

MEMO

Date: November 21, 2012
To: CCCERA Board of Retirement
From: Kurt Schneider, Deputy Chief Executive Officer
Karen Levy, General Counsel
Subject: Member Contribution Rates for PEPRA Tiers Effective 1/1/2013

MEETING DATE

NOV 28 2012

AGENDA ITEM

#7

Recommendation: Determine whether member contribution rates for PEPRA members should be calculated using a flat rate method or an age at entry method

In September 2012, the Governor signed into law AB 340, which requires CCCERA to use new benefit formulas for new members entering the system on or after January 1, 2013. The law (Gov. Code §7522.30) also sets restrictions on how the member contribution rates are to be determined. This Section of PEPRA was written as if all members pay the contribution rate, also known as the “flat rate method.” For non-PEPRA tiers, however, CCCERA has always determined contributions based on the member’s age at entrance into the retirement system. This method is known as the “age at entry method.” CCCERA must decide whether to use a flat rate method or an age at entry method when calculating PEPRA members’ contribution rates. We believe both methods are authorized.

PEPRA requires that members have a contribution rate of at least 50 percent of the normal cost rate for that defined benefit plan (Gov. Code §7522.30(c)). PEPRA defines the normal cost rate to be the normal cost for the defined benefit plan divided by payroll (Gov. Code §7522.30(b)). Unlike CERL, there are no provisions of PEPRA that describe how these rates might be adjusted for various ages of entry.

The system’s actuary, the Segal Company, recommends that a single member rate be developed for each of four PEPRA tiers within CCCERA. There are a number of reasons why this may be the best approach.

- Segal points out that a single rate would provide more clarity as to how the member rates are determined to be equal to 50% of the total normal cost rate
- The CERL does allow systems to use a single member contribution rate for new members. Gov. Code §31621.11 has been adopted by three other systems as far back as 1975, so the flat rate method is not in conflict with CERL.
- Most non-CERL systems (including counties in CalPERS and most systems outside California) use a single member contribution rate.

- Entry age based contribution rates continue to face challenges on the basis of age discrimination including a recent decision in Baltimore that required a county system to adopt a single member contribution rate.

We note that the flat rate method would only be applicable to PEPRA members, i.e., new members entering CCCERA for the first time on or after January 1, 2013.



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November 19, 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 County Employees' Retirement Association
Implementation of Single (or Flat) Member Contribution Rate Under CalPEPRA**

Dear Marilyn:

This letter provides information regarding implementation of a single (or flat) member contribution for members with membership dates on or after January 1, 2013 that are subject to the CalPEPRA formulas, rather than the entry age based rate methodology now in effect.

Background

Section 7522.30 of CalPEPRA requires new members to contribute at least 50% of the normal cost rate or, if greater, the current contribution rate for similarly situated employees. This is in contrast to the method currently used to set member contribution rates. For members with membership dates before January 1, 2013, the Government Code generally defines both Basic and COLA member contributions rates as follows:

- Basic – Provides for an average annuity at a defined age equal to a certain percentage of final compensation
- COLA – Provides for 50% of future Cost-of-Living costs.

The Basic member contribution rate definition allows for a fairly straightforward determination of rates for each possible member entry age. The COLA is then accounted for by “loading” each of the Basic member contributions rates. Under current practice, the COLA loading factor does not vary by entry age, it only varies by whether the member is General or Safety.

Note that the CERL does allow for the use of a single member rate that does not vary by entry age. See Section 31621.11 for General members and 31639.26 for Safety members.

Discussion and Recommendation

For the 50% of normal cost member contribution rate calculation under the CalPEPRA formulas, we recommend performing this calculation in our CalPEPRA new tier study separately for each of CCCERA's cost groups. In addition, we believe it would be reasonable to develop a single member rate for each cost group (instead of entry age based rates). This would mean that our CalPEPRA new tier study will contain one 50% of normal cost member rate for each of CCCERA's cost groups that would apply to members with membership dates on or after January 1, 2013.

The use of entry age based rates was intended to reflect the fact that, per year of service, entry age normal costs are higher for members hired at later ages. This means that the use of a flat member rate will result in new members that enter at older ages being subsidized by new members that enter at lower ages, at least as compared to the current practice of using entry-age based rates. However, this pooling of member costs across different entry ages is consistent with other demographic pooling of costs that occurs in any defined benefit plan. We also note that the use of a flat member rate is by far the most common approach outside California. Also, CalPERS uses this approach for both the State and agency plans, including the non-CERL county plans.

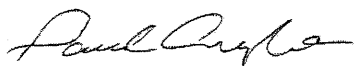
Furthermore, we believe that using the single 50% of normal cost based member contribution rate for each cost group will provide more clarity as to how the member rates are determined to be equal to 50% of the total normal cost rate.

Finally, our recommendation for using a flat non-entry age based member contribution rate would appear to be consistent with the "similarly situated" requirement in that a single flat member contribution rate would be applied regardless of entry age, which avoids charging different entry age based rates for what might be considered similarly situated employees.

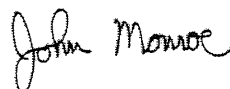
We recommend that you have the Association's legal counsel review this discussion and confirm that the recommended methodology is consistent with the requirements of CalPEPRA.

We look forward to discussing this information with you.

Sincerely,



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



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

JZM/kek