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June 19, 2007

DRAFT – SUBJECT TO SEGAL REVIEW

Mr. Roberto Peña  
Fresno County Employees' Retirement Association  
1111 H Street  
Fresno, CA 93721-2515

**Re: Fresno County Employees' Retirement Association  
Member Contribution Revision**

Dear Roberto:

At the last Board meeting on June 6, you asked the Segal Company to explore options that may be considered by FCERA in determining the June 30, 2002 member contribution rates (for the 2003-2004 fiscal year) if Segal cannot obtain the requested information from PPP to recalculate those rates.

**Background**

Member contribution rates must be revised for the 2003-2004, 2004-2005, 2005-2006 and part of the 2006-2007 fiscal years. Based on the information collected during our audit of the June 30, 2005 valuation, we were able to validate the revised rates for the 2006-2007 fiscal year. In April 2007 Public Pension Professionals (PPP) responded to Segal's request from February for information we needed to revise the rates for the 2003-2004, 2004-2005 and 2005-2006 plan years. After reviewing that information, it appeared reasonable and we were comfortable that we had the information we needed to restate the rates for the 2004-2005 and 2005-2006 fiscal years.

However, that is not the case for the 2003-2004 fiscal year. The information provided by PPP is inconsistent with the information provided in the June 30, 2002 valuation report. Since then, we have made numerous requests to PPP to revise or explain the inconsistencies we observed in the information they provided.

FCERA has asked Segal to outline options that may be considered by the Board in determining the rates for 2003-2004, in case no further information is provided by PPP.

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## **Options Available**

Any option must carry with it an acceptance of the fact that there is no way we can be sure that the result reflects what the 2003-2004 member rates would have been if all the right procedures had been followed. Current circumstances make it impossible to recreate history. That means that whatever approach the Board approves will carry with it Segal's caveat that it represents our best estimate based on available, but incomplete, data.

That being said, there are both simple and complex options available to us.

*Simple Option* – PPP has verified that their 2003-2004 General member basic rates are incorrect. We are comfortable that we can revise those basic rates based on information provided by PPP. However, we have not been able to get a reliable factor to produce the corrected member COLA rates for General and Safety members, so we propose using the same factor PPP used in the 2004-2005 rates. We have been able to check the reasonableness of that 2004-2005 factor and, in our experience, these factors do not change greatly from year to year unless there have been changes in the actuarial assumptions. The Board should be aware that actuarial assumptions were changed between the two valuations, and while we will attempt to adjust the member COLA rates for the estimated effect of those changes, we have no way of providing any accurate impact of those changes. That fact will have to be reviewed by the Board possibly with input from the Board's legal counsel.

*Complex Option* - Segal can independently calculate the member rates in a revised June 30, 2002 valuation. This option is going to be very time consuming and very costly as it will require Segal to collect the membership information used in the June 30, 2002 valuation and virtually replicate the work done by PPP. Based on our experience from the June 30, 2005 audit, we anticipate that we will obtain results different from those of PPP with little chance of being able to rely on PPP to adequately explain them. The Board will then likely be left with the chore of effectively invalidating PPP's June 30, 2002 valuation. This could have far reaching implications on the County, GASB reporting and or any other actions taken based on the original report.

We think the Association should only consider these options after all means of obtaining further information from PPP become exhausted.

## **Timeline and Fees Associated with Options**

*Simple Option* - If the Board chooses this option, we estimate that we can produce those rates in about 2 weeks.

We estimate that our fees for this approach will be about \$5,000. We will document all the methodology for the record. That documentation will also include the Segal caveat mentioned above.

*Complex Option* -If the Board would like to engage Segal to perform an independent but limited replication of the results required to determine the member COLA contribution rates, we estimate that we can produce those rates in about 4 weeks after we receive from FCERA a copy of the original active member data file and confirm that the file contains information consistent with that used by PPP in the June 30, 2002 valuation.

We estimate that our fees for this project will be in the range of \$20,000 to \$30,000. As we anticipate that we will not have access to PPP in answering any questions that we may run into when reconciling with results previously produced by PPP, we will document all those issues and provide the Board with our recommendation on how to ESTIMATE the member COLA rates. That documentation will also include the Segal caveat mentioned above.

Please let us know if you have any questions.

Sincerely,

Andy Yeung, ASA, EA, MAAA  
Associate Actuary

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