



Sacramento County Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814
Phone: (916) 874-9119
Fax: (916) 874-6060
Web: www.scers.org

NOTICE & ELECTION FORM: MISCELLANEOUS TIER 2 – MISCELLANEOUS TIER 3 CONVERSION

Mailing Date

October 19, 2007

Eligible Member

«First_Name» «Last_Name»

«Street_Address»

«City», «State» «ZIP»

I. NOTICE

The Sacramento County Employees' Retirement System ("SCERS") offers two different benefit "plans" or membership categories: Miscellaneous and Safety. Miscellaneous members of SCERS currently earn a retirement benefit described as "2% at 55 – ½" and currently participate in one of three tiers: Miscellaneous Tier 1, Miscellaneous Tier 2 or Miscellaneous Tier 3.

Although Miscellaneous Tier 2 was closed to new members after June 1993, several hundred members continue to earn benefits under the closed tier because they declined an earlier opportunity to convert to Miscellaneous Tier 3 status. Unlike Miscellaneous Tier 1 and 3 benefits, however, Miscellaneous Tier 2 does not offer any cost-of-living adjustment ("COLA") after retirement. This means that the allowance provided to members who retire with Miscellaneous Tier 2 benefits does not increase over time, regardless of inflation.

As a result of recent contract negotiations, the County of Sacramento ("County") has agreed to allow employees of all bargaining units and other, unrepresented employees in Miscellaneous Tier 2 the opportunity to convert their SCERS membership to Miscellaneous Tier 3. Consistent with the resolution passed by the Board of Supervisors on September 11, 2007, **the conversion process (1) is limited to active County employees who currently earn Miscellaneous Tier 2 benefits and (2) requires the written election of members who wish to earn future service under Miscellaneous Tier 3, which provides a retirement COLA up to 2.00% per year.**

II. DEADLINE FOR RESPONSE & BENEFIT CONSIDERATIONS

County employees who currently earn Miscellaneous Tier 2 benefits can begin to accrue future service under Miscellaneous Tier 3 by completing this form and returning it to the following address:

SCERS
980 9th Street, Suite 1800
Sacramento, CA 95814.

In order to be valid, this form must be completed and returned to the SCERS office within 60 days of the distribution date. **Please note that Miscellaneous Tier 2 members who fail to return their forms to SCERS by 5:00 p.m. on December 18, 2007 will remain in Miscellaneous Tier 2.**

Members who sign this form and return it to SCERS on or before the 60-day deadline will have their membership converted from Miscellaneous Tier 2 to Miscellaneous Tier 3 beginning with Pay Period 26 of the 2007 calendar year. For reference, Pay Period 26 will cover the period from December 9 to December 22 and will be reflected on paychecks dated December 28, 2007.

Members who elect to convert to Miscellaneous Tier 3 status will do so prospectively. This means that members will begin earning Miscellaneous Tier 3 benefits from December 9, 2007 forward. As a result, members who elect to convert will pay the higher contribution rate required for Miscellaneous Tier 3 benefits, which is currently 1.16% greater than the member contribution rate required for Miscellaneous Tier 2 benefits. Please note that the County will also experience a higher contribution rate for members who elect to convert to Miscellaneous Tier 3 status.

Members who convert future service to Miscellaneous Tier 3 will also reserve the right to convert their existing Miscellaneous Tier 2 service by paying the full actuarial cost of the benefit increase anytime prior to retirement. Cost estimates for upgrading existing service will be provided under separate cover to members who elect to convert to Miscellaneous Tier 3 status. In the interim, members who are considering a change to Miscellaneous Tier 3 should understand that a conversion of pre-existing benefits (1) can be paid with trustee-to-trustee transfers from 457 deferred compensation plans and (2) will cost more than other kinds of purchases because members will be responsible for paying the full actuarial cost of the upgrade.

For further information regarding the conversion from Miscellaneous Tier 2 to Miscellaneous Tier 3, please review the Frequently Asked Questions (FAQs) prepared by SCERS. These FAQs provide information regarding the election process and the option to upgrade past service, and are included with this form and available from the SCERS Web site, www.scers.org.

III. VOLUNTARY ELECTION

Must be returned to SCERS office on or before 12/18/2007.

I currently earn Miscellaneous Tier 2 benefits in SCERS and elect to enroll in Miscellaneous Tier 3, beginning with Pay Period 26 of 2007. In making this election, I am aware that the benefit change will be effected prospectively and will require me to pay Miscellaneous Tier 3 contribution rates to SCERS, which will be reflected on my December 28, 2007 paycheck and all paychecks thereafter. I am also aware that I will have the opportunity to convert my existing Miscellaneous Tier 2 service to Miscellaneous Tier 3 service by paying the full actuarial cost of the benefit, which I understand will be calculated after the December 18, 2007 deadline established for this one-time election.

 Member Signature

 Date

Review by SCERS – Internal Use Only		
Form Received and Logged	____/____/____	____ [Staff initials]
New Tier entered in COMPASS	____/____/____	____ [Staff initials]
Name added to Purchase List	____/____/____	____ [Staff initials]



Executive Staff
Richard Stensrud
Chief Executive Officer
Jeffrey W. States
Chief Investment Officer
James G. Line
General Counsel
Kathryn T. Regalia
Chief Operations Officer
John W. Gobel, Sr.
Chief Benefits Officer

FREQUENTLY ASKED QUESTIONS

Audience: County Employees Contributing to SCERS as Miscellaneous Tier 2 Members

Subject: Conversion from Miscellaneous Tier 2 to Miscellaneous Tier 3

1.Q. Who is eligible to convert membership to Miscellaneous Tier 3?

- A. Active employees of the County of Sacramento who contribute to the Sacramento County Employees' Retirement System ("SCERS") as Miscellaneous Tier 2 members are eligible to convert membership to Miscellaneous Tier 3. [Active employees who do not currently contribute as Miscellaneous Tier 2 members, deferred members and retired members are not eligible to convert membership to Miscellaneous Tier 3.]

2.Q. What is required to convert membership to Miscellaneous Tier 3?

- A. Miscellaneous Tier 2 members who wish to convert to Miscellaneous Tier 3 must complete a special "Notice and Election Form" and return it to the SCERS office within a 60-day enrollment period, which will begin October 19th, 2007 and conclude December 18th, 2007.

3.Q. Where is the Notice and Election Form?

- A. Personalized versions of the Notice and Election Form will be distributed in a direct mailing to eligible Miscellaneous Tier 2 members. Generic versions of the Notice and Election Form will be available from the SCERS Web site, www.scers.org, but will not be accepted from persons who are ineligible for membership conversion.

4.Q. What happens to Miscellaneous Tier 2 members who fail to return the Notice and Election Form?

- A. Miscellaneous Tier 2 members who fail to return their Notice and Election Form or do not respond within the 60-day period set by SCERS will remain in Miscellaneous Tier 2. [The County has no plans at present to offer another opportunity for Miscellaneous Tier 2 members to convert to Miscellaneous Tier 3.]

Frequently Asked Questions

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5.Q. What are the benefits of converting Miscellaneous Tier 2 membership to Miscellaneous Tier 3?

- A. Members who convert will begin earning future service with SCERS under Miscellaneous Tier 3. The benefit of converting from Miscellaneous Tier 2 to Miscellaneous Tier 3 is the possibility of a higher monthly allowance after retirement. This is because Miscellaneous Tier 3 offers an annual cost-of-living adjustment (“COLA”) of up to 2.00%, while Miscellaneous Tier 2 does not. To illustrate the impact of this difference after just a few years, please compare the allowance payable to a member who retires with full service in Miscellaneous Tier 2 to the allowance payable to a member who retires with full service in Miscellaneous Tier 3.

Example 1 – MISCELLANEOUS TIER 2 ALLOWANCE

- Retirement date of 7/1/2004 with \$2,000 allowance.

<u>Payment Date</u>	<u>CPI Increase</u>	<u>Retiree COLA</u>	<u>Monthly Allowance</u>
07/01/2004	N/A	0.00%	\$ 2,000.00 ✓
04/29/2005	1.22%	0.00%	\$ 2,000.00
04/28/2006	1.96%	0.00%	\$ 2,000.00
04/30/2007	3.20%	0.00%	\$ 2,000.00

Example 2 – MISCELLANEOUS TIER 3 ALLOWANCE

- Retirement date of 7/1/2004 with \$2,000 allowance.

<u>Payment Date</u>	<u>CPI Increase</u>	<u>Retiree COLA</u>	<u>Monthly Allowance</u>
07/01/2004	N/A	0.00%	\$ 2,000.00 ✓
04/29/2005	1.22%	1.00%	\$ 2,020.00
04/28/2006	1.96%	2.00%	\$ 2,060.40
04/30/2007	3.20%	2.00%	\$ 2,101.61

6.Q. What does it cost to earn future service under Miscellaneous Tier 3?

- A. Miscellaneous Tier 2 members pay a lower contribution rate than Miscellaneous Tier 3 members because Miscellaneous Tier 2 members do not have a COLA. Accordingly, the immediate cost of conversion is a higher member contribution. As indicated by the examples below, the difference between the contribution rate required from Miscellaneous Tier 2 members and the rate required from Miscellaneous Tier 3 members is currently about 1% of retirement eligible wages.

Example 1 – MISCELLANEOUS TIER 2 CONTRIBUTION

- County employee with bi-weekly wages of \$1,930 and full rate.

Member Contribution - Low Rate, 2.38% x \$ 161 =	\$ 3.83
Member Contribution - High Rate, 3.57% x \$1,769 =	\$ 63.15
Member Contribution – Total	\$ 66.98

Example 2– MISCELLANEOUS TIER 3 CONTRIBUTION

- **County employee with bi-weekly wages of \$1,930 and full rate.**

Member Contribution - Low Rate, 3.16% x \$ 161 = \$ 5.09

Member Contribution - High Rate, 4.73% x \$1,769 = \$ 83.67

Member Contribution – Total	\$ 88.76
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7.Q. When can past service be upgraded to Miscellaneous Tier 3?

- A. Members who elect to convert future service to Miscellaneous Tier 3 will have the opportunity to upgrade prior Miscellaneous Tier 2 service after the conclusion of the 60-day election period. At that time, members will have the ability to upgrade some or all of their prior Miscellaneous Tier 2 service by paying the full actuarial cost of the benefit increase. **Because members will be required to pay the full cost of the upgrade, cost information will be prepared by SCERS' actuary and distributed to all members who elect to convert future service to Miscellaneous Tier 3. Mailing of this information will not occur until after the election period closes on December 18th, 2007.**

8.Q. How much Miscellaneous Tier 2 service can be upgraded?

- A. Members may choose to upgrade all or a portion of their prior Miscellaneous Tier 2 service, but must upgrade the credit in minimum increments of 6 months. For example, a member who has earned 20 years of Miscellaneous Tier 2 service and elected to convert future service to Miscellaneous Tier 3 may effect a service purchase to upgrade as little as 6 months of service or as many as 20 years of service.

9.Q. How will retirement benefits be calculated for members who convert to Miscellaneous Tier 3, but decide not to upgrade any or all of their Miscellaneous Tier 2 service?

- A. Members who do not upgrade Miscellaneous Tier 2 service will not see any change in the value of these benefits. Rather, they will receive a single allowance at retirement, which considers the combined benefit of all service.

Example – RETIREMENT WITH MISC. TIER 2 & TIER 3 SERVICE

- **Member earns 20 years under Miscellaneous Tier 2 and earns 5 more years after converting future service to Miscellaneous Tier 3. Member does not upgrade any Miscellaneous Tier 2 service. What will member's retirement allowance provide?**

Membership Type	Service Credit	Retirement Formula	Retirement COLA
Misc. Tier 2	20 Years	2% at 55 ½	0.00%
Misc. Tier 3	5 Years	2% at 55 ½	2.00%
Multiple	25 Years	2% at 55 ½	Multiple

Frequently Asked Questions

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10.Q. Are there scenarios where converting to Miscellaneous Tier 3 might not be beneficial to members?

- A. Yes. Under certain scenarios, a decision to convert to Miscellaneous Tier 3 may not provide a significant increase in post-retirement benefits. For example, members who believe that the U.S. economy may experience an extended period of zero or negative inflation during their retirement may conclude that the added expense of Miscellaneous Tier 3 contributions or the actuarial cost of a service upgrade is unwarranted. In addition, members who expect to receive a relatively small allowance from SCERS may conclude that an annual increase of 0.00% to 2.00% may not be worth the expense of higher contributions or service upgrades.

11.Q. What payment options are available for upgrading Miscellaneous Tier 2 service?

- A. Members have three payment options for upgrading Miscellaneous Tier 2 time: (1) make a lump sum payment, (2) effect an irrevocable payroll deduction agreement, or (3) agree to pay a portion of the cost by lump sum and the remainder through an irrevocable payroll deduction agreement.

12.Q. What payment sources are acceptable for upgrading Miscellaneous Tier 2 service?

- A. Members have three payment sources for upgrading Miscellaneous Tier 2 time: (1) post-tax dollars held in personal savings or investment accounts, (2) pre-tax dollars transferred or rolled over from 403(b) plans or governmental 457 plans, and (3) pre-tax dollars deducted directly from wages paid by the County.

13.Q. Can members who are purchasing other service credit from SCERS also upgrade Miscellaneous Tier 2 service through payroll deduction?

- A. Yes. Members who are already purchasing other service credit under an irrevocable payroll deduction agreement may enter into another irrevocable payroll deduction agreement to upgrade Miscellaneous Tier 2 service. However, members may not effect payroll deduction agreements for more than one upgrade of Miscellaneous Tier 2 service at any time.

14.Q. What is the maximum payment period of upgrading Miscellaneous Tier 2 service?

- A. Members who upgrade Miscellaneous Tier 2 service through irrevocable payroll deduction agreements can request payment periods as long as the lesser of (a) the upgrade period or (b) 10 years. For example, a member who wishes to upgrade 5 years of Miscellaneous Tier 2 service may take up to 5 years to complete the purchase, while a member who wishes to upgrade 20 years of Miscellaneous Tier 2 service may take up to 10 years to complete the purchase. Please note that a member who requests payroll deduction to purchase a service upgrade cannot request payroll deduction to purchase another service upgrade until the original agreement is completed.

Frequently Asked Questions

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15.Q. What happens if members retire or separate from service prior to completing an upgrade of Miscellaneous Tier 2 service?

- A. Members who are in the process of upgrading Miscellaneous Tier 2 service must pay-off outstanding payroll deduction agreements as soon as they retire or separate from service for any other reason. Otherwise, members who do not pay-off their agreements will receive credit for the portion of the upgrade already purchased.