

SUPPLEMENTAL ACTUARIAL REPORT
on
MODIFICATION OF RETIREMENT SYSTEM
under
ARTICLE 13, COUNTY LAW OF 1937

EMPLOYEES' RETIREMENT ASSOCIATION
of the
COUNTY OF FRESNO

Made to The Retirement Board
as of June 30, 1957

COATES, HERFURTH & ENGLAND
CONSULTING ACTUARIES

SUPPLEMENTAL ACTUARIAL REPORT
on
MODIFICATION OF RETIREMENT SYSTEM
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ARTICLE 13, COUNTY LAW OF 1937

EMPLOYEES' RETIREMENT ASSOCIATION
of the
COUNTY OF FRESNO

OFFICES IN
SAN FRANCISCO
DENVER
LOS ANGELES

COATES, HERFURTH & ENGLAND
CONSULTING ACTUARIES
CROCKER BUILDING
SAN FRANCISCO 4

TELEPHONE
SUTTER 1-1724

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

Gentlemen:

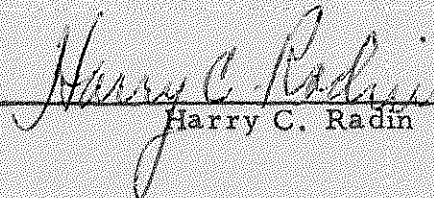
We are pleased to transmit herewith our Supplemental Actuarial Report setting forth the results of our cost calculations applicable to the modification of your Retirement System under the provisions of Article 13 of the 1937 County Law in order to coordinate the System with Federal Social Security benefits.

This report should be read in conjunction with our actuarial report on the investigation and valuation of your Retirement System as of June 30, 1957, which sets forth costs of your Retirement System in its present form.

Respectfully submitted,

COATES, HERFURTH & ENGLAND
Consulting Actuaries

By


Harry C. Radin

HCR:rhv

Enclosure

SUPPLEMENTAL ACTUARIAL REPORT
on
MODIFICATION OF RETIREMENT SYSTEM
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EMPLOYEES' RETIREMENT ASSOCIATION
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COUNTY OF FRESNO

SECTION I

INTRODUCTION

We were instructed to develop, in connection with the regular valuation of the Employees' Retirement System of the County of Fresno as of June 30, 1957, the cost to the County and to members in the event that the present Retirement System were to be integrated with the Federal Old Age and Survivors Disability Insurance program in accordance with the provisions of Assembly Bill No. 1238, now Article 13 of the County Law.

Our report of the valuation of your Retirement System in its present form as of June 30, 1957 has been completed and filed with the Retirement Board. Wherever in this report we refer to the cost of the present System to the County and to members, we shall refer to the costs that appear in that report.

SECTION II

DETAILS OF COORDINATION WITH O. A. S. D. I.

Since the details of modifying your Retirement System to coordinate the benefits with O. A. S. D. I. are set forth under Article 13, Chapter 3, Part 3, Division 4, Title 3 of the Government Code we are not summarizing the details in this report, but are incorporating them by reference.

We would, however, like to call attention to one specific point in Article 13 which may require interpretation by your County Counsel before County costs can be finally determined. We have in mind Section 31805 of the law which reads as follows:

"31805. No benefits shall be paid pursuant to this article to a member retired for service which when added to the primary insurance amount payable to the member under the federal system will exceed 75% of the final compensation of the member."

We believe that the following interpretations of Section 31805 are possible:

Interpretation I

Your County Counsel may rule that if modification under Article 13 is not to result in an impairment of benefits, any reduction in benefits to comply with the

75% maximum set forth in Section 31805 must be made only in benefits accruing under your System after the date of integration.

Interpretation II

Your County Counsel may rule that the reduction required to comply with the 75% maximum set forth in Section 31805 may be made in benefits accruing both before and after the date of modification of your System under Article 13 without resulting in an impairment of benefits because of the additional benefits which members will receive under Social Security.

It is apparent that County costs will be higher under Interpretation I than under Interpretation II for the reason that, under Interpretation I, benefits accrued to date will, in effect, be frozen. Under Interpretation II, on the other hand, benefits accrued to date will be subject to reduction in the case of many members by the application of the 75% maximum. In order that your Board of Retirement may have complete information on the subject of costs after modification under Article 13, we have developed such costs on the basis of both of the interpretations of Section 31805 outlined above. The results of our cost calculations are summarized in the following section of this report.

SECTION III
COSTS OF RETIREMENT SYSTEM AFTER
MODIFICATION UNDER ARTICLE 13

The Retirement System costs which will be effective after the modification were developed on the basis of the data furnished with respect to the System for use in the investigation and valuation of the System as of June 30, 1957. The nature of such data is summarized in detail in Section II of our report on that investigation and valuation. Furthermore, these Retirement System costs were developed on the basis of the actuarial assumptions used in the regular valuation of the System as of June 30, 1957. These assumptions are described in detail in our report on that investigation and valuation.

Costs under your Retirement System after modification under Article 13 of the County Law are as follows:

1. Members' Contributions

Section 31812 provides that each member of the System subject to the Federal Social Security System will contribute the amount provided for in Article 6 of the law less an amount equal to one-third of that portion of such contribution which is payable with respect to the first \$350 of monthly wages. Since certain members who would be classified as Firemen or Policemen are not subject to the Federal System, there will be no change in the amounts of their contributions. In the case of members who would be covered, we set forth in the

attached schedule the contribution rates which will apply after such modification.

You will observe that the contribution rates shown in the columns applicable to compensation in excess of \$350 are the same as the revised contribution rates applicable to the present System and set forth in our report on the investigation and valuation as of June 30, 1957. The contribution rates applicable to the first \$350 of compensation are, pursuant to Section 31812, two-thirds of the contribution rate applicable to the monthly earnings in excess of \$350. Furthermore, it will be noted that the rates of member contributions under the modified system will not be dependent upon the interpretation of Section 31805 referred to earlier in this report.

II. County Contributions

Your County's contributions to its Retirement System in its present form are expressed in terms of a percentage of the compensation of all members covered by the System without a distinction being made as to whether a member is a regular member or could be classified as a Policemen or Fireman. We believe that for practical reasons this same procedure should be followed after modification and certain Policemen and Firemen would be excluded by Federal law and, therefore, remain under the System in its present form. The result is, therefore, that any decrease in the required County contribution rate under the modified System would apply to the compensation of all members, even though it is recognized that certain categories are not subject to the Federal System. Accordingly,

the costs to the County System after modification as summarized in the following schedule, have been developed on this basis.

County Contribution Rates to County Retirement System

	<u>County Contribution Rate under Present System</u>	<u>County Contribution Rate under Modified System</u>	<u>Reduction in County Contribution Rate</u>
Interpretation I	6.21%	4.01%	2.20%
Interpretation II	<u>6.21%</u> ↗	<u>3.86%</u> ↗	2.35%

County contributions, after modification, would be credited to the various accounts as indicated by the following breakdown of the total rate:

	<u>Integration under Interpretation I</u>	<u>Integration under Interpretation II</u>
<u>County Advance Reserve for:</u>		
Current Service Benefits	1.55%	1.40%
Death Benefits	.21	.21
Prior Service Benefits	<u>2.25%</u>	<u>2.25%</u>
Total	4.01%	3.86%

It should be pointed out that the rate for prior service benefits under the present system is 2.01%, but as indicated above the rate for prior service under the modified system is 2.25%. This increase occurs because of the inclusion in Section 31809 of factors which grant increased prior

service benefits for retirement over age 60.

It should be carefully noted that the above County costs have been developed on the basis of the same retirement assumptions as used in the periodic valuation of your present system. These assumptions reflect the fact that many members delay retirement beyond age 65. If this tendency is markedly reduced under the modified system, the reductions in County rates herein indicated may not be realized.

In conclusion, we would like to point out that the reductions in County costs shown above relate only to County contributions to its own Retirement System. In addition, the County would be required to contribute to the Social Security System the current tax of 2.25% of the first \$4,200 of annual compensation of those covered under the Federal System with the contribution tax probably increasing in later years as prescribed by law.

EMPLOYEES' RETIREMENT ASSOCIATION
of the
COUNTY OF FRESNO

Entry Age	<u>MALE MEMBERS</u>		<u>FEMALE MEMBERS</u>	
	<u>Contribution Rate Applicable to:</u>		<u>Contribution Rate Applicable to:</u>	
	<u>First \$350 of Monthly Compensation</u>	<u>Excess of Monthly Compensation over \$350</u>	<u>First \$350 of Monthly Compensation</u>	<u>Excess of Monthly Compensation over \$350.</u>
16	3.93%	5.89%	4.33%	6.50%
17	3.96	5.94	4.38	6.57
18	3.99	5.99	4.43	6.64
19	4.03	6.04	4.47	6.71
20	4.06	6.09	4.52	6.78
21	4.09	6.14	4.57	6.85
22	4.13	6.20	4.62	6.93
23	4.17	6.26	4.67	7.01
24	4.21	6.32	4.73	7.09
25	4.25	6.38	4.78	7.17
26	4.30	6.45	4.84	7.26
27	4.35	6.52	4.90	7.35
28	4.39	6.59	4.96	7.44
29	4.44	6.66	5.03	7.54
30	4.49	6.74	5.09	7.64
31	4.55	6.82	5.16	7.74
32	4.60	6.90	5.23	7.85
33	4.65	6.98	5.31	7.96
34	4.71	7.07	5.38	8.07
35	4.77	7.16	5.46	8.19
36	4.83	7.25	5.54	8.31
37	4.89	7.34	5.62	8.43
38	4.96	7.44	5.70	8.55
39	5.03	7.54	5.79	8.68
40	5.09	7.64	5.87	8.81
41	5.16	7.74	5.96	8.94
42	5.23	7.85	6.05	9.08
43	5.31	7.96	6.15	9.22
44	5.38	8.07	6.25	9.37

EMPLOYEES' RETIREMENT ASSOCIATION
of the
COUNTY OF FRESNO
(Continued)

Entry Age	<u>MALE MEMBERS</u>		<u>FEMALE MEMBERS</u>	
	<u>Contribution Rate Applicable to:</u>		<u>Contribution Rate Applicable to:</u>	
	<u>First \$350 of Monthly Compensation</u>	<u>Excess of Monthly Compensation over \$350</u>	<u>First \$350 of Monthly Compensation</u>	<u>Excess of Monthly Compensation over \$350</u>
45	5.46%	8.19%	6.35%	9.52%
46	5.54	8.31	6.45	9.67
47	5.62	8.43	6.55	9.82
48	5.70	8.55	6.65	9.97
49	5.79	8.68	6.75	10.13
50	5.87	8.81	6.86	10.29
51	5.96	8.94	6.97	10.45
52	6.05	9.07	7.07	10.61
53	6.14	9.21	7.18	10.77
54	6.23	9.35	7.29	10.94
55	6.33	9.49	7.41	11.11
56	6.42	9.63	7.52	11.28
57	6.52	9.78	7.63	11.45
58	6.62	9.93	7.75	11.62
59	6.72	10.08	7.87	11.80