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MEETING DATE
DEC 08 2010
AGENDA ITEM
#8

November 30, 2010

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
Possible Three-Year Phase-in of Increases in
Employer Contribution Rates Due to Depooling

Dear Marilyn:

On November 3, 2010, the Board directed us to provide information on the possibility of offering a three-year "phase-in" of the increases in employer contribution rates due to depooling. This letter discusses the issues involved with this possible phase-in. We also provide illustrations of the phased-in contribution rates and the incremental impacts of the phase-in on the ultimate employer contribution rates after the phase-in is over.

Issues Raised by a Contribution Phase-in

Throughout this letter, we are assuming that the phase-in would only be offered to those employers that experience an increase in their contribution rate due to depooling in the December 31, 2009 Actuarial Valuation. The phase-in only applies to the portion of the employer contribution rate increase due to depooling and excludes all other increases in employer contribution rates due to investment losses, changes in actuarial assumptions and methods, etc. that occurred in the December 31, 2009 valuation. Please note that the increases in employer contribution rates due to depooling have both Normal Cost and Unfunded Actuarial Accrued Liability (UAAL) amortization components.

There are a few issues that would arise if the phase-in were to be implemented. One key issue concerns the impact of the phase-in on financial reporting requirements for the Association and the employers. Another issue is the impact of the phase-in on each employer's ultimate contribution rate after the phase-in is over.

Impact of Phase-in on Financial Reporting

At the close of each calendar year, the Association's accounting expense or Annual Required Contribution (ARC) under Governmental Accounting Standards (GAS) 25 and 27 is reported in the plan and employer financial statements, respectively. The ARC rates are generally the same as the contribution rates determined in the actuarial valuation. For example, the contribution rates recommended in the December 31, 2009 actuarial valuation report would generally determine the ARC for an employer's 2010-2011 fiscal year. For at least the last six years the actual employer contributions that were made during the calendar year have been equal to the ARC. Exhibit I (page 63) of the December 31, 2009 Actuarial Valuation Report shows that the "percentage [of ARC] contributed" has been 100% for each of those years.

If the phase-in were to be implemented, then the actual contributions shown for future years in this Exhibit (that include periods during which the phase-in is in effect) will end up being less than the ARC shown for those same periods. This will lead to a "percentage contributed" of less than 100% for each of those years, indicating that the plan's ARC accounting expense (based on GAS 25 and 27) is not being fully funded each year.

This has ramifications for the financial statements of those employers that take part in the phase-in. Unless the Board were to change the underlying funding policy upon which the ARC is based, the difference between the ARC accounting expense and actual contributions would need to be reported under GAS 27 as a Net Pension Obligation (NPO) for that employer. The NPO goes on the employer's balance sheet and represents the accumulated total of any differences between the ARC and actual contributions. This can raise perception issues as to why the employer is no longer funding their full accounting expense for pensions even though, as discussed next, future contributions will make up for those shortfalls.

Impact of Phase-in on Employer Contribution Rates

The top part of the attachment to this letter shows the increase in employer contribution rates in the December 31, 2009 actuarial valuation due to depooling. As noted earlier, we are only showing cost groups that experienced an increase in their contribution rate due to depooling.

Section (A) shows the employer contribution rates that would be paid over the next few fiscal years if the phase-in is not implemented. Note that, in order to highlight the effect of the phase-in, these rates do not include the impact of the actuarial gains or losses that are expected to occur (i.e. they do not reflect any of the significant deferred investment losses that are yet to be recognized).

Section (B) includes the rate reductions that would apply if the phase-in were to be implemented. Also shown is an illustration of the employer rates over the next few fiscal years reflecting the phase-in. Here we note that these rates also do not (yet) reflect the "contribution losses" that will result from the phase-in. Under the phase-in, the plan is not receiving the full UAAL amortization payments. That means that the future UAAL will be larger than expected and so that actuarial loss will increase future UAAL contributions.

Section (C) is similar to Section (B), but the impact of contribution losses that are specifically from the phase-in have also been reflected. Each of these contribution losses will be amortized over a period of 18 years starting with the actuarial valuation that follows the contribution loss (i.e., following the year of the phased-in contribution).

In summary, this illustrates that the incremental impact of depooling on each employer's ultimate contribution rate will be 7.84% higher than it would have been had the phase-in had not taken place. For example, for Rate Group 7 (County Safety Tier A Enhanced) the effect of pooling (without phase-in) is a rate increase of 3.19% of pay which would bring the employer rate to 52.42%. With phase-in the employer's ultimate rate (ignoring other future gains and losses) would be 52.67%, which is 0.25% of pay higher. Thus the depooling cost of 3.19% increases by 0.25% of pay, or 7.84% (0.25% / 3.19% = 7.84%).

In practice, the actual employer contribution rates will also reflect the impact of any other actuarial gains and losses that occur in future valuations, including the significant deferred investment losses that will be recognized in the next few valuations.

As in all matters pertaining to the interpretation and application of the law, you should be guided by the advice of the Plan's legal counsel as to any legal considerations related to the phase-in issue.

Please let us know if you have any questions.

Sincerely,

Paul Angelo

John Monroe

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

John Monroe, ASA, EA, MAAA
Vice President and Associate Actuary

JZM/gxk
Enclosure

cc: Rick Koehler

Contra Costa County Employees' Retirement Association
Illustration of Incremental Impact on Employer Contribution Rates Before and After Three-Year Phase-In of Increases in Rates Due to Depooling
December 31, 2009 Actuarial Valuation

Cost Group Number	(3)	(4)	(5)	(7)	(8)	(8)	(9)	(10)
Employer Name	Central Contra Costa Sanitary District	Contra Costa Housing Authority	Contra Costa County Fire Protection District	County Safety	Contra Costa County Fire Protection District	East Contra Costa Fire Protection District	County Safety	Moraga-Orinda Fire District
Benefit Structure	Tier 1 Enhanced	Tier 1 Enhanced	Tier 1 Enhanced	Tier A Enhanced	Tier A Enhanced	Tier A Enhanced	Tier C Enhanced	Tier A Enhanced
Employer Contribution Rate Before Depooling	34.18%	34.18%	16.90%	49.23%	31.96%	65.44%	43.24%	33.58%
Employer Contribution Rate After Depooling	40.30%	34.94%	20.44%	52.42%	41.05%	74.53%	45.88%	37.72%
Increase in Employer Rate due to Depooling	**6.12%**	**0.76%**	**3.54%**	**3.19%**	**9.09%**	**9.09%**	**2.64%**	**4.14%**
Payroll	$25,199,002	$5,349,534	$4,223,488	$82,819,759	$35,850,237	$3,442,367	$6,269,479	$8,040,336
(A) Without Phase-In								
Employer Contribution Rate for 2011-2012 Fiscal Year	**40.30%**	**34.94%**	**20.44%**	**52.42%**	**41.05%**	**74.53%**	**45.88%**	**37.72%**
Illustration of Employer Contribution Rate for 2012-2013 Fiscal Year*	**40.30%**	**34.94%**	**20.44%**	**52.42%**	**41.05%**	**74.53%**	**45.88%**	**37.72%**
Illustration of Employer Contribution Rate for 2013-2014 Fiscal Year*	**40.30%**	**34.94%**	**20.44%**	**52.42%**	**41.05%**	**74.53%**	**45.88%**	**37.72%**
(B) Phase-In of Rate Increase Due to Depooling (Before Reflecting Contribution Loss Due to Delaying Payment of Full Required Contribution)								
Rate Reduction for 2011-2012 Fiscal Year	4.08%	0.51%	2.36%	2.13%	6.06%	6.06%	1.76%	2.76%
Rate Reduction for 2012-2013 Fiscal Year	2.04%	0.25%	1.18%	1.06%	3.03%	3.03%	0.88%	1.38%
Rate Reduction for 2013-2014 Fiscal Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Illustration of Employer Contribution Rate for 2011-2012 Fiscal Year	**36.22%**	**34.43%**	**18.08%**	**50.29%**	**34.99%**	**68.47%**	**44.12%**	**34.96%**
Illustration of Employer Contribution Rate for 2012-2013 Fiscal Year*	**38.26%**	**34.69%**	**19.26%**	**51.36%**	**38.02%**	**71.50%**	**45.00%**	**36.34%**
Illustration of Employer Contribution Rate for 2013-2014 Fiscal Year*	**40.30%**	**34.94%**	**20.44%**	**52.42%**	**41.05%**	**74.53%**	**45.88%**	**37.72%**
(C) Phase-In of Rate Increase Due to Depooling (Reflecting Contribution Loss Due to Delaying Payment of Required Contribution)**								
Contribution Loss Due to Phase-in as of 12/31/2010 Valuation (for FY11-12)	$0	$0	$0	$0	$0	$0	$0	$0
Contribution Loss Due to Phase-in as of 12/31/2011 Valuation (for FY12-13)	$523,743	$13,807	$50,776	$897,238	$1,106,723	$106,268	$56,211	$113,047
Amortization of Contribution Loss for FY2012-2013 over 18 years	0.16%	0.02%	0.09%	0.08%	0.23%	0.23%	0.07%	0.11%
Contribution Loss Due to Phase-in as of 12/31/2012 Valuation (for FY13-14)	$805,530	$21,236	$78,095	$1,379,976	$1,702,170	$163,444	$86,453	$173,869
Amortization of Contribution Loss for FY2013-2014 over 18 years	0.24%	0.03%	0.14%	0.13%	0.36%	0.36%	0.10%	0.16%
Contribution Loss Due to Phase-in as of 12/31/2013 Valuation (for FY14-15)	$271,829	$7,166	$26,353	$465,679	$574,404	$55,155	$29,174	$58,673
Amortization of Contribution Loss for FY2014-2015 over 18 years	0.08%	0.01%	0.05%	0.04%	0.12%	0.12%	0.04%	0.06%
Illustration of Employer Contribution Rate for 2011-2012 Fiscal Year	**36.22%**	**34.43%**	**18.08%**	**50.29%**	**34.99%**	**68.47%**	**44.12%**	**34.96%**
Illustration of Employer Contribution Rate for 2012-2013 Fiscal Year*	**38.42%**	**34.71%**	**19.35%**	**51.44%**	**38.25%**	**71.73%**	**45.07%**	**36.45%**
Illustration of Employer Contribution Rate for 2013-2014 Fiscal Year*	**40.70%**	**34.99%**	**20.67%**	**52.63%**	**41.64%**	**75.12%**	**46.05%**	**37.99%**
Illustration of Employer Contribution Rate for 2014-2015 Fiscal Year*	**40.78%**	**35.00%**	**20.72%**	**52.67%**	**41.76%**	**75.24%**	**46.09%**	**38.04%**
Incremental Impact on Contribution Rate at End of Phase-in Period***	**0.48%**	**0.06%**	**0.28%**	**0.25%**	**0.71%**	**0.71%**	**0.21%**	**0.32%**

* The rates are calculated assuming no other actuarial gains or losses except the contribution loss due to the Phase-in (where noted). Impact of contribution loss due to the phase-in is based on assuming no increase in payroll for each employer.

** These losses are determined using timing of contributions that includes an 18-month delay

***These percentage of payroll increases are 7.84% of the increase due to depooling as of December 31, 2009, and will continue for the balance of the 18-year amortization periods.

M:\cccera.cli\val2010\report\[Depooling Rate_3 Year Phase-in.xls]Sheet1