July 7, 2010

To: Members of the Board of Retirement

From: Ophelia Basgal, Actuarial Committee Chair

Subject: Summary of Actuarial Committee Meeting, July 7, 2010

The Actuarial Committee was called to order at 12:34 p.m. on July 7, 2010. Committee Members present were Ophelia Basgal, Chair, Dale Amaral, Liz Koppenhaver, and George Wood. Keith Carson was excused. Other Board members present were Annette Cain-Darnes, George Dewey, Elizabeth Rogers, and Alternate Members David Safer and Darryl Walker.

Staff Members present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Latrena Walker, Project and Information Systems Manager; and Victoria Arruda, Human Resources Officer.

There were no items for Committee Action.

Paul Angelo and Andy Yeung, both from The Segal Company, ACERA's outside actuaries, were at the meeting and presented the ACERA Actuarial Valuation and Review as of December 31, 2009. Mr. Angelo noted some key points in the report:

- Compared to the December 31, 2008 valuation, the funded ratio has declined from 83.9% to 81.2% in this valuation.
- The unfunded actuarial accrued liability (UAAL) has increased from $893.9 million to $1,110.3 million.
- The aggregate employer rate has increased from 16.89% of payroll in the 2008 valuation to 18.70% of payroll in this valuation. This is the result of lower than expected return on investments, and changes this year in the economic actuarial assumptions. The losses were partially offset by gains from lower than expected salary increases for active members, and lower than expected COLA for retired members.
- The aggregate member contribution rate has increased from 8.57% of payroll to 8.74%, mainly due to the changes in economic assumptions.
- Because of smoothing there are total unrecognized investment losses as of December 31, 2009 of $776.9 million, which is down from the unrecognized

losses of $1,552.4 million in the previous valuation, but is still a significant amount for a plan of ACERA's size. The remaining losses will be realized over the next few years and will offset any investment gains after December 31, 2009. So, if the actual market return is equal to the assumed rate of 7.90%, and all other economic assumptions are met, the employer contribution rate will continue to rise over the next few years. If the deferred losses were realized immediately rather than smoothed, the funded ratio would drop from 81.2% to 68.0%, and the aggregate employer contribution rate would increase from 18.70% to 24.5% of payroll.

A question from the public was about projected employer contribution rates. Last year the actuary projected that employer rates would double after a few years to approximately 30%, but now the maximum projected rate is 24.5%. The lowering of the future projected rate is a result of market gains. It should be noted, though, that in those projections the Board had directed the actuary to assume a 0% rate of return the first year.

There was discussion of the value, for planning purposes, of having regular projections of future contribution rates. The Committee directed Staff to talk with County and other employer representatives, and the actuary, and bring a recommendation to the Committee for performing contribution rate projections on a regular basis in the future.

Finally the Committee and Staff noted that the Committee work plan for September calls for Staff to make a recommendation to the Committee for action on the question of going to a triennial review of economic actuarial assumptions.

The next meeting of the Committee is scheduled for July 15, 2010, at 1:30 p.m.

The meeting adjourned at 1:00 p.m.