



THE SEGAL COMPANY  
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308  
T 415.263.8273 F 415.263.8290 www.segalco.com

MEETING DATE

JUL 11 2012

AGENDA ITEM

#10

Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President & Actuary  
pangelo@segalco.com

June 29, 2012

Ms. Marilyn Leedom  
Chief Executive Officer  
Contra Costa County Employees' Retirement Association  
1355 Willow Way, Suite 221  
Concord, CA 94520

**Re: Contra Costa County Employees' Retirement Association  
Proposed Cost-of-Living Adjustment Assumptions for Optional Forms of Payment**

Dear Marilyn:

As requested, we are providing proposed Cost-of-Living Adjustment (COLA) assumptions that could be used if the Board of Retirement decides to proceed with including COLA assumptions in the determination of benefits under optional forms. The proposed annual COLA assumptions are:

- 3.00% for General Tier 1, non-disabled General Tier 3, and Safety Tier A members;
- 3.50% for General Tier 2 members and disabled General Tier 3 members; and
- 2.00% for Safety Tier C members.

Note that these are the same assumptions that are currently used in the annual actuarial valuation and are also in effect for determining reserve amounts for retiring members. These assumptions would also be used in the calculation of the breakdown of the total unmodified benefit into annuity and pension components. The total unmodified benefit would be unaffected. The annuity component generally has significance only in the determination of Option 1 benefits.

The COLA assumptions are reviewed every three years during the actuarial experience study. The next actuarial experience study is scheduled to be performed during the first half of 2013. In that study, we will consider (but not necessarily recommend) a stochastic approach for developing the COLA assumption that would attempt to account for the possible impact of low inflation that could occur before COLA banks are able to be established for the member.



Implementation of the COLA assumptions in the determination of benefits under optional forms will require updates to CCCERA's benefit calculation software. We understand CCCERA currently uses two independent applications to determine optional form conversion factors. The first is a spreadsheet based system that was originally developed by the System's prior actuary, and the second is CPAS which has been programmed to mimic the spreadsheet. In the past, Segal has assisted in updating the spreadsheet application, for example, when assumptions are changed, but only CPAS Systems can make programming changes to the CPAS application.

We are available to attempt to update CCCERA's spreadsheet based benefit calculation software for this potential change. The fees associated with updating the software are estimated to be around \$10,000 to \$15,000. Actual fees will be billed on a time and charge basis according to actual hours worked. We anticipate the project would take at least a month to complete.

Note that for members with service in multiple tiers, it may be necessary for us to setup multiple calculation programs for the different COLA assumptions involved (though we understand that separate programs are already in use by CCCERA for different tiers). It may also be necessary for us to create separate software in order to properly handle the Option 1 calculations. We would test a sample group of members to ensure that the program(s) works correctly for those sample members.

If the proposed COLA assumptions shown above are implemented and effective, they would continue in effect until they are modified in conjunction with any changes to the COLA assumptions used in the valuation (similar to investment return and mortality assumptions). Any such subsequent changes to the assumptions used for optional forms of payment are generally effective starting with the same date that the contribution rates from the corresponding valuation would become effective (i.e. 18 months after the valuation date).

Please let us know if you have any questions.

Sincerely,



Paul Angelo

JZM/kek