

MEMO

Date: December 5, 2012
To: CCCERA Board of Retirement
From: Kurt Schneider, Deputy Chief Executive Officer
Subject: Member Contribution Rates for PEPRA Tiers Effective 1/1/2013

MEETING DATE

DEC 12 2012

AGENDA ITEM

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

At the November 28 Board meeting, the Board deliberated on whether member contribution rates for PEPRA members should be calculated using a flat rate method or an age at entry method. The system's actuary, the Segal Company, recommends that a single member rate be developed for each of four PEPRA tiers within CCCERA.

Some Board members felt that they could make a better decision if they had some idea what the flat rate would be and how it might vary if an age at entry method were used. Unfortunately, due to a number of other unresolved issues, it was not until after that meeting on the 28th that Segal could begin the study to calculate rates based on either method. At this time Segal does not have contribution rates to present.

In lieu of contribution rates resulting from an actuarial study, CCCERA staff has prepared a table of member contribution rates that shows how the rates would vary by age at entry if one knew the overall normal cost of the plan. Note that the plan's normal cost depends on a plethora of assumptions including withdrawal, disability and retirement rates. The adjustment for various ages of entry depends only on the salary scale assumption and the discount rate. The attached table is based on the same methodology used to calculate the member basic rate as outlined in CERL. It is not known if Segal will use methodology identical to what staff has used to prepare this illustration.

The other fact that Board members thought should be considered was how participating employers felt about the issue. Do employers see value in simplifying the rate structure, or is there concern that a flat rate will mean younger entrants will pay a higher portion of the cost of their own benefit, possibly making recruiting and retaining younger employees more difficult? CCCERA staff provided all participating employers with the materials from the November 28 Board meeting and asked for their input on the issue. While most districts were either in favor of moving to a single member contribution rate or had no opinion, the County would prefer to use an age at entry method. The reasons cited for favoring the single rate included simplifying administration and simplifying the explanation to employees what their benefits are and what they will be required to contribute towards them. The County will provide a written response stating their preference.

Flat Rate Method

Pros	Cons
Provides clarity on how the member rates comply with PEPPRA.	
By far the most common approach for defined benefit plans.	There is the perception that younger entrants subsidize older entrants, at least as compared to the current method.
Simplifies administration.	
Simpler benefit structure for the members to understand.	
Consistent with Social Security, CalPERS, CalSTRS, and the surrounding SACRS counties of Sacramento, San Joaquin, Alameda, and Sonoma. The flat rate methodology is also being proposed in San Mateo and Marin.	Inconsistent with CCCERA current members.
Recommended by the plan's actuary.	

Age at Entry Method

Pros	Cons
Reflects the fact that the individual normal cost rate is lower for those with a lower entry age.	The member's age at entry can be viewed as a risk that this approach fails to pool, while the costs of all other demographic risks are pooled.
Reduces the subsidy that a young entrant would pay and an older entrant would receive.	Implies a level of precision in measuring the cost of an individual's benefit that does not exist. Gives too much importance to one variable while ignoring all others.
Consistent with past practice at CCCERA.	Could expose CCCERA to challenges under the ADEA, due to the statutory rounding. A rate at one entry age 0.25% higher than the previous age may not be justified by permissible financial consideration.

Illustration of member contribution rates for PEPRA General and Safety members

	General	Safety
Assumed flat member rate	8.00%	15.00%
Age at entry		
20	6.75%	13.00%
25	7.50%	14.00%
30	8.00%	15.00%
35	8.75%	16.25%
40	9.25%	17.50%
45	10.00%	19.00%
50	10.75%	20.75%

The above adjustments for age at entry were calculated by staff using the salary and interest assumption from the December 31, 2011 Actuarial Valuation and the fact that PEPRA members earn their maximum accrual at age 67 for General members and age 57 for Safety members.

These rates are for illustration purposes only and will **not** be the same as the rates calculated by the actuary.