



THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

VIA E-MAIL AND USPS

November 21, 2007

Mr. Roberto Pena
Fresno County Employees' Retirement Association
1111 "H" Street
Fresno, California 93721

Re: Fresno County Employees' Retirement Association - Results of General Tier 3 Study

Dear Roberto:

This letter provides the results of our study of the cost associated with the enrollment of current General Tier 2 members in a General Tier 3 providing benefits in accordance with Government Code Section 31676.15. The contribution rates provided in this letter may also be applied to any new employees hired by the employer after the effective date of the Tier 3 benefit formula.

Background

Segal has been requested to determine the impact on County and member contributions of a "General Tier 3" under Government Code Section 31676.15. Under that Section of the Code, the benefit ranges from 2% at 55 to 3.13% at age 65. Benefits will be calculated using a three year average final compensation¹.

We understand that the benefit improvement would be effective on December 17, 2007 and employees would receive the higher benefit level only for service after entry into General Tier 3 membership status. Benefits applicable to the prior service of current Tier 2 employees would continue to be based on their current Tier 2 member formula.

¹ Per FCERA, the final compensation period may comprise of any three one-year periods as selected by the member, which usually will be the salary earned during the last three years of employment.



We understand that members would be required to pay a basic contribution rate calculated under Section 31621.6, and that the County has agreed to reduce the rate by one-half as permitted by Section 31630. Therefore, we have calculated the basic member rates so that they would provide an annuity at age 55 that equals 1/200 of three year average final compensation.

We have continued to assume that the normal cost to provide the cost-of-living benefit will be shared equally between the employer and the employee.

Based on the data provided by FCERA as of June 30, 2006 for the regular actuarial valuation, there were 140 employees enrolled in the General Tier 2 plan. Out of those employees, about 75% were covered by SEIU and would be eligible for the new Tier 3.

Actuarial Assumptions

The actuarial assumptions used to determine the cost of General Tier 3 benefits in this study were identical to those used for valuing benefits of General Tier 2 members in the June 30, 2006 regular valuation, with the exception of modified retirement age assumptions. The retirement age assumptions used in this study for General Tier 3 were based on a combination of the retirement age assumptions currently used for General Tier 1 and General Tier 2 members as the benefits for General Tier 3 are somewhere in between the benefits for General Tiers 1 and 2. The assumptions are provided in Exhibit II.

Results

The enclosed Exhibit I provides the additional liability and contributions associated with the General Tier 3 improvement described above.

Discussion of Funding Methodologies

All General Tier 2 Members Used in Developing the Cost for Tier 3

Based on our discussions with FCERA, we will continue to use the demographics of all members in the current General Tier 2 plan in developing the employer and member contribution rates for the new Tier 3 plan. This has the same impact as assuming that all General Tier 2 members would be transferred to Tier 3, despite the fact that in practice only those covered by SEIU (about 75% of all General Tier 2 members) are eligible for the new benefit.

This methodology is based on the following considerations:

- A. Based on the June 30, 2006 valuation, for the 2007/2008 plan year the Board has adopted contribution rates for members covered by General Tier 2 which pooled the demographics of SEIU and non-SEIU members. The demographic profile of the Tier 2 members after the transfer of the SEIU members to Tier 3 (i.e., non-SEIU Tier 2 members) will be different from the pooled demographics reflected in the 2006 valuation report. This will result in a

different contribution rate for the non-SEIU members, which will first be recognized in the next valuation as of June 30, 2007.

- B. As of June 30, 2006, there were only 140 active members in all of General Tier 2 before the transfer, and of those about 35 were not in SEIU. We will determine how the employer and member normal cost rates for those 35 members would be impacted by the transfer of SEIU as part of our June 30, 2007 valuation.

Additional Unfunded Actuarial Accrued Liability

The funding methodology used to establish the County contribution rates was chosen for its ability to maintain relatively stable normal cost rates over time. This requires the General benefit normal cost rates to be determined as if they were to be charged from employees' original date of hire. Doing so assures that the rates charged for employees hired after December 17, 2007 are consistent with those for employees hired earlier, and that COLA costs are appropriately allocated between members and the County.

A consequence of this methodology is the creation of an unfunded actuarial accrued liability (UAAL) for existing employees on the effective date of the improvement, even though the benefit increase is only for future service. The amount of this new UAAL is \$713,000. This new UAAL represents the portion of the cost that remains after future "original entry age" normal costs are collected for these employees.

Payment of the Additional UAAL Rate

In the June 30, 2006 regular valuation, we have determined a pooled General employer contribution rate to pay off the UAAL for all of Tier 1 and Tier 2. If it is desirable to maintain the pooled UAAL rate for all General employees, then the employer UAAL contribution for the General Tier employees has to be increased slightly (0.01% of payroll when calculated using all General member salaries) as a result of the adoption of General Tier 3. We have calculated the contribution rate under this assumption in Scenario #1.

Alternatively, it may be desirable to maintain the employer UAAL contribution rate for Tier 1 so that all changes in the UAAL rate will be charged to Tier 3. The rates calculated under this assumption are provided in Scenario #2.

It is our understanding that the Retirement Board's practice has been to amortize the cost of the plan amendment over 30 years. We have followed that practice in determining the contribution rates in this study.

Increase in Member and Employer Rates

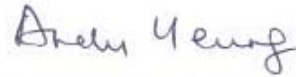
The increase in the member's rate is higher than the increase in the employer's rate. This is because there is an increase in the basic member rate as required by the Government Code.

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Instead of providing an annuity at age 60 that equals $1/240$ of final one year average salary, as discussed above the basic member rates have been increased so that they will provide an annuity at age 55 that equals $1/200$ of three year average final compensation.

Please give us a call if you have any questions.

Sincerely,



Paul Angelo, FSA, EA, MAAA
Senior Vice President and Actuary

Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary

SUV/hy
Enclosure

Exhibit I

FCERA General Tier 3 Study Contribution Rate Impacts

(\$000s)

Scenario #1 – Pooled General Employer UAAL Rate

Employer Contribution Rates

	Before Improvement		After Improvement		Difference	
	Combined Regular and Settlement Benefits		Combined Regular and Settlement Benefits		Combined Regular and Settlement Benefits	
General Tier 1 Members	Rate	Estimated Annual Amount*	Rate	Estimated Annual Amount*	Rate	Estimated Annual Amount*
Normal Cost	15.66%	\$48,547	15.66%	\$48,547	0.00%	\$0
UAAL	<u>7.70%</u>	<u>23,871</u>	<u>7.71%</u>	<u>23,902</u>	<u>0.01%</u>	<u>31</u>
Total Contribution	23.36%	\$72,418	23.37%	\$72,449	0.01%	\$31
General Tier 3 Members (Formerly General Tier 2)						
Normal Cost	13.45%	\$676	14.09%	\$708	0.64%	\$32
UAAL	<u>7.70%</u>	<u>387</u>	<u>7.71%</u>	<u>388</u>	<u>0.01%</u>	<u>1</u>
Total Contribution	21.15%	\$1,063	21.80%	\$1,096	0.65%	\$33

* Amounts are in thousands and are based on June 30, 2006 annual payroll (also in thousands):

General Tier 1	\$310,007
General Tier 3	5,024

Breakdown of Employer Contribution Rates into Basic and COLA

	Before Improvement		After Improvement		Difference	
	Tier 1	Tier 3 (Formerly Tier 2)	Tier 1	Tier 3 (Formerly Tier 2)	Tier 1	Tier 3 (Formerly Tier 2)
Normal Cost						
Regular - Basic	10.06%	11.00%	10.06%	10.96%	0.00%	-0.04%
Regular - COLA	2.20%	2.19%	2.20%	2.87%	0.00%	0.68%
Section 6	3.13%	0.00%	3.13%	0.00%	0.00%	0.00%
Section 8	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Section 9	0.27%	0.26%	0.27%	0.26%	0.00%	0.00%
UAAL						
Regular - Basic	1.55%	1.55%	1.56%	1.56%	0.01%	0.01%
Regular - COLA	5.14%	5.14%	5.14%	5.14%	0.00%	0.00%
Section 6	0.75%	0.75%	0.75%	0.75%	0.00%	0.00%
Section 8	0.04%	0.04%	0.04%	0.04%	0.00%	0.00%
Section 9	0.22%	0.22%	0.22%	0.22%	0.00%	0.00%

Exhibit I (continued)

FCERA General Tier 3 Study Contribution Rate Impacts

Scenario #1 (continued)

Member Contribution Rates

General Tier 3 Members (Formerly General Tier 2)

Before Improvement

<u>Entry Age</u>	<u>Basic Only</u>		<u>COLA Only</u>		<u>Total</u>	
	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>
	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>
30	1.68%	2.52%	1.25%	1.88%	2.93%	4.40%
35	1.85%	2.77%	1.38%	2.07%	3.23%	4.84%
40	2.03%	3.04%	1.52%	2.27%	3.55%	5.31%

After Improvement

<u>Entry Age</u>	<u>Basic Only</u>		<u>COLA Only</u>		<u>Total</u>	
	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>
	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>
30	2.27%	3.41%	1.61%	2.42%	3.88%	5.83%
35	2.50%	3.75%	1.77%	2.66%	4.27%	6.41%
40	2.75%	4.13%	1.95%	2.93%	4.70%	7.06%

Difference

<u>Entry Age</u>	<u>Basic Only</u>		<u>COLA Only</u>		<u>Total</u>	
	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>
	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>
30	0.59%	0.89%	0.36%	0.54%	0.95%	1.43%
35	0.65%	0.98%	0.39%	0.59%	1.04%	1.57%
40	0.72%	1.09%	0.43%	0.66%	1.15%	1.75%

Exhibit I (continued)

FCERA General Tier 3 Study Contribution Rate Impacts

(\$000s)

Scenario #2 – Non-Pooled General Employer UAAL Rate

Employer Contribution Rates

	Before Improvement		After Improvement		Difference	
	<u>Combined Regular and Settlement Benefits</u>		<u>Combined Regular and Settlement Benefits</u>		<u>Combined Regular and Settlement Benefits</u>	
General Tier 1 Members	<u>Rate</u>	<u>Estimated Annual Amount*</u>	<u>Rate</u>	<u>Estimated Annual Amount*</u>	<u>Rate</u>	<u>Estimated Annual Amount*</u>
Normal Cost	15.66%	\$48,547	15.66%	\$48,547	0.00%	\$0
UAAL	<u>7.70%</u>	<u>23,871</u>	<u>7.70%</u>	<u>23,871</u>	<u>0.00%</u>	<u>0</u>
Total Contribution	23.36%	\$72,418	23.36%	\$72,418	0.00%	\$0
General Tier 3 Members (Formerly General Tier 2)						
Normal Cost	13.45%	\$676	14.09%	\$708	0.64%	\$32
UAAL	<u>7.70%</u>	<u>387</u>	<u>8.34%</u>	<u>419</u>	<u>0.64%</u>	<u>32</u>
Total Contribution	21.15%	\$1,063	22.43%	\$1,127	1.28%	\$64

* Amounts are in thousands and are based on June 30, 2006 annual payroll (also in thousands):

General Tier 1	\$310,007
General Tier 3	5,024

Breakdown of Employer Contribution Rates into Basic and COLA

	Before Improvement		After Improvement		Difference	
	<u>Tier 1</u>	<u>Tier 3 (Formerly Tier 2)</u>	<u>Tier 1</u>	<u>Tier 3 (Formerly Tier 2)</u>	<u>Tier 1</u>	<u>Tier 3 (Formerly Tier 2)</u>
Normal Cost						
Regular - Basic	10.06%	11.00%	10.06%	10.96%	0.00%	-0.04%
Regular - COLA	2.20%	2.19%	2.20%	2.87%	0.00%	0.68%
Section 6	3.13%	0.00%	3.13%	0.00%	0.00%	0.00%
Section 8	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Section 9	0.27%	0.26%	0.27%	0.26%	0.00%	0.00%
UAAL						
Regular - Basic	1.55%	1.55%	1.55%	2.17%	0.00%	0.62%
Regular - COLA	5.14%	5.14%	5.14%	5.16%	0.00%	0.02%
Section 6	0.75%	0.75%	0.75%	0.75%	0.00%	0.00%
Section 8	0.04%	0.04%	0.04%	0.04%	0.00%	0.00%
Section 9	0.22%	0.22%	0.22%	0.22%	0.00%	0.00%

Exhibit I (continued)

FCERA General Tier 3 Study Contribution Rate Impacts

Scenario #2 (continued)

Member Contribution Rates

General Tier 3 Members (Formerly General Tier 2)

Before Improvement

<u>Entry Age</u>	<u>Basic Only</u>		<u>COLA Only</u>		<u>Total</u>	
	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>
	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>
30	1.68%	2.52%	1.25%	1.88%	2.93%	4.40%
35	1.85%	2.77%	1.38%	2.07%	3.23%	4.84%
40	2.03%	3.04%	1.52%	2.27%	3.55%	5.31%

After Improvement

<u>Entry Age</u>	<u>Basic Only</u>		<u>COLA Only</u>		<u>Total</u>	
	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>
	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>
30	2.27%	3.41%	1.61%	2.42%	3.88%	5.83%
35	2.50%	3.75%	1.77%	2.66%	4.27%	6.41%
40	2.75%	4.13%	1.95%	2.93%	4.70%	7.06%

Difference

<u>Entry Age</u>	<u>Basic Only</u>		<u>COLA Only</u>		<u>Total</u>	
	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>	<u>First</u>	<u>Over</u>
	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>	<u>\$350/Month</u>
30	0.59%	0.89%	0.36%	0.54%	0.95%	1.43%
35	0.65%	0.98%	0.39%	0.59%	1.04%	1.57%
40	0.72%	1.09%	0.43%	0.66%	1.15%	1.75%

Exhibit II

Retirement Rates for General Tier 3 Study

Age	Current Retirement Rates			New Assumption
	General Tier 1 Male	General Tier 1 Female	General Tier 2 (Male and Female)	General Tier 3 (Male and Female)
50	5.0%	4.0%	3.0%	3.0%
51	3.0	4.0	3.0	3.0
52	3.0	4.0	3.6	3.6
53	3.0	4.0	3.6	3.6
54	4.5	4.0	4.2	4.2
55	6.0	10.0	8.4	8.4
56	10.0	10.0	10.0	10.0
57	15.0	10.0	10.0	10.0
58	20.0	15.0	10.0	10.0
59	25.0	17.5	10.0	15.0
60	30.0	20.0	15.0	19.2
61	30.0	20.0	15.0	19.2
62	50.0	40.0	25.0	34.2
63	30.0	20.0	24.0	23.7
64	30.0	20.0	24.0	23.7
65	40.0	45.0	35.0	43.3
66	40.0	30.0	34.0	33.3
67	40.0	30.0	34.0	33.3
68	60.0	30.0	35.0	40.0
69	80.0	30.0	35.0	46.7
70	100.0	100.0	100.0	100.0

Exhibit III

Summary of Plan Provisions for General Tier 3

Membership Eligibility:

Effective Date of Tier 3 December 17, 2007.

Final Compensation for Benefit Determination:

General Tier 3 Highest thirty-six months of compensation earnable (\$31462) (FAS3).

Service: Years of service (Yrs).

Service Retirement Eligibility:

General Age 50 with 10 years of service, or age 70 regardless of service, or after 30 years, regardless of age (§31672).

Benefit Formula:

	Retirement Age	Benefit Formula
<i>General Tier 3 (§31676.15)</i>	50	$(1.49\% \times \text{FAS3} - 1/3 \times 1.49\% \times \$350 \times 12) \times \text{Yrs}$
	55	$(2.00\% \times \text{FAS3} - 1/3 \times 2.00\% \times \$350 \times 12) \times \text{Yrs}$
	60	$(2.62\% \times \text{FAS3} - 1/3 \times 2.62\% \times \$350 \times 12) \times \text{Yrs}$
	62	$(2.82\% \times \text{FAS3} - 1/3 \times 2.82\% \times \$350 \times 12) \times \text{Yrs}$
	65 or later	$(3.13\% \times \text{FAS3} - 1/3 \times 3.13\% \times \$350 \times 12) \times \text{Yrs}$

County Contributions: The new unfunded actuarial accrued liability created as a result of the benefit improvement has been amortized over 30 years.

Ventura Settlement Benefits:

Section 9 All retired members are entitled to a \$3 per month per year of service benefit. Future increase in this benefit will be tied to the amount of future undistributed earnings. For the purpose of this valuation, it is assumed that there will be no future increase in the amount of benefit.

Non-Vested Supplemental Benefit: Non-vested discretionary purchasing power and additional retiree health benefits are also paid to eligible retirees and beneficiaries. These benefits and the associated reserves have been excluded from the development of employer and member contribution rates in this valuation.

Exhibit III (continued)

Summary of Plan Provisions for General Tier 3

Member Contributions:	Please refer to Exhibit IV for specific rates.
<i>General Tier 3</i>	
<i>Basic</i>	Provide for an average annuity at age 55 equal to 1/200 of FAS3 (§31621.6 and §31630).
<i>Cost-of-Living</i>	Provide for one-half of future Cost-of-Living costs.

Exhibit IV**Member Contribution Rates**

**General Tier 3 Members' Contribution Rates based on the June 30, 2006
Actuarial Valuation as a percentage of payroll**

Age	Basic Regular	Basic Regular	COLA	COLA	Combined	Combined
	First \$350 per month	Over \$350 per month	Regular First \$350 per month	Regular Over \$350 per month	First \$350 per month	Over \$350 per month
15	1.74%	2.60%	1.23%	1.85%	2.97%	4.45%
16	1.74%	2.60%	1.23%	1.85%	2.97%	4.45%
17	1.77%	2.66%	1.26%	1.89%	3.03%	4.55%
18	1.81%	2.71%	1.28%	1.92%	3.09%	4.63%
19	1.84%	2.76%	1.31%	1.96%	3.15%	4.72%
20	1.88%	2.82%	1.33%	2.00%	3.21%	4.82%
21	1.91%	2.87%	1.36%	2.04%	3.27%	4.91%
22	1.95%	2.93%	1.39%	2.08%	3.34%	5.01%
23	1.99%	2.98%	1.41%	2.12%	3.40%	5.10%
24	2.03%	3.04%	1.44%	2.16%	3.47%	5.20%
25	2.07%	3.10%	1.47%	2.20%	3.54%	5.30%
26	2.11%	3.16%	1.49%	2.24%	3.60%	5.40%
27	2.15%	3.22%	1.53%	2.29%	3.68%	5.51%
28	2.19%	3.28%	1.55%	2.33%	3.74%	5.61%
29	2.23%	3.34%	1.59%	2.38%	3.82%	5.72%
30	2.27%	3.41%	1.61%	2.42%	3.88%	5.83%

Age	Basic Regular First \$350 per month	Basic Regular Over \$350 per month	COLA Regular First \$350 per month	COLA Regular Over \$350 per month	Combined First \$350 per month	Combined Over \$350 per month
31	2.32%	3.47%	1.65%	2.47%	3.97%	5.94%
32	2.36%	3.54%	1.67%	2.51%	4.03%	6.05%
33	2.40%	3.61%	1.71%	2.56%	4.11%	6.17%
34	2.45%	3.68%	1.74%	2.61%	4.19%	6.29%
35	2.50%	3.75%	1.77%	2.66%	4.27%	6.41%
36	2.55%	3.82%	1.81%	2.71%	4.36%	6.53%
37	2.60%	3.89%	1.85%	2.77%	4.45%	6.66%
38	2.65%	3.97%	1.88%	2.82%	4.53%	6.79%
39	2.70%	4.05%	1.91%	2.87%	4.61%	6.92%
40	2.75%	4.13%	1.95%	2.93%	4.70%	7.06%
41	2.81%	4.21%	1.99%	2.99%	4.80%	7.20%
42	2.86%	4.29%	2.03%	3.05%	4.89%	7.34%
43	2.92%	4.38%	2.07%	3.11%	4.99%	7.49%
44	2.98%	4.48%	2.12%	3.18%	5.10%	7.66%
45	3.05%	4.58%	2.17%	3.25%	5.22%	7.83%
46	3.12%	4.68%	2.22%	3.33%	5.34%	8.01%
47	3.20%	4.80%	2.27%	3.41%	5.47%	8.21%
48	3.25%	4.87%	2.31%	3.46%	5.56%	8.33%
49	3.26%	4.89%	2.31%	3.47%	5.57%	8.36%
50	3.25%	4.87%	2.31%	3.46%	5.56%	8.33%

Age	Basic Regular First \$350 per month	Basic Regular Over \$350 per month	COLA Regular First \$350 per month	COLA Regular Over \$350 per month	Combined First \$350 per month	Combined Over \$350 per month
51	3.24%	4.85%	2.30%	3.45%	5.54%	8.30%
52	3.22%	4.84%	2.29%	3.43%	5.51%	8.27%
53	3.35%	5.02%	2.38%	3.57%	5.73%	8.59%
54	3.48%	5.22%	2.47%	3.71%	5.95%	8.93%

Interest: 8.16% per annum
COLA: 3.00%
Mortality: RP-2000 Healthy Annuitant Mortality, with adjustment for white collar workers weighted 1/3 male and 2/3 female
Salary Increase: Inflation (4.00%) + Across-the-Board Increase (0.00%) + Merit (See Exhibit IV of the June 30, 2006 Valuation Report)
COLA Loading Factor 71.03% for Regular Benefits