

ACTUARIAL REPORT
POSSIBLE AMENDMENTS
TO THE
FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

Made to the Board of Retirement

as of June 30, 1967

COATES, HERFURTH & ENGLAND

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October 31, 1967

Board of Retirement
County Employees' Retirement Association
Fresno County
Court House
Fresno, California

Gentlemen:

We are pleased to transmit herewith our report, setting forth the results of the actuarial survey we have made, in order to determine the cost to the County and to the members if certain amendments to the Fresno County Employees' Retirement System are adopted as of June 30, 1967. A detailed description of each of these proposed amendments will be given in the main body of the report.

This study has been based upon financial statements, which we have used without audit, and employee data furnished by the Retirement Office. It has been made in conjunction with the regular investigation and valuation of the Retirement System as of June 30, 1967. All cost calculations have been based upon the current interest assumption of 4% per annum and all other actuarial assumptions found to be appropriate for the valuation.

After you have had an opportunity to study this report, if you have any questions, we would be pleased to hear from you.

Very truly yours,

COATES, HERFURTH & ENGLAND
Consulting Actuaries

By Robert D. Drisko
Robert D. Drisko

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Enclosures

ACTUARIAL REPORT
POSSIBLE AMENDMENTS TO THE
FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

We have been authorized by you to conduct an actuarial survey as of June 30, 1967, to determine the effect on the County contribution rate and the contribution rates of the members of the Fresno County Employees' Retirement System if the County were to adopt the provisions of Section 31676.1 of the County Law. The results of our calculations are summarized in this report.

ADOPTION OF PROVISIONS OF SECTION 31676.1

Our calculations have involved making the following changes for various groups:

<u>Group</u>	<u>From</u>	<u>To</u>
(a) Money-Purchase without OASDI	Sections 31673-31676	Section 31676.1
(b) Modified Formula with Social Security	Section 31809	31808
(c) Safety Members	Sections 31673-31676 or Section 31809	Article 7.5 (as amended by AB 938)

As stated above, it has been assumed that Miscellaneous money-purchase members would be brought under the non-integrated fixed formula (31676.1), and those Miscellaneous members covered under Social Security would be

brought under the modified fixed formula (31808). All Safety members would be brought under the Safety member provisions that provide full formula benefits. SB 1224 that was passed by the recent session of the State Legislature provides for a modified Safety member formula for Safety member employees who have Social Security. However, there is some question as to the appropriateness of the language of SB 1224 and we were instructed not to reflect the provisions of SB 1224 in our calculations.

The proposed plans for study are listed in some detail below:

(a) Section 31676.1

The present money purchase group of Miscellaneous members will receive a benefit of 115% of 1/60 of final average salary at age 60 for each year of credited service (both service to date and service in the future). If the unmodified allowance is elected, an automatic continuance of 60% of the allowance is provided to the spouse when the member dies after retirement. The benefit for persons retiring at ages other than age 60 will be determined by applying the retirement factors shown in this section of the Law. The member's contribution rates will remain unchanged.

(b) Section 31808

The present "modified formula with Social Security" group of Miscellaneous members will receive the same benefit as in Item (a), but only for each year of credited service prior to January 1, 1956. For each year of

credited service after that time, a benefit of 115% of 1/90 of final compensation on the first \$350 of monthly salary and 115% of 1/60 of final compensation in excess of \$350 per month is provided. An automatic continuance of 60% of the unmodified allowance would also be given under this Section of the Law. The members' contribution rates will remain unchanged.

(c) Article 7.5 (As amended in 1967 by AB 938)

All members eligible to be classified as "Safety Members" will receive a benefit of 1/50-(or 2%) of final average salary at age 50 for each year of credited service (both service to date and service in the future). If the unmodified allowance is elected, an automatic continuance of 60% of the allowance is provided to the spouse when the member dies after retirement. The benefit for persons retiring at ages other than 50 will be determined by applying the factors shown in this Article of the Law. The members' contribution rates will be increased in order to provide 1% of final salary, per year of service, at age 50. We have determined the Safety member rates of contribution required, and have included the schedule at the end of this report.

In making the complete study of the Retirement System, we first made the regular investigation and valuation of the System on its present basis. Any additional costs to the County may be compared to the costs under the System as it now exists. Copies of our actuarial report, showing the results of the regular investigation and valuation, have been sent to the Retirement Board.

It should be pointed out that in making these calculations for Miscellaneous members, we have used the same actuarial assumptions developed in the basic valuation. It certainly is possible that because of the adoption of the guaranteed formula with a higher benefit level, the ages at which members choose to retire could change. If the pattern of retirement that develops is one of retiring at earlier ages, this would increase the costs to the County beyond those determined in this study. If instead, retirement is delayed, the costs to the County would be reduced. Because we do not know what will happen as to this retirement pattern, we have used the rates developed in connection with the current valuation. For purposes of calculations involving "Safety members" we have used probabilities of withdrawal, death, disability retirement and service retirement (adjusted to reflect AB 938) from other counties which now have the Safety member provisions. We believe the use of all of these rates are appropriate until the next valuation date, when once again an investigation will be made into the experience under your System.

We have shown on the following pages the results of the actuarial study and have indicated briefly the major reasons for increases in County costs, if the various amendments are adopted. We have also pointed out certain possible alternative funding methods which we believe are available to the County for providing these benefits. On page 8 of this report we have summarized the effect on the County rate if the present benefit provisions are

changed in various ways. In making our calculations, we have also determined separately the cost to the County if only the Safety member provisions are adopted, with no change being made in the provisions affecting the Miscellaneous members. This would result if Article 8.7 (Extension of Safety Member Provisions) of the County Law were adopted.

A. Reasons for Increases in County Costs if Amendments are Adopted

1. Miscellaneous Money Purchase Members Change to Section 31676.1:

If this group receives benefits under Section 31676.1, additional costs fall on the County because the benefit is increased approximately 15% at retirement ages near 60, and all service (rather than only service prior to the start of the Retirement System) will be on a final salary fixed formula (or guaranteed) basis. The automatic continuance of 60% of the unmodified allowance would be available. There would be no offset from an increase in employee contributions because these rates would remain unchanged.

2. Miscellaneous Modified Formula Members Change to Section 31808:

If this group receives benefits under Section 31808, the benefits for all service would be increased by approximately 15%. The automatic 60% continuance would also apply. There would be no increase in employee contributions as an offset to the County costs.

3. "Safety Members" Change to Safety Provisions (either Article 7.5 or Article 8.7):

If this change is made, the service retirement benefits would be increased

EFFECT ON COUNTY RATE IF BENEFIT PROVISION IS CHANGED

<u>Benefit Provision</u>	<u>County Rate</u>	<u>Change in County Rate</u>
1. <u>Present System:</u>		
Recommended rate (7-1-67 valuation)	5.43% - 8.14% *	
2. <u>Adoption of Safety Member Provisions Only (Article 8.7):</u>		
a. Regular funding	8.43% - 12.64%	(+) 55%
b. Funding basis 31454.5	7.43% - 11.14%	(+) 37%
3. <u>Adoption of Section 31676.1 (affecting Miscellaneous members and Safety members)</u>		
a. Regular funding	11.39% - 17.08%	(+) 110%
b. Funding 31454.5	9.77% - 14.65%	(+) 80%

*These rates are to be read as follows: 5.43% of the first \$350 of monthly salary plus 8.14% of salary in excess of \$350.

COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

COUNTY OF FRESNO

Members' Rates of Contribution

SAFETY (PROPOSED)

<u>Age</u>	<u>Contribution</u>
21	9.63%
22	9.77
23	9.92
24	10.07
25	10.22
26	10.38
27	10.54
28	10.70
29	10.86
30	11.03
31	11.20
32	11.37
33	11.55
34	11.73
35 and over	11.92