

1976

ACTUARIAL REPORT ON
PROPOSED WITHDRAWAL FROM SOCIAL SECURITY
EMPLOYEES' RETIREMENT ASSOCIATION
OF THE
COUNTY OF FRESNO

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August 17, 1976

Board of Retirement
Employees' Retirement Association
County of Fresno

Gentlemen:

We are pleased to transmit herewith a report setting forth the results of our calculations to determine the cost to the County and the members arising from the adoption of certain amendments to the County Act of 1937 applicable to a County's withdrawal from the Social Security System.

The study was based upon financial statements and employee data furnished by the Retirement Office.

This report discusses in detail the results and commentary arising from our study of the proposed amendments using the same data utilized in the last valuation as of October 31, 1974.

In addition to the data discussed above, we were provided with additional data for active members of the System for the purpose of calculating the survivorship costs of Article 15.6. The cost of this proposal depends upon the family composition of Fresno County employees and, therefore, we requested the following information for all active members as of July 1, 1976:

1. Date of birth of member
2. Sex of member
3. Marital status of member (currently married or not)
4. Date of birth of spouse, if applicable
5. Number of dependent children less than 18 years of age
6. Age of youngest dependent child

We received this data for approximately 80% of the membership, and we feel that the results would be representative for the balance of the members.

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August 17, 1976

At this time, we wish to take the opportunity to express our appreciation for the cooperation given us by the Retirement Office during our work.

Respectfully submitted,

COATES, HERFURTH & ENGLAND
Actuaries and Consultants

By Robert D. Drisko
Robert D. Drisko

RDD/cb
Enclosures

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SECTION I

I. Introduction

Under the Retirement System currently in effect in Fresno County, both Miscellaneous and Safety members are covered under the Social Security System in addition to their coverage under the County System. We were requested to review and analyze certain proposals which, if adopted, might improve the level of benefits under the County Retirement System to such an extent as to eliminate the need for continuing coverage under the Social Security Program.

For Miscellaneous Members, we performed calculations based upon the adoption of Sections 31676.15, 31740, 31727.3, 31621.6, and Article 15.6 of the County law. There are, as yet, no Sections in the law dealing specifically with the adoption of similar amendments for Safety Members, but we have prepared similar proposals for the Safety membership based upon new benefits that we believe to be equivalent in effect to the changes studied for the Miscellaneous membership. This report incorporates a comparison of the basic provisions of the present and proposed Systems and sets forth the member and County contribution rates resulting from the adoption of the Sections listed above upon the termination of the County System from Social Security coverage.

SECTION II
COMPARISON OF MAJOR PROVISIONS
OF THE PRESENT AND PROPOSED SYSTEMS

Briefly summarized below are the major provisions of the County Employees Retirement Law of 1937, as amended through July 1, 1975, and as adopted by Fresno County. Indicated in brackets are the changes resulting from the proposed amendments.

1. Membership

Each person entering County employ becomes a member on the first day of the calendar month after entrance into service.

2. Return of Contribution

If a member should resign or die before becoming eligible for retirement, his contributions plus interest will be refunded.

3. Death Benefit

Before Retirement

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on his final year's average salary, but not to exceed six (6) month's salary.

If a member dies while eligible for service retirement or non-service connected disability, his spouse receives 60% of the allowance the member would have received for retirement on the day of his death.

If a member dies in the performance of duty, his spouse receives 50% of the member's final average salary.

{ Article 15.6 is intended to provide benefits as an alternative to survivorship benefits payable under Social Security. We have assumed that these benefits would be payable in addition to any other death benefits currently payable, and that the provisions of these Sections, (31855 through 31855.10), would apply to both Miscellaneous Members and Safety Members. Benefits are payable upon the death of an active member with at least 18 months of continuous membership. The monthly survivor's allowances are based upon the following table:

Surviving spouse caring for one child	\$ 591.80
Surviving spouse caring for two or more children	690.40
One child only	295.90
Two children only	581.80
Three or more children	690.40
Widow or widower age 62 (no child)	327.10
Each of two dependent parents at age 62	295.90
Sole dependent parent at age 62	325.50
Lump sum payment	255.00 }

After Retirement

If the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to his surviving spouse for life.

If the retirement was for other than service connected disability, 60% of the member's allowance is continued to his spouse for life.

4. Disability Benefit

Members with 5 years of service, regardless of age, are eligible for non-service connected disability. The benefit is 1.8% (both Miscellaneous and Safety members) of final average salary for each year of service. If this benefit does not equal 1/3 of final average salary, the benefit is increased by this same percentage of final average salary for the years which would be creditable to age 62 (age 55 for Safety members), but the

total benefit in this case would not be more than 1/3 of final average salary.

If the disability is service connected, the member may retire regardless of length of service, and the benefit is 50% of final average salary.

(For Miscellaneous Members, the adoption of proposed Section 31727.3 would result in the same non-service connected disability benefit described above, except that if the benefit does not equal 1/3 of final average salary, the benefit is increased by the same percentage of final average salary for the years which would be creditable to age 65.

The adoption of Section 31740 would provide a supplemental disability allowance of \$300 per month, in addition to any other disability benefits, for any member retired for disability provided the member's disability is such that the member is incapable of gainful employment. We have assumed that the provisions of this Section would apply to both Miscellaneous and Safety Members.)

5. Service Retirement Benefit

Miscellaneous Members

Members with 10 years of service, who have attained the age of 50, are eligible to retire. Members with 30 years of service, regardless of age, are eligible to retire. Retirement is compulsory on the first day of the month following that in which a member reaches the age of 67.

Safety Members

Members with 10 years of service, who have attained the age of 50, are eligible to retire. Members with 20 years of service, regardless of age, are eligible to retire. Retirement is compulsory on the first day of the month following that in which a member reaches the age of 60.

Benefit

A fraction of 1/50 (for both Miscellaneous and Safety Members) of final average salary per year of service depending on age of retirement.

{ For Miscellaneous Members, the adoption of Section 31676.15 would result in an increase in the percentage credit per year of service used in determining service retirement benefits at all ages when compared to Section 31676.12, as shown below in the comparison of the factors for representative ages. It should also be noted that there will be a further increase in the total benefit as a percentage of salary because the present integration of benefits at the \$350 monthly salary level will be removed.

<u>Age at Retirement</u>	<u>Present System</u> <u>Section 31676.12</u> Based on Monthly <u>Salaries in Excess of \$350</u>		<u>Proposed Systems</u> <u>Section 31676.15</u> Based on <u>Total Salaries</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50	1.29%	1.34%	1.46%	1.49%
55	1.75	1.77	2.00	2.00
60	2.33	2.34	2.61	2.62
65	2.60	2.62	3.12	3.13]

{ For Safety Members, in the absence of any specific provision within the County Law, we have assumed that the County might want to provide a corresponding increase in service retirement benefits as is provided to the Miscellaneous Members by the adoption of Section 31676.15. Therefore, we have studied a modification of Section 31664 that would result in a 10% increase in the percentage credit per year of service used in determining service retirement benefits at all ages when compared to Section 31664. In addition, there will be a further increase because the present integration of benefits at the \$350 monthly salary level will be removed. The following table shows a comparison of these factors for representative ages.

<u>Age at Retirement</u>	<u>Section 31664</u> Based on Monthly <u>Salaries in Excess of \$350</u>	<u>Section 31664 Modified</u> Based on Total <u>Salaries</u>
50	2.00%	2.20%
55	2.62	2.88
60	2.62	2.88]

6. Cost of Living

A portion of the contributions for retirement withheld from compensation is for cost of living adjustments after retirement. These contributions are refundable if the employee terminates employment before retirement. The County contributes an equal amount of cost of living contributions. The current maximum increase in retirement allowance is 3% a year based on the Cost of Living Index for the year ending December 31st.

7. Basic Contributions

Member

Rates are based on the age nearest birthday at entry into the System, and on sex for Miscellaneous Members. The rates are such as will provide an average annuity at age 60 (age 50 for Safety Members) of $1/200$ of final average salary in excess of \$350 per month. The rate on the first \$350 of monthly salary will be one third less than the above rate.

{For Miscellaneous Members, the adoption of Section 31621.6 results in a member contribution rate sufficient to provide an average annuity at age 55 equal to $1/100$ of total final compensation. We have assumed the County would pay half of the member contribution, resulting in a member contribution rate which provides an average annuity at age 55 equal to $1/200$ of total final compensation.

For Safety Members, in the absence of any specific provision within the County Law, we have assumed that the adoption of new contribution rates in connection with the aforementioned modification of Section 31664 would result in a similar modification in the rates. Therefore, we have assumed a 10% increase in the present Safety Member contribution rates on salaries in excess of \$350 at all ages. In addition, the present integration of contributions at the \$350 monthly salary level will be removed and these higher contribution rates will apply to total salaries.

The adoption of Article 15.6 would involve an additional flat monthly contribution of all members, to be matched by the County, in order to pay for the new survivorship benefits. This monthly contribution amount, not to be refunded upon members' termination or for any other reason, is to be based on actuarial recommendations, and we have calculated such a rate for Fresno County as discussed in Section III. }

County

The County rate is the percentage of salary necessary, upon an actuarial basis, to provide for payment of the portion of the benefits promised but not paid for by the members' contributions. These rates are changed in accordance with each actuarial study.

SECTION III

MEMBER CONTRIBUTIONS

Section 31621.5 of the 1937 County Law sets forth the basis of determining the normal rates of contribution for miscellaneous member under Section 31676.12 as follows:

"The normal rates of contribution except for members covered by Article 6.8 shall be such as will provide an average annuity at age 60 equal to one two-hundredth of the final compensation of members not covered by Article 6.8, according to the tables adopted by the board of supervisors, for each year of service rendered after entering the system."

The basis of determining the rates of contribution for safety members is set forth in Section 31639.5 of Article 6.8, which reads as follows:

"The normal rates of contributions shall be such as will provide an average annuity at age 50 equal to one two-hundredth of the final compensation of safety members, according to the tables adopted by the board of supervisors, for each year of service rendered after entering the system."

Section 31620 of the County Law further provides that the contribution rates of members shall be based on sex and age at the nearest birthday at the time of entrance into the retirement system. Section 31453 provides for the adjustment in such rates of contribution in the light of changes in the rate of interest and the other factors. It further provides that no adjustment shall be included in the new rates for time prior to the effective date of the revision.

Member Rates of Contribution

A schedule of the members' proposed basic rates of contribution was calculated in accordance with the formula prescribed in the County Law and based upon the current actuarial assumptions in effect as of July 1, 1975.

These schedules of proposed member basic rates of contributions are shown on the following pages and, in our opinion, these are the rates which comply with the provisions of Sections 31620 and 31621.5 of the County Law for miscellaneous members and Section 31639.5 for safety members, and the assumptions adopted as discussed in the preceding paragraphs.

EMPLOYEES' RETIREMENT ASSOCIATION

OF THE

COUNTY OF FRESNO

Miscellaneous Members' Basic Contribution Rates - Males

Applicable to Monthly Compensation*

Entry Age	Present System Section 31676.12		Proposed System Section 31676.15**
	First \$350 of Monthly Compensation	Excess of Monthly Compensation Over \$350	Total Monthly Compensation
16	1.65%	2.48%	3.24%
17	1.67	2.50	3.24
18	1.68	2.52	3.25
19	1.70	2.55	3.26
20	1.72	2.58	3.28
21	1.73	2.60	3.31
22	1.75	2.63	3.34
23	1.77	2.66	3.37
24	1.80	2.70	3.41
25	1.83	2.74	3.46
26	1.85	2.78	3.51
27	1.88	2.82	3.56
28	1.92	2.88	3.63
29	1.96	2.94	3.70
30	2.00	3.00	3.77
31	2.04	3.06	3.84
32	2.08	3.12	3.92
33	2.13	3.19	4.01
34	2.17	3.26	4.10
35	2.23	3.34	4.19
36	2.28	3.42	4.28
37	2.33	3.49	4.38
38	2.38	3.57	4.48
39	2.44	3.66	4.57

*The member would contribute an additional 37.98% of the basic rates for cost of living at the 3% maximum level.

**We have assumed that the member contribution rate for Section 31676.15 would be such as to provide 1/200 of the member's compensation at age 55. We have also assumed the member will contribute a flat \$3.15 per month for the additional benefits under Article 15.6.

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EMPLOYEES' RETIREMENT ASSOCIATION

OF THE

COUNTY OF FRESNO

Miscellaneous Members' Basic Contribution Rates - Males

Applicable to Monthly Compensation*

(Continued)

Entry Age	Present System	Proposed System	
	Section 31676.12	Section 31676.15**	
	First \$350 of Monthly Compensation	Excess of Monthly Compensation Over \$350	Total Monthly Compensation
40	2.48%	3.73%	4.67%
41	2.55	3.82	4.77
42	2.60	3.90	4.87
43	2.65	3.98	4.98
44	2.72	4.08	5.08
45	2.77	4.16	5.18
46	2.83	4.25	5.29
47	2.89	4.34	5.40
48	2.96	4.44	5.51
49	3.01	4.52	5.62
50	3.08	4.62	5.74
51	3.15	4.72	5.86
52	3.21	4.81	5.98
53	3.28	4.92	6.10
54	3.35	5.02	6.22
55	3.41	5.12	6.22
56	3.48	5.22	6.22
57	3.55	5.32	6.22
58	3.62	5.43	6.22
59 & Over	3.69	5.54	6.22

*The member will contribute an additional 37.98% of the basic rates for cost of living at the 3% maximum level.

**We have assumed that the member contribution rate for Section 31676.15 would be such as to provide 1/200 of the member's compensation at age 55. We have also assumed the member will contribute a flat \$3.15 per month for the additional benefits under Article 15.6.

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EMPLOYEES' RETIREMENT ASSOCIATION

OF THE

COUNTY OF FRESNO

Miscellaneous Members' Basic Contribution Rates - Females

Applicable to Monthly Compensation*

<u>Entry Age</u>	<u>Present System Section 31676.12</u>		<u>Proposed System Section 31676.15**</u>
	<u>First \$350 of Monthly Compensation</u>	<u>Excess of Monthly Compensation Over \$350</u>	<u>Total Monthly Compensation</u>
16	1.88%	2.82%	3.58%
17	1.91	2.87	3.62
18	1.94	2.91	3.66
19	1.97	2.95	3.71
20	2.00	3.00	3.76
21	2.03	3.04	3.82
22	2.05	3.08	3.88
23	2.09	3.14	3.94
24	2.12	3.18	4.00
25	2.16	3.24	4.06
26	2.20	3.30	4.13
27	2.24	3.36	4.20
28	2.28	3.42	4.27
29	2.32	3.48	4.34
30	2.36	3.54	4.42
31	2.40	3.60	4.50
32	2.45	3.67	4.58
33	2.49	3.74	4.66
34	2.54	3.81	4.74
35	2.59	3.88	4.83
36	2.64	3.96	4.92
37	2.69	4.04	5.01
38	2.75	4.12	5.10
39	2.80	4.20	5.20

*The member would contribute an additional 37.98% of the basic rates for cost of living at the 3% maximum level.

**We have assumed that the member contribution rate for Section 31676.15 would be such as to provide 1/200 of the member's compensation at age 55. We have also assumed the member will contribute a flat \$3.15 per month for the additional benefits under Article 15.6.

EMPLOYEES' RETIREMENT ASSOCIATION

OF THE

COUNTY OF FRESNO

Miscellaneous Members' Basic Contribution Rates - Females

Applicable to Monthly Compensation*

(Continued)

Entry Age	Present System Section 31676.12		Proposed System Section 31676.15**
	First \$350 of Monthly Compensation	Excess of Monthly Compensation Over \$350	Total Monthly Compensation
40	2.85%	4.28%	5.30%
41	2.91	4.36	5.40
42	2.96	4.44	5.50
43	3.03	4.54	5.60
44	3.08	4.62	5.71
45	3.15	4.72	5.82
46	3.21	4.81	5.93
47	3.27	4.91	6.04
48	3.33	5.00	6.16
49	3.40	5.10	6.28
50	3.47	5.21	6.40
51	3.55	5.32	6.52
52	3.61	5.42	6.64
53	3.68	5.52	6.77
54	3.76	5.64	6.90
55	3.84	5.76	6.90
56	3.91	5.87	6.90
57	3.99	5.99	6.90
58	4.07	6.11	6.90
59 & Over	4.15	6.23	6.90

*The member would contribute an additional 37.98% of the basic rates for cost of living at the 3% maximum level.

**We have assumed that the member contribution rate for Section 31676.15 would be such as to provide 1/200 of the member's compensation at age 55. We have also assumed the member will contribute a flat \$3.15 per month for the additional benefits under Article 15.6.

EMPLOYEES' RETIREMENT ASSOCIATION

OF THE

COUNTY OF FRESNO

Safety Members' Basic Rate of Contribution

Applicable to Compensation*

<u>Age</u>	<u>Present System</u>	<u>Proposed System**</u>	
	<u>Section 31664</u>	<u>Modified Section 31664</u>	
	<u>First \$350</u> <u>of Monthly</u> <u>Compensation</u>	<u>Compensation</u> <u>Over \$350</u>	<u>Total</u> <u>Compensation</u>
21	2.61%	3.91%	4.30%
22	2.65	3.98	4.38
23	2.71	4.06	4.46
24	2.76	4.14	4.55
25	2.81	4.22	4.64
26	2.87	4.30	4.73
27	2.92	4.38	4.82
28	2.98	4.47	4.92
29	3.04	4.56	5.02
30	3.10	4.65	5.12
31	3.16	4.74	5.22
32	3.23	4.84	5.32
33	3.29	4.94	5.43
34	3.36	5.04	5.54
35 & Over	3.43	5.14	5.65

*The member would contribute an additional 37.98% of the basic rates for cost of living at the 3% maximum level.

**We have assumed that the member contribution rate for Modified Section 31664 would be such as to provide 110% of 1/200 of the member's compensation at age 50. We have also assumed the member will contribute a flat \$3.15 per month for the additional benefits under Article 15.6.

FRESNO COUNTY

TABLE A

Contribution Rates and
Annual Contributions Payable
(Male Members)

Entry Age	Annual Salary	<u>Present System (Section 31676.12)</u>		<u>Proposed System (Section 31676.15)</u>	
		Rate	<u>Annual Contribution</u> <u>Social Security</u>	Rate	<u>Section 31676.15</u> <u>Annual Contribution</u> <u>Social Security</u>
20	\$12,000	5.85%	\$ 702	0%	\$ 0
25	12,000	5.85	702	0	0
30	12,000	5.85	702	0	0
35	12,000	5.85	702	0	0
40	12,000	5.85	702	0	0
45	12,000	5.85	702	0	0
50	12,000	5.85	702	0	0
55	12,000	5.85	702	0	0

<u>Section 31676.12</u>				<u>Section 31676.15*</u>	
20	\$12,000	3.14%**	\$ 377	4.84%	\$ 581
25	12,000	3.34	401	5.09	611
30	12,000	3.66	439	5.50	660
35	12,000	4.08	489	6.10	732
40	12,000	4.54	545	6.76	811
45	12,000	5.07	608	7.46	895
50	12,000	5.63	676	8.24	988
55	12,000	6.24	749	8.90	1,068

<u>Total Contribution</u>				<u>Total Contribution</u>	
20	12,000	8.99%	\$ 1,079	4.84%	\$ 581
25	12,000	9.19	1,103	5.09	611
30	12,000	9.51	1,141	5.50	660
35	12,000	9.93	1,191	6.10	732
40	12,000	10.39	1,247	6.76	811
45	12,000	10.92	1,310	7.46	895
50	12,000	11.48	1,378	8.24	988
55	12,000	12.09	1,451	8.90	1,068

The Contributions under the County Act include cost of living contributions amounting to 37.98% of the basic contributions.
*Includes flat amount of \$37.80.

**Equivalent single rate reflecting contribution percentages above and below \$350 per month.
Coates, Herfurth & England, Actuaries and Consultants

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TABLE B

Contribution Rates and
Annual Contributions Payable
(Female Members)

Entry Age	Annual Salary	<u>Present System (Section 31676.12)</u>		<u>Proposed System (Section 31676.15)</u>	
		Rate	<u>Annual Contribution</u> Social Security	Rate	<u>Section 31676.15</u> <u>Annual Contribution</u> Social Security
20	\$12,000	5.85%	\$ 702	0%	0
25	12,000	5.85	702	0	0
30	12,000	5.85	702	0	0
35	12,000	5.85	702	0	0
40	12,000	5.85	702	0	0
45	12,000	5.85	702	0	0
50	12,000	5.85	702	0	0
55	12,000	5.85	702	0	0
			<u>Section 31676.12</u>		<u>Section 31676.15*</u>
20	\$12,000	3.66%**	\$ 439	5.50%	\$ 660
25	12,000	3.95	474	5.92	710
30	12,000	4.32	518	6.41	770
35	12,000	4.73	568	6.98	838
40	12,000	5.22	626	7.63	915
45	12,000	5.76	691	8.35	1,001
50	12,000	6.35	762	9.15	1,097
55	12,000	7.02	842	9.84	1,180
			<u>Total Contribution</u>		<u>Total Contribution</u>
20	\$12,000	9.51%**	\$ 1,141	5.50%	\$ 660
25	12,000	9.80	1,176	5.92	710
30	12,000	10.17	1,220	6.41	770
35	12,000	10.58	1,270	6.98	838
40	12,000	11.07	1,328	7.63	915
45	12,000	11.61	1,393	8.35	1,001
50	12,000	12.20	1,464	9.15	1,097
55	12,000	12.87	1,544	9.84	1,180

The Contributions under the County Act include cost of living contributions amounting to 37.98% of the basic contributions.

*Includes flat amount of \$37.80.

**Equivalent single rate reflecting contribution percentages above and below \$350 per month.

FRESNO COUNTY

TABLE C

Contribution Rates and
Annual Contributions Payable

<u>Age</u>	<u>Annual Salary</u>	<u>Present Plan - Section 31664</u>		<u>Modified Section 31664</u>	
		<u>Annual Contribution</u>		<u>Annual Contribution</u>	
		<u>Rate</u>	<u>Social Security</u>	<u>Rate</u>	<u>Social Security</u>
21	\$ 12,000	5.85%	\$ 702	0	\$ 0
25	12,000	5.85	702	0	0
30	12,000	5.85	702	0	0
35	12,000	5.85	702	0	0

<u>Age</u>	<u>Annual Salary</u>	<u>Section 31664</u>		<u>Section 31664 Modified</u>	
		<u>Annual Contribution</u>		<u>Annual Contribution</u>	
		<u>Rate</u>	<u>Social Security</u>	<u>Rate</u>	<u>Social Security</u>
21	\$ 12,000	4.77%**	\$ 572	6.25%	\$ 750
25	12,000	5.14	617	6.72	806
30	12,000	5.67	680	7.38	886
35	12,000	6.27	752	8.11	973

<u>Age</u>	<u>Annual Salary</u>	<u>Total Annual Outlay</u>			
		<u>Section 31664</u>		<u>Section 31664 Modified</u>	
		<u>Rate</u>	<u>Social Security</u>	<u>Rate</u>	<u>Social Security</u>
21	\$ 12,000	10.62%**	\$1,274	6.25%	\$ 750
25	12,000	10.99	1,319	6.72	806
30	12,000	11.52	1,382	7.38	886
35	12,000	12.12	1,454	8.11	973

The contribution under the County Act includes Cost of Living contributions amounting to 37.98% of the basic contributions.

*Includes flat amount of \$37.80 per annum.

**Equivalent single rate reflecting contribution percentages above and below \$350 per month.

SECTION IV

COMMENTS ON COST OF THE PROPOSED SYSTEM

This study on the possible withdrawal of the Fresno County Employees from the Social Security System was based upon the same actuarial assumptions used in the last valuation with one exception. Due to the fact that the requirements for the new supplemental disability allowance are stricter than the requirements for disability retirement under the Present System, we have applied a factor of 1/4 to the current probabilities of disability retirement in order to value this new benefit for all members.

Based upon the assumptions discussed in the preceding paragraph, the adoption of the Proposed System would increase the County contribution rates for basic benefits to 14.64% of salary for Miscellaneous Members, and 26.74% of Salary for Safety Members, as compared to the present levels of 10.95% and 22.37% for Miscellaneous Members and Safety Members, respectively. Because the benefit levels for Miscellaneous Members under Section 31676.15, and the benefit levels for Safety Members under modified Section 31664 are moderately higher than the present level and because the integration of the benefits at the \$350 per month salary level has been removed, this results in increasing the recommended County basic contribution rates approximately 34% and 20% over the present Miscellaneous and Safety rate respectively. It should be pointed out that, if Social Security coverage is terminated, this will eliminate the need for future contributions to Social Security by the members and by the County. This then becomes a source of funds to offset the costs of the proposed benefit changes to your present Retirement System.

Social Security coverage now requires contributions by the members and the County of 5.85% of covered salary (annual salary limited to \$15,300). Of this 5.85%, 4.95% is designated as payment for "Social Security" and 0.90% is

designated as payment for "Hospital Insurance." Because the replacement of comparable medical coverage is to be obtained outside of the Retirement System, the net savings from termination of Social Security coverage available to pay for retirement benefits amount to 4.95% of covered salary for both the members and the County. Although this figure would be equivalent to a somewhat lower percentage of total salary, the savings will remain large enough so that member contribution rates under the Proposed System should be lower than the total new member contribution rates under the Present System as illustrated on Tables A, B, and C, pages 14 through 16. A comparison of total contribution rates for Miscellaneous Members and Safety Members under the Present and Proposed Systems is presented as percentages of total salary in the following page.

		Present System (Updated) <u>Section 31676.12</u>	Proposed System <u>Section 31676.15</u>
<u>Miscellaneous Members</u>			
1.	Employees Contributions under:		
a.	37 County Act	3.02%	4.33%
b.	37 County Act (Art. 15.6)	-0-	.35*
c.	37 County Act COL	1.15	1.64
d.	Social Security	5.33**	-0-
e.	Total	9.50%	6.32%
2.	Employer Contributions under:		
a.	37 County Act Basic	10.95%	14.64%
b.	37 County Act (Art. 15.6)	-0-	.35*
c.	37 County Act COL	1.15	1.64
d.	Social Security	5.33**	-0-
e.	Total	17.43%	16.63%
3.	Total Contributions		
	1-e) + 2-e)	26.93%	22.95%
<u>Safety Members</u>		<u>Present System</u> <u>Section 31664</u>	<u>Proposed System</u> <u>Modified Section 31664</u>

1.	Employees Contributions under:		
a.	37 County Act	4.00%	4.87%
b.	37 County Act (Art. 15.6)	-0-	.26*
c.	37 County Act COL	1.52	1.85
d.	Social Security	5.33**	-0-
e.	Total	10.85%	6.98%
2.	Employer Contributions under:		
a.	37 County Act Basic	22.37%	26.74%
b.	37 County Act (Art. 15.6)	-0-	.26*
c.	37 County Act COL	1.52	1.85
d.	Social Security	5.33**	-0-
e.	Total	29.22%	28.85%
3.	Total Contributions		
	1-e) + 2-e)	40.07%	35.83%

*For the purpose of comparison, the flat amount of \$3.15 per month payable by the employees and the employer for supplemental death benefits has been expressed as a percentage of salary. The actual contribution made would be based upon the flat amount.

**The Social Security Contributions for the year 1975 were converted as a percentage of Total Salary rate as of January 1, 1976.

We have assumed that if Fresno County withdraws its employees from Social Security coverage, the present integration of benefits and contributions at the \$4200 level will be removed.

The Cost of Living contributions are based upon a maximum increase of 3% per annum.

The employer contribution as shown above has increased as a percentage of salary. The main reasons are as follows:

1. Although some of the cost of the increased benefit would be paid for by the increased contribution rates of the members, all benefits to date, as well as all future benefits, would be at a higher level and the employee would only be paying a higher contribution on behalf of higher credit for future service. The additional cost attributed to accrued service, including the removal of the integrating benefits at the \$350 per month salary level on this portion of the service, is borne by the County.
2. The County pays the cost of the supplemental disability benefits. Please note that the cost-of-living contribution rates payable under the proposed systems represents the level expected to be attained because of the increased benefits. However, under the method presently used to determine the cost-of-living contributions, the present rate of 1.15% for Miscellaneous member and 1.52% for Safety member should increase to the expected rate in a gradual manner.

Benefit levels under the Social Security System are constantly being reviewed and updated. Therefore, any Retirement System provisions designed to provide fixed benefits equal to those available under the Social Security System should be subjected to periodic review. An example of this is the table of benefits payable under Article 15.6 and quoted on Page 3 of this report. Article 15.6 was based on the maximum average monthly earnings (AME) for survivor benefits for death occurring in 1974, of a \$950.00 AME. As of January 1, 1976, the corresponding maximum AME has risen to \$1,125.00 with the result that the benefits payable under the Social Security for death while active have risen by approximately 30%. If a new Section is added to the County Law to

accommodate this change, member fixed dollar contributions will rise from \$3.15 per month to \$4.10 per month, with a corresponding increase in the matching County contributions.

In conclusion, we feel that if the County of Fresno adopts the Proposed Systems, the Systems would continue to be maintained on a sound actuarial basis with the adoption by the County of the recommendations made in this Section. It should be noted, however, that in discussing the various issues involved in the new Proposed Systems, it is not our intention to make any recommendation in favor of, or opposed to, the idea of the County terminating Social Security coverage. We feel that this decision should be made by the employees of Fresno County after careful consideration of all aspects of the matter.