Sacramento County SCERS Employees' Retirement System



## News Statement Regarding Projected Impact of Downturn in Investment Markets

On May 8, 2009, the Board of the Sacramento County Employees' Retirement System (SCERS) received a report from the system's actuary – The Segal Company – outlining the projected impact on future employer contribution rates and the system's funded status from the extraordinary downturn in the investment markets. The information in the report is similar to that being presented to public employee retirement systems across the country. It is intended to assist the SCERS Board in carrying out its fiduciary duties with respect to the management of the system and is also important for giving SCERS' stakeholders a sense of the ramifications of the market downturn on the retirement system.

The analysis by The Segal Company is based on SCERS' investment experience through June 30, 2008 (the date of SCERS' last annual actuarial valuation) plus conservative assumptions regarding SCERS' investment returns for the current fiscal year and over the next several years. The actuary then used these conservative investment return assumptions to develop projections regarding future employer contribution rates and the funded status of the system under various actuarial approaches for managing the retirement system.

Pension funding comes from two sources: The contributions made by the employer and employees and the investment earnings of the retirement system. If investment earnings are high, the required contributions are reduced. Conversely, if investment earnings go down, the contributions must go up. The Segal Company report illustrates how the substantial downturn in the investment markets will result in higher contribution costs unless and until the investment earnings shortfall has been made up and the investment markets resume providing their historic level of returns.

The Segal Company report presents a challenging picture for the next several years. Employer contribution rates are projected to increase over the next several years and remain at elevated levels for some time. The funded status of the retirement system is projected to decline over the next several years but then will steadily improve.

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This picture can vary significantly, however, if the future investment earnings of the retirement system prove to be better than the conservative assumptions used in the report. Such an outcome is quite possible as substantial downturns in the markets are historically followed by a much stronger market recovery than that assumed in the analysis. If that occurs, the employer contribution rates and funded status levels will be better than the projections in the report. Even under such a scenario, however, it will take an extended period of strong investment performance to neutralize the substantial negative market experience incurred thus far and for the contribution rates to return to normal levels.

The Segal report identifies certain measures the SCERS Board can take to help manage the future cost impact of the market downturn. None of these measures will reduce the cost that has to be paid – they will only alter the timing of the payment of those costs. In addition, a measure that delays a cost increase will result in greater cost over time. That does not mean that a slower phase-in of the cost impact is wrong. To the contrary, it may be the most reasonable and prudent course of action under the circumstances. In the end, the SCERS Board will weigh such considerations in establishing funding parameters that both assure the financial soundness of the retirement system and are in the best interests of SCERS' members and beneficiaries. Those decisions will be made by the SCERS Board later this year when the Board sets the guidelines for the actuarial valuation as of June 30, 2009.

Finally, it is important to note the following:

- SCERS remains financially strong and benefits will be paid as promised. Even if the system's funded status drops, SCERS will continue to have substantially more assets than its current benefit payment responsibilities. In addition, SCERS operates from a strong positive cash flow position in that the contributions made to the retirement system each year exceed the amount of benefits SCERS pays out. In short, the Segal analysis shows that SCERS will ride out the storm in the markets.

- The projections regarding contribution rates and the plan's funded status will not start to be experienced until the 2010-2011 fiscal year. The contribution rates for the 2009-2010 fiscal year have already been set and will change very little from the contribution rates in effect for the 2008-2009 fiscal year.

- The contribution rate projections in the Segal report are for the employer contributions only. Under the law, responsibility for paying off any shortfall in funding (such as when investment earnings do not meet the investment return assumption) falls on the employer and not the employee. Accordingly, employee contribution rates will not change because of the market downturn unless the current cost-sharing arrangement is modified via collective bargaining.

The extraordinary, negative investment experience will clearly present substantial challenges for SCERS and SCERS' stakeholders. On its part, the SCERS Board will continue to be a careful steward of the retirement system and take the steps necessary to assure that SCERS meets its obligations to SCERS' participants. SCERS is also confident that its stakeholders will be able to work collaboratively to find ways to address the issues raised by the report and to make the retirement system even stronger in the future.