SCERS
SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

ITEM 19

For Agenda of:
August 17, 2016

August 15, 2016

TO: President and Members
Board of Retirement

FROM: Richard Stensrud
Chief Executive Officer

SUBJECT: Allocation of Normal Cost and Application of COLA Offset Credit for Members Who Reach the 30 Years of Service Contribution Cutoff

Recommendation:

That your Board approve allocation to the employer of non-covered Normal Cost for Members in the legacy tiers who reach the 30 years of service contribution cutoff (Option 2 presented by Segal Consulting) and that your Board approve the continued application of the COLA offset credit to the Normal Cost for such members.

Background:

This Agenda Item involves two decisions that will impact the annual actuarial valuation performed by Segal Consulting. Both decisions involve a small subset of SCERS members – i.e., members in the pre-PEPRA 'legacy tiers' who reach 30 years of service credit, and pursuant to the 1937 Act, are no longer required to make employee contributions for future service. And both decisions involve consideration of the provisions in PEPRA that permit shifting members in legacy tiers to paying 50% of the 'Normal Cost' of the benefits.

'Legacy' members in SCERS are in Miscellaneous Tiers 1, 2, 3 and 4 and Safety Tiers 1, 2 and 3. The 1937 Act provides that when a Safety member reaches 30 years of service, he/she is no longer required to make contributions for future service. The 1937 Act provides for similar treatment for Miscellaneous members who reach 30 years of service, but with the additional requirement that the member must have been hired on or before March 7, 1973. The practical effect of this latter requirement is that going forward most members who qualify for the 30 year cutoff of contributions will be Safety members. As of the June 30, 2015 actuarial valuation there were five (5) Safety members and seven (7) Miscellaneous members in this category. It is expected that there will be some growth in these numbers over time. The two statutory contribution cutoff sections do not apply to members in the PEPRA tiers (Miscellaneous Tier 5 and Safety Tier 4).

'Normal Cost' is the amount which, when applied to the projected future compensation of the member, along with projected future investment earnings, will be sufficient to provide for the payment of the prospective benefits for the member. The Normal Cost is shared by the employer and employee, with the specific cost-sharing allocation established either by statute or pursuant to collective bargaining or other labor agreements. Under PEPRA, employers may, but are not required to, shift members in legacy tiers from a lower Normal Cost allocation to paying 50% of Normal Cost. In Sacramento County, most, if not all, members in the legacy tiers are at or on a schedule to reach payment of 50% of Normal Cost. Members in the PEPRA tiers are required to pay 50% of Normal Cost.

The funding for Normal Cost is obtained via a contribution rate that is expressed as a level percentage of the member's pension-eligible compensation.

If the member portion of the Normal Cost is no longer being paid by a member who qualifies for the 30 year cutoff of contributions, the funding for future benefit accruals must be obtained from some other source. Prior to PEPRA, the funding was provided by the employer by making an upward adjustment in the employer contribution rate applicable to each member in this category sufficient to cover what was no longer being paid by the member. This resulted in the cost being paid as the benefits accrued just as it would have been if the member had been paying his/her contributions.

The provisions in PEPRA that permit shifting members in legacy tiers to paying 50% of Normal Cost have raised the question of whether the pre-PEPRA approach for securing the funding to cover the contributions no longer being paid by the member can or should be maintained, or whether some other allocation of the unpaid Normal Cost should be utilized.

This represents the first decision that will need to be made by your Board.

The second decision involves how to apply the member cost-of-living adjustment (COLA) contribution rate offset given these considerations.

Normal Cost is comprised of two components, the cost to fund the base benefit and the cost to fund the COLA that most benefits will receive when paid to a member during retirement. The cost of the COLA component has always been evenly divided between the employer and the member (i.e., 50% paid by each). A number of years ago, your

Board established a reserve to offset a portion of the members' future COLA contribution rate. Each year, as part of the valuation, the actuary takes the balance in the reserve and determines the amount of COLA contribution offset that will be applied to the next year's member COLA rates based on the projected future service that will accrue for all the legacy members in the valuation. In other words, the actuary determines what the COLA contribution offset will be in the upcoming year with the goal of assuring that there will be future COLA contribution offsets for all legacy members for the remainder of their active careers. The COLA contribution offset is not provided to PEPRA tier members due to the mandate in PEPRA that members pay 50% of Normal Cost.

The application of the COLA contribution offset works basically as follows: The actuary determines the total Normal Cost contribution rate for the next year, which includes the base benefit rate and the COLA rate. The base benefit rate is then divided based on the allocation model in place. The COLA rate is then divided in half. The employer Normal Cost contribution rate is the employer's share of the base benefit rate plus one half of the COLA rate. The member's Normal Cost contribution rate is the member's share of the base benefit rate plus one half of the COLA rate minus the COLA contribution offset. The COLA contribution offset is contributed by SCERS, resulting in full funding of the total Normal Cost.

Prior to PEPRA, for members who were no longer contributing due to the 30 year contribution cutoff, the COLA contribution offset provided on behalf of that member continued to be applied to the calculation of the Normal Cost paid by the employer. That is, as explained above, the employer's contribution rate was increased to cover the contributions no longer being paid by the member, however, the COLA offset component continued to be applied to the total Normal Cost, thereby reducing the overall Normal Cost paid by the employer. The rationale for this was likely grounded in the fact that the COLA offset was not a contribution by the member subject to the contribution cutoff, but rather a contribution made by SCERS toward member cost. Future COLA accruals benefit the member, and must be funded, thus it was appropriate to continue to apply the COLA offset to the Normal Cost funding stream for the benefit.

Given the shift stimulated by PEPRA toward 50% sharing of Normal Cost, and the potential impact that might have on the allocation of Normal Cost related to members who qualify for the 30 year contribution cutoff, the question becomes whether the pre-PEPRA approach of applying the COLA offset to the Normal Cost calculation for those members should be maintained.

The attached correspondence from Segal Consulting outlines options and considerations related to these questions. Paul Angelo and Andy Yeung of Segal Consulting will present their analysis and answer any questions you might have.

Discussion:

Segal Consulting has identified four options for allocating the Normal Cost attributable to members who no longer have to make contributions due to the 30 years of service contribution cutoff:

(1) Allocate the cost to the unfunded actuarial accrued liability (UAAL), which is paid off by the employer over the multi-year amortization period ascribed to actuarial gains and losses. This results in lower immediate cost than the second option below, but higher ultimate cost due to the extended payment period, This was the approach taken in the June 30, 2015 valuation pending a specific decision by your Board;

(2) Specifically allocate the cost to the employer by increasing the employer Normal Cost contribution rate paid for all members in the membership group and tier of the member whose contributions are cutoff. This is a more immediate, transparent and ultimately less costly outcome compared to the first option;

(3) Allocate the cost to all the members still contributing in the membership group and tier of the member whose contributions have been cutoff. The rationale for such an approach would be that it is part of the Normal Cost and Normal Cost is (or will soon be) shared equally by employer and the member. The employer will be paying its 50% share, and the remaining 50%, including that no longer being paid by members with a contribution cutoff, should be borne by the members; and

(4) Allocate the cost equally to the employer and the members still contributing in the membership group and tier of the member whose contributions have been cutoff. The premise of this approach is the cost is part of Normal Cost, but different from option three above, in that the unpaid cost is split equally between the employer and the members, meaning that the employer will be paying somewhat more than 50% of total Normal Cost.

The cost impact on the employer and member Normal Cost of the four options is illustrated in the Exhibits section of the Segal correspondence.

As suggested in the descriptions above, a case can be made for any of the four options. That being said, as at least a starting point for discussion, I am recommending that your Board adopt option two.

The reasoning would be as follows:

The 30 years of service contribution cutoff has been a component of the 1937 Act for a number of years. It is considered to be part of the ‘plan’ adopted by the plan sponsor, and as such, it is presumed that the employer understands that certain members will reach the contribution cutoff, and when that happens, as with any time the funding falls short of that required to fully fund the benefits, the employer is responsible for covering that cost shortfall. That has been the longstanding practice with respect to the 30 years of service contribution cutoff.

Option two is the approach that is most consistent with the longstanding view and practice. It calls for the employer to cover the unpaid cost on an immediate basis via an increase in the employer Normal Cost rate rather than push the cost into the future by allocating it to the UAAL, where it will be paid over time, and be more costly as a result. This makes it better than option one as an employer-funded approach.

PEPRA did not remove the 30 years of service contribution cutoff for legacy members. Accordingly, it remains part of the 1937 Act plan. While PEPRA <u>mandates</u> certain things for PEPRA tier members, such as paying 50% of Normal Cost, it <u>permits but does not require</u> that legacy members pay 50% of Normal Cost. It does not appear, therefore, that PEPRA requires that the cost for the contribution cutoff be allocated differently than it has in the past. Rather, it appears PEPRA permits a different allocation approach for the contribution cutoff cost <u>if it is agreed upon by the employer and the members</u>.

This last point is important. To-date, the County has not negotiated a different allocation of the cost for the 30 years of service contribution cutoff with its employees. Theoretically, the County and its employees could agree to allocate the cost to the members still contributing (option three) or that it be split between the employer and the members still contributing (option four). If that should happen, your Board can re-consider the cost allocation approach that should be utilized. Until such time, however, the better course of action is to utilize the approach that is most consistent with the longstanding policy and practice (i.e., option two).

Similar considerations are relevant to the decision of how to apply the member COLA contribution rate offset with respect to members who reach the 30 years of service contribution cutoff.

As noted above, the longstanding practice has been to continue to apply the COLA contribution rate offset to the calculation of the Normal Cost paid by the employer, notwithstanding that the member's contributions have been cutoff. The reasoning is the COLA contribution offset is not a contribution made by the member, but rather, a contribution made by SCERS on behalf of the member to assist in funding the eventual benefit.

As a result, under current practice the overall Normal Cost paid by the employer is reduced. At the same time, however, because there is a set amount of funding that can be applied each year via the COLA contribution offset, if the COLA contribution offset is applied on behalf of members who no longer contribute, the COLA contribution offset rate for those members who are still contributing is lower than it would be if the non-contributing members were excluded from the allocation of the available COLA contribution offset funding. The difference in the COLA contribution offset rate is illustrated in the chart on page four of the Segal correspondence.

The question therefore becomes whether the COLA contribution rate offset should applied in a way that reduces cost that would otherwise be paid by the employer or whether the offset should be applied in a manner that provides the greatest reduction in the cost paid by members who are still contributing toward their benefits?

Assuming that your Board concurs with the rationale expressed above of maintaining a longstanding policy and past practice unless/until presented with a requirement or compelling reasons to change the policy and practice, I recommend that your Board continue to apply the COLA contribution rate offset on behalf of all legacy members, including members no longer contributing due to the 30 years of service contribution cutoff.

Continuing the current practice does not ‘take something away’ from the members still contributing. Conversely, changing the practice would ‘take something away’ from the employer. It can also be argued that maintaining the current practice is an ‘equitable offset’ to the fact that the employer and not the members will be covering the cost not being paid by members who no longer contribute (assuming your Board chooses to continue that practice under the first decision discussed above).

The cost impact on the employer Normal Cost rate of maintaining the current practice with respect to the COLA contribution rate offset is illustrated in the Exhibits section of the Segal correspondence.

Finally, as previously noted, under the current practice the members still contributing get a somewhat smaller COLA contribution rate offset than they would get if the COLA contribution rate offset was not applied with respect to non-contributing members. While that would suggest that changing the current practice would be more beneficial to members still contributing, it is not clear whether, and to what degree, that would be the case.

The reason is tied to how total Normal Cost is calculated and how it is shared by the employer and the member. If the SCERS-provided COLA contribution rate offset is removed for non-contributing members, the total Normal Cost increases not only for those members, but for <u>all</u> members. Accordingly, the Normal Cost for members still contributing will increase. While the members still contributing would have a higher COLA contribution rate offset, it is unclear whether the higher offset will be greater than, equal to or less than the proportionate increase in the member’s Normal Cost.

Given all of these considerations, it is recommended that your Board maintain the current practice of applying the COLA contribution rate offset to the Normal Cost calculation for members who no longer contribute due the 30 years of service contribution cutoff.

I hope this information is helpful. Staff and Segal will be happy to answer any questions you might have.

Respectfully,

Richard Stensrud
Chief Executive Officer

Attachment

Segal Consulting

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August 11, 2016

Mr. Richard Stensrud
Chief Executive Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

Re: Sacramento County Employees' Retirement System
Options for Allocation of Normal Cost and Adjustment of Board Provided Member Future COLA Contribution Offset for Members in Non-PEPRA Tiers

Dear Richard:

As we discussed a few months ago, we are in need of guidance from the Board regarding the approach to use going forward for certain plan provisions as the System gradually implements the 50/50 sharing of the total Normal Cost rates for members in the non-PEPRA Tiers.[1]

Background

Since the passage of California Public Employees' Pension Reform Act of 2013 (PEPRA), some members in the non-PEPRA Tiers have agreed as part of their negotiations with the County[2] to pay 50% of the total Normal Cost rate. The resulting increase in the member rate is phased-in over several years and the period and contribution rates used for the phase-in varies by bargaining agreement.

Before the passage of PEPRA, non-PEPRA members (mainly Safety) with more than 30 years of service were no longer required to make any contributions to SCERS.[3] There were fewer than 15 30-year members as of June 30, 2015 but the proportion of such members is expected to increase over time. As PEPRA does not specifically amend that particular provision, it is our understanding that individual 30-year members in the non-PEPRA Tiers would continue to be exempted from making their own member contributions. However, as PEPRA requires 50/50 sharing of the total Normal Cost rate and Normal Cost will continue to accrue even after those individual 30-year members have more than 30 years of service, the question that needs to be addressed is how Normal Cost contributions that will not be collected from the 30-year members will be allocated among the employer and/or the remaining non 30-year members.

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1 These include members in Miscellaneous Tiers 1, 2, 3 and 4 and Safety Tiers 1, 2 and 3.

2 As of the date of the June 30, 2015 valuation, to our knowledge only bargaining units representing County members have agreed to pay higher member contributions.

3 There is a similar provision for Miscellaneous but those members also have to be hired on or before March 7, 1973.

A related issue is that many years ago, the Board set aside a reserve (from then current available excess earnings) to offset a portion of the members' future COLA contribution rate. As part of our annual actuarial valuation, we have taken the remaining balance in that reserve (after accounting for the credit applied during the prior year) and calculated the credit available over the remaining future service of all the members included in that valuation.

During the implementation of the PEPRA Tiers,[4] we discussed with SCERS the applicability of the future COLA contribution offset in determining member rates for the PEPRA Tiers. As one of the primary goals under PEPRA is to achieve the payment of 50% of the total Normal Cost rate by new members (and as similarly situated PEPRA members at other 1937 Act CERL retirement systems would not have received such credit), we were directed to exclude members in the PEPRA Tiers from our future COLA contribution offset calculations.

As we implement the 50/50 sharing of the total Normal Cost rate for members in the non-PEPRA Tiers who have agreed to the phase-in, a related question that needs to be addressed is whether the credit applied during the prior year for use in determining the remaining balance in the above reserve for the next year's actuarial valuation should reflect a drawdown for the 30-year members under the 50/50 sharing of the total Normal Cost.

In the rest of this letter, we have outlined (as Option 1) the method that we used as an interim approach in the June 30, 2015 valuation to address each of these two questions. We believe that the Board may choose to continue that method going forward. In addition, we have also included three other options that the Board may consider in lieu of that method.

Explanation of Different Options Available

Option 1: *Normal Cost Contributions Not Collected from Individual 30-year Members*

Option 1 is the method we used temporarily in the June 30, 2015 valuation, which does not anticipate how much Normal Cost contributions would not be collected from individual 30-year members in the current valuation. Under this method we would not reflect the impact of these missing contributions on the Unfunded Actuarial Accrued Liability (UAAL) contribution rate until a later valuation as part of the actuarial gain/loss calculation in that future valuation.

The employer and member Normal Cost contribution rates under the current method are shown in the attached Exhibit A. While we have not shown what the future UAAL rate impact[5] would ultimately be, we note that it would be borne entirely by the employer.

The three other options (i.e., Options 2 through 4) anticipate the cost impact of the contributions not collected from individual 30-year members in the current rates. The options differ in how such anticipated cost impact is allocated immediately between the employer and the non 30-year members in the current valuation.

[4] These include members in Miscellaneous Tier 5 and Safety Tier 4.

[5] This rate impact is highly dependent on the number of individual members who have reached 30 years of service in the valuation.

The information that follows in the body of this letter describes each of the three other options and the attached exhibits show the ultimate employer and member Normal Cost contribution rates at the end of the phase-in under each of those options.

Based on the final option chosen by the Board, the contribution rates paid during the phase-in periods that we would recommend would be adjusted accordingly starting with the June 30, 2016 valuation.

Option 2: *Normal Cost Contributions Not Collected from Individual 30-year Members Are Allocated* ***to the Employers***

Under this option, the employer Normal Cost contribution rate has been adjusted upward to account for all of the cost associated with the cessation of member contributions after 30 years of service based on 30-year members as of the date of the current valuation.[6] The contributions collected from members will total less than 50% of the Normal Cost (as a dollar amount) and the amount collected from the employer will equal the remainder of the total Normal Cost (as a dollar amount). Those employer contributions will then be greater than 50% of the Normal Cost, both in dollars and as a rate. The employer and member Normal Cost contribution rates under this Option 2 are shown in the attached Exhibit B.

Note this option could be considered a more immediate and transparent version of Option 1, since under both options the cost of the contribution cessation is borne by the employer.

Option 3: *Normal Cost Contributions Not Collected from Individual 30-year Members Are Allocated* ***to non 30-year Members***

Under this option, the member contribution rate has been adjusted upward to account for all of the cost associated with the cessation of member contributions after 30 years of service based on 30-year members as of the date of the current valuation.[6] The contributions collected from members will total 50% of the Normal Cost (as a dollar amount) and be equal to the dollar amount collected from the employer. The employer and member Normal Cost contribution rates under this Option 3 are shown in the attached Exhibit C. Under this option the member rates are higher than the employer Normal Cost rates (because they are not collected from members with over 30 years of service) but the total dollars paid by members and the employer are the same.

Option 4: *Normal Cost Contributions Not Collected from Individual 30-year Members Are Allocated* ***to both Employers and non 30-year Members***

Under this option, both the employer and member Normal Cost contribution rates have been adjusted upward to each account for the cost associated with the cessation of member contributions after 30 years of service based on 30-year members as of the date of the current valuation.[6] Under this option, the Normal Cost rates are exactly the same for both the employer and the members. However, the contributions collected from members will still total less than 50% of the Normal Cost (as a dollar amount), but will be greater than under Option 1. The amount collected from the employer will equal the remainder of the Normal Cost (as a dollar

[6] As there is a one-year delay between the date of the valuation and the fiscal year that the contribution rates will become effective, there may still be some residual UAAL as a result.

amount). This means the employer will pay more than 50% of the Normal Cost in dollars, but only because the employer rate is applied to all payroll while the same member rate is not applied to payroll for members with over 30 years of service. The employer and member Normal Cost contribution rates under this Option 4 are shown in the attached Exhibit D.

Options 1 through 4: *Credit for Member Future COLA Contribution Offset*

In the June 30, 2015 valuation, the method we used to calculate the member future COLA contribution offset under the 50/50 sharing of the total Normal Cost was to assume that it was appropriate to buy down a part of the COLA Normal Cost contributions that would not be collected from individual 30-year members in the current valuation. That method will result in a somewhat smaller UAAL contribution rate impact in later valuations under Option 1; however, that method also provided a smaller contribution offset for the non 30-year members.

In preparing the results under Options 2 through 4, we have continued to apply the same method we used to determine the member future COLA contribution offset used in Option 1. If we were to not apply the credit for the 30-year members in the June 30, 2015 valuation, the member COLA contribution offset calculated in the 2015 valuation (under Option 1) would have been as shown in the second set of results below:

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3	Miscellaneous Tier 4	Safety Tier 1	Safety Tier 2	Safety Tier 3
Credit Applied to 30-year Members	1.29%	0.00%	0.32%	0.32%	1.51%	0.33%	0.33%
No Credit Applied to 30-year Members	1.39%	0.00%	0.34%	0.35%	1.97%	0.36%	0.35%

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. Please let us know if you have any questions.

Respectfully submitted,

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

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

MYM/bbf

Exhibit A

Current Methodology or Option 1

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Full Rate	**Current Methodology or Option 1**
Miscellaneous Tier 1 Members	TOTAL[1]	TOTAL
Employer	11.92%	9.03%
Member	4.75%	7.74%
Member COLA Buydown	1.39%	1.29%
Total Normal Cost	18.06%	18.06%
Miscellaneous Tier 2 Members		
Employer	10.59%	7.07%
Member	3.54%	7.07%
Member COLA Buydown	0.00%	0.00%
Total Normal Cost	14.13%	14.14%
Miscellaneous Tier 3 Members		
Employer	13.76%	9.48%
Member	4.76%	9.16%
Member COLA Buydown	0.34%	0.32%
Total Normal Cost	18.86%	18.96%
Miscellaneous Tier 4 Members		
Employer	9.75%	8.69%
Member	7.19%	8.37%
Member COLA Buydown	0.35%	0.32%
Total Normal Cost	17.29%	17.38%

Note: Member rates shown are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

[1] *These are the single entry age rates at 35.*

Exhibit A (continued)

Current Methodology or Option 1

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Full Rate	**Current Methodology or Option 1**
Safety Tier 1 Members	TOTAL[1]	TOTAL
Employer	22.27%	19.82%
Member	15.39%	18.31%
Member COLA Buydown	1.97%	1.51%
Total Normal Cost	39.63%	39.64%
Safety Tier 2 Members		
Employer	20.09%	16.43%
Member	12.37%	16.10%
Member COLA Buydown	0.36%	0.33%
Total Normal Cost	32.82%	32.86%
Safety Tier 3 Members		
Employer	18.45%	15.46%
Member	12.06%	15.13%
Member COLA Buydown	0.35%	0.33%
Total Normal Cost	30.86%	30.92%

Note: Member rates shown are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

[1] *These are the single entry age rates at 29.*

Exhibit B

Option 2 – Cost of Cessation of Member Contributions after 30 Years of Service is Paid by the Employers

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Option 2	**Current Methodology or Option 1**
Miscellaneous Tier 1 Members	TOTAL	TOTAL
Employer[1]	9.39%	9.03%
Member	7.74%	7.74%
Member COLA Buydown	1.29%	1.29%
Total Normal Cost	18.42%	18.06%
Miscellaneous Tier 2 Members		
Employer	7.07%	7.07%
Member	7.07%	7.07%
Member COLA Buydown	0.00%	0.00%
Total Normal Cost	14.14%	14.14%
Miscellaneous Tier 3 Members		
Employer	9.48%	9.48%
Member	9.16%	9.16%
Member COLA Buydown	0.32%	0.32%
Total Normal Cost	18.96%	18.96%
Miscellaneous Tier 4 Members		
Employer	8.69%	8.69%
Member	8.37%	8.37%
Member COLA Buydown	0.32%	0.32%
Total Normal Cost	17.38%	17.38%

Note: Member rates shown under Option 2 are combined rates for annual salary in excess of $4,200 (or monthly salary of $350) and annual salary less than $4,200 (or monthly salary of $350).

Member rates shown under the current methodology or Option 1 are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

[1] *The total employer rate under Option 2 has been adjusted by 0.36% of payroll (an estimated annual amount of $29,000) to account for the cost associated with the cessation of member contributions after 30 years of service.*

Exhibit B (continued)

Option 2 – Cost of Cessation of Member Contributions after 30 Years of Service is Paid by the Employers

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Option 2	**Current Methodology or Option 1**
Safety Tier 1 Members	TOTAL	TOTAL
Employer[1]	20.47%	19.82%
Member	18.31%	18.31%
Member COLA Buydown	1.51%	1.51%
Total Normal Cost	40.29%	39.64%
Safety Tier 2 Members		
Employer[2]	16.45%	16.43%
Member	16.10%	16.10%
Member COLA Buydown	0.33%	0.33%
Total Normal Cost	32.88%	32.86%
Safety Tier 3 Members		
Employer	15.46%	15.46%
Member	15.13%	15.13%
Member COLA Buydown	0.33%	0.33%
Total Normal Cost	30.92%	30.92%

Note: Member rates shown under Option 2 are combined rates for annual salary in excess of $4,200 (or monthly salary of $350) and annual salary less than $4,200 (or monthly salary of $350).

Member rates shown under the current methodology or Option 1 are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

(1) The total employer rate under Option 2 has been adjusted by 0.65% of payroll (an estimated annual amount of $210,000) to account for the cost associated with the cessation of member contributions after 30 years of service.

(2) The total employer rate under Option 2 has been adjusted by 0.02% of payroll (an estimated annual amount of $29,000) to account for the cost associated with the cessation of member contributions after 30 years of service.

Exhibit C

Option 3 – Cost of Cessation of Member Contributions after 30 Years of Service is Paid by the Members

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Option 3	**Current Methodology or Option 1**
Miscellaneous Tier 1 Members	TOTAL	TOTAL
Employer	9.03%	9.03%
Member[1]	8.12%	7.74%
Member COLA Buydown	1.29%	1.29%
Total Normal Cost	18.44%	18.06%
Miscellaneous Tier 2 Members		
Employer	7.07%	7.07%
Member	7.07%	7.07%
Member COLA Buydown	0.00%	0.00%
Total Normal Cost	14.14%	14.14%
Miscellaneous Tier 3 Members		
Employer	9.48%	9.48%
Member	9.16%	9.16%
Member COLA Buydown	0.32%	0.32%
Total Normal Cost	18.96%	18.96%
Miscellaneous Tier 4 Members		
Employer	8.69%	8.69%
Member	8.37%	8.37%
Member COLA Buydown	0.32%	0.32%
Total Normal Cost	17.38%	17.38%

Note: Member rates shown under Option 3 are combined rates for annual salary in excess of $4,200 (or monthly salary of $350) and annual salary less than $4,200 (or monthly salary of $350).

Member rates shown under the current methodology or Option 1 are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

[1] *The total member rate under Option 3 has been adjusted by 0.38% of payroll for members with less than 30 years of service (an estimated annual amount of $29,000) to account for the cost associated with the cessation of member contributions after 30 years of service.*

Exhibit C (continued)

Option 3 – Cost of Cessation of Member Contributions after 30 Years of Service is Paid by the Members

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Option 3	**Current Methodology or Option 1**
Safety Tier 1 Members	TOTAL	TOTAL
Employer	19.82%	19.82%
Member[1]	18.98%	18.31%
Member COLA Buydown	1.51%	1.51%
Total Normal Cost	40.31%	39.64%
Safety Tier 2 Members		
Employer	16.43%	16.43%
Member[2]	16.12%	16.10%
Member COLA Buydown	0.33%	0.33%
Total Normal Cost	32.88%	32.86%
Safety Tier 3 Members		
Employer	15.46%	15.46%
Member	15.13%	15.13%
Member COLA Buydown	0.33%	0.33%
Total Normal Cost	30.92%	30.92%

Note: Member rates shown under Option 3 are combined rates for annual salary in excess of $4,200 (or monthly salary of $350) and annual salary less than $4,200 (or monthly salary of $350).

Member rates shown under the current methodology or Option 1 are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

[1] *The total member rate under Option 3 has been adjusted by 0.67% of payroll for members with less than 30 years of service (an estimated annual amount of $209,000) to account for the cost associated with the cessation of member contributions after 30 years of service.*

[2] *The total member rate under Option 3 has been adjusted by 0.02% of payroll for members with less than 30 years of service (an estimated annual amount of $30,000) to account for the cost associated with the cessation of member contributions after 30 years of service.*

Exhibit D

Option 4 – Cost of Cessation of Member Contributions after 30 Years of Service is Split between the Employers and Members

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Option 4	**Current Methodology or Option 1**
Miscellaneous Tier 1 Members	TOTAL	TOTAL
Employer[(1)]	9.22%	9.03%
Member[(2)]	7.93%	7.74%
Member COLA Buydown	1.29%	1.29%
Total Normal Cost	18.44%	18.06%
Miscellaneous Tier 2 Members		
Employer	7.07%	7.07%
Member	7.07%	7.07%
Member COLA Buydown	0.00%	0.00%
Total Normal Cost	14.14%	14.14%
Miscellaneous Tier 3 Members		
Employer	9.48%	9.48%
Member	9.16%	9.16%
Member COLA Buydown	0.32%	0.32%
Total Normal Cost	18.96%	18.96%
Miscellaneous Tier 4 Members		
Employer	8.69%	8.69%
Member	8.37%	8.37%
Member COLA Buydown	0.32%	0.32%
Total Normal Cost	17.38%	17.38%

Note: Member rates shown under Option 4 are combined rates for annual salary in excess of $4,200 (or monthly salary of $350) and annual salary less than $4,200 (or monthly salary of $350).

Member rates shown under the current methodology or Option 1 are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

[(1)] *The total employer rate under Option 4 has been adjusted by 0.19% of payroll (an estimated annual amount of $15,000) to account for the cost associated with the cessation of member contributions after 30 years of service.*
[(2)] *The total member rate under Option 4 has been adjusted by 0.19% of payroll for members with less than 30 years of service (an estimated annual amount of $14,000) to account for the cost associated with the cessation of member contributions after 30 years of service.*

Exhibit D (continued)

Option 4 – Cost of Cessation of Member Contributions after 30 Years of Service is Split between the Employers and Members

Recommended Normal Cost Contribution Rates Based on 50/50 Sharing of Normal Cost for Non-PEPRA Tiers

	June 30, 2015 Actuarial Valuation	
	Option 4	**Current Methodology or Option 1**
Safety Tier 1 Members	TOTAL	TOTAL
Employer[1]	20.16%	19.82%
Member[2]	18.65%	18.31%
Member COLA Buydown	1.51%	1.51%
Total Normal Cost	40.32%	39.64%
Safety Tier 2 Members		
Employer[3]	16.44%	16.43%
Member[4]	16.11%	16.10%
Member COLA Buydown	0.33%	0.33%
Total Normal Cost	32.88%	32.86%
Safety Tier 3 Members		
Employer	15.46%	15.46%
Member	15.13%	15.13%
Member COLA Buydown	0.33%	0.33%
Total Normal Cost	30.92%	30.92%

Note: Member rates shown under Option 4 are combined rates for annual salary in excess of $4,200 (or monthly salary of $350) and annual salary less than $4,200 (or monthly salary of $350).

Member rates shown under the current methodology or Option 1 are for annual salary in excess of $4,200 (or monthly salary of $350). For annual salary less than $4,200 (or monthly salary of $350), the member rates are equal to 2/3 of the rates shown.

See "Special Consideration" on page 9 following the Exhibits.

(1) The total employer rate under Option 4 has been adjusted by 0.34% of payroll (an estimated annual amount of $110,000) to account for the cost associated with the cessation of member contributions after 30 years of service.
(2) The total member rate under Option 4 has been adjusted by 0.34% of payroll for members with less than 30 years of service (an estimated annual amount of $106,000) to account for the cost associated with the cessation of member contributions after 30 years of service.
(3) The total employer rate under Option 4 has been adjusted by 0.01% of payroll (an estimated annual amount of $14,000) to account for the cost associated with the cessation of member contributions after 30 years of service.
(4) The total member rate under Option 4 has been adjusted by 0.01% of payroll for members with less than 30 years of service (an estimated annual amount of $15,000) to account for the cost associated with the cessation of member contributions after 30 years of service.

Special Consideration

Because members in SCERS are covered by Social Security, the member contribution rates paid to SCERS (as well as the benefits received from SCERS) for the first $4,200 in annual salary are reduced by one-third to allow for integration with Social Security. It should be noted that under current practice, the employer pays the same Normal Cost rate for the entire annual salary. In preparing the revised Normal Cost rates, we have assumed that the above member and employer rate structures would be preserved. However, we have not considered whether an adjustment may be appropriate under a 50/50 Normal Cost rate allocation because the member Normal Cost rate for the first $4,200 in annual salary would be less (by one-third) when compared to the employer Normal Cost rate. We could refine the results in a future valuation after we have additional discussions with SCERS.