i.e., up to 2%).

- Under CalPEPRA, except for the situations noted below, members in the new tiers will pay 50% of the normal cost of the benefit, and employers cannot pay any of the required member contribution. The exceptions to this baseline standard are as follows: (1) Employers and employees may agree via bargaining that the members in the new

ADMINISTRATIVE MATTERS (continued):

tiers will pay more than 50% of normal cost; (2) If a memorandum of understanding (MOU) in effect on January 1, 2013 calls for a member in a new tier to pay less than 50% of normal cost, the lower level of cost sharing will apply until the expiration of the MOU; (3) The member normal cost contribution rate will only be increased or decreased when the change(s) total(s) more than 1% of pay; and (4) The member contribution rate will be rounded to the nearest one-quarter of one percent.

Mr. Stensrud noted that the consensus interpretation of CalPEPRA is that existing provisions of the 1937 Act will continue to be in effect unless clearly superseded by CalPEPRA or other provisions of the legislation establishing CalPEPRA (i.e., AB 340 and AB 197). Mr. Stensrud noted that consistent with that interpretation, the new CalPEPRA tiers will maintain the following SCERS practices under the 1937 Act that are being utilized for current tiers:

- Use of the average age of entry for members in the given tier in setting the member contribution rate (i.e., 'single' or 'flat' rate) rather than an individualized entry age.

- Adjustment of retirement benefit accrual and the member contribution rate to reflect the member's participation in Social Security (i.e., Social Security 'integration').

- Application of the 1937 Act provisions regarding service-connected disability.

Mr. Stensrud explained that unless otherwise noted, all other benefit provisions for the current open Miscellaneous and Safety tiers will apply to the new CalPEPRA tiers.

Mr. Stensrud reported that it is entirely possible that as things move forward and people begin to implement CalPEPRA, there may be follow-on legislation that clarifies what was intended by or that modifies what was said in CalPEPRA. Mr. Stensrud stated that as and when that happens, Staff will modify the assumptions or the methodology being used and, as necessary, will bring those changes to the SCERS Board for approval.

Andy Yeung from The Segal Company participated by telephone.

Mr. Yeung noted that benefit formulas under the new CalPEPRA tiers are lower than the benefit formulas under the current open tiers. Mr. Yeung reported that the lower CalPEPRA benefit formulas combined with the CalPEPRA annual cap on retirement-eligible compensation, resulted in lower employer normal cost rates for the new CalPEPRA tiers relative to the current open tiers. Mr. Yeung noted that the cost reduction was more pronounced for the new Safety tier than for the new Miscellaneous tier as the benefit formula for the current open Miscellaneous Tier (Tier 4) is very similar to the Miscellaneous Tier 4.

ADMINISTRATIVE MATTERS (continued):

Mr. Yeung noted that the employer normal cost rate for current Miscellaneous Tier 4 is approximately 9.14% of payroll, while the employer normal cost rate for the new Miscellaneous Tier 5 will be 7.56% of payroll. Mr. Yeung noted that the same UAAL component applies to the employer rate for both tiers, bringing the current County Miscellaneous Tier 4 rate to 14.64% and the new County Miscellaneous Tier 5 rate to 12.96%.

Mr. Yeung noted that the employer normal cost rate for current Safety Tier 3 is approximately 18.79% of payroll, while the employer normal cost rate for the new Safety Tier 4 will be 11.76% of payroll. Applying the same Safety UAAL component to both tiers, brings the current County Safety Tier 3 rate to 31.40% and the new County Safety Tier 4 rate to 24.37%.

Mr. Yeung explained that while lower benefit formulas would normally lead to lower normal cost for employees as well, CalPEPRA mandates that employees pay a greater portion of the cost of the benefits than called for under the current open tiers (i.e., at least 50%). Mr. Yeung reported that as a result, the aggregate average member contribution rate under the new Miscellaneous Tier 5 will increase from 7.41% to 7.50%. The aggregate average member contribution rate under the new Safety Tier 4 will increase from 10.37% to 12.00%.

Discussion followed. In response to a question from Mr. Stensrud regarding how long he estimated it would take for membership in the new CalPEPRA tiers to exceed membership in the current dominant tiers (Miscellaneous Tier 3 and Safety Tier 2), Mr. Yeung suggested that it could take as long as ten to fifteen years in the current low-growth employment environment. Mr. Stensrud noted that this was relevant in considering how long it would be before participating employers began to see substantial cost savings from the new CalPEPRA tiers.

Motion by Ms. Wolford-Landers to receive and file the report prepared by The Segal Company; Seconded by Ms. Gin. Motion carried (8-0).

Motion by Mr. Johnson to approve the employer and employee contribution rates for the new retirement tiers being implemented as a result of the California Public Employees' Pension Reform Act of 2013 and to approve the methodology for calculating the contribution rates; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The meeting was adjourned at 1:32 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, William D. Johnson, Richard B. Fowler II, Diana Gin (arrived at 1:04 p.m.), Kathy O'Neil, Julie Valverde, Nancy Wolford-Landers, John Conneally, and Michael DeBord.

MEMBERS ABSENT: Keith DeVore.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Accounting Manager; Bharat Indurkar, Investment Officer, John Lindley, IT Administrator; and Lance Kjeldgaard, Outside Counsel.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: ______________________________________
James A. Diepenbrock, President

DATE: ______________________________________

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.