



To: First 5 Alameda County Executive Committee

From: Patricia Zapanta, Acting Finance and Administration Director

Date: May 22, 2009

Subject: ACERA and Benefits Costs for 2009-10

FOR INFORMATION ONLY

BACKGROUND

When First 5 Alameda County separated from Alameda County, the Commission continued to retain the services of the Alameda County Employees Retirement Association (ACERA) to provide retirement benefits to First 5 employees. ACERA is a defined-benefits retirement organization governed by the county employees retirement law of 1937 (the "1937 Act")

ACERA is funded by employer contributions, employee contributions and earnings from the investment portfolio. Employer and employee rates are set annually by the ACERA Board of Retirement. Rates are established based on an annual valuation of ACERA assets by an actuary. The 2008 valuation has been completed and the ACERA Board of Retirement is in the process of setting rates, which will be effective in October 2009.

THE CURRENT SITUATION

The situation is complicated this year due to the unprecedented losses experienced by the portfolio in 2008. Originally, ACERA was projected to gain 8% in 2008, based on the annual assumed rate of return used in the actuarial model adopted by ACERA. However, the fund lost approximately 32% of the portfolio value, resulting in a net difference of approximately 40%.

It should be noted that the loss in portfolio value that ACERA experienced is consistent with what other public retirement funds, such as CalPERS, experienced in the last year, and that the majority of the losses are on paper and have not been realized.

When the value of the portfolio decreases significantly, the 1937 Act law requires the employer rates, not the employee rates, to increase to compensate for the loss and maintain the funds' ability to meet it's obligations to retirees.

ACERA has prepared a number of scenarios for employer rates that they have shared with the employers who participate in ACERA. The employers include Alameda County (the largest employer), the Alameda County Medical Center, the Alameda County Housing Authority, the Livermore Recreation and Park District, Alameda County Superior Court and First 5 Alameda County. The various scenarios are based on several different combinations of actuarial assumptions and methodologies, and project employer rates through 2021.

The rate scenarios are below. We are only showing the scenarios that utilize a 5% smoothing model, which is the model currently used by ACERA. "Smoothing" is a methodology that allows the impact of gains and or losses to be factored in over a period of time, rather than the full amount being accounted for each year.

The rates are being projected by ACERA and ACERA's actuary using a technical methodology called the corridor, which is the difference between the market value of the portfolio and the actuarial value. Utilization of different corridors produce a different rate; however, it is worth noting on the attached graph from ACERA's actuary that within five years, barring an extreme economic boom recovery, that employer rates will be double, at or slightly beyond 30%.

Rate	Total Projected Salaries for 2009-10	Employer Contribution to ACERA	Total Cost of all Benefits	Percentage of Benefits to Salaries
Baseline Historical 14.9%	\$4,884,957	\$727,859	\$2,149,381	44.0%
18% (60/140)	\$4,884,957	\$879,292	\$2,300,815	47.1%
20.6% (70/130)	\$4,884,957	\$1,006,301	\$2,427,824	49.7%
23.5% (80/120)	\$4,884,957	\$1,147,965	\$2,569,487	52.6%

Effect of ACERA Rates on total benefits cost

The increase in ACERA employer rates will affect the overall First 5 Alameda County cost. First 5 Alameda County has prepared the 2009-10 budget using the scenario with the 20.6% rate, which increases the total benefits rate from 43% to 50%. If a lower or higher rate is set by the Board of Retirement, staff will provide a report with the impact of the change to the Commission at their next scheduled meeting. In addition, the change will be incorporated into the budget during the January 2010 budget modification process.

The total benefits cost percentages has been calculated at 43% for the last three years. Because salaries and benefits are historically about 15% under budget in any year, we have not exceeded the 43% projection in any year. However, when closely reviewed, the 2007-08 actual expenses and the 2008-09 estimates are running closer to 44%.

The 2008-09 estimates of actual benefit expenses are shown below. These costs are consistent with the 2007-08 percentages. Please note that all benefit costs include only the Employer share.

Benefit	Amount	Percentage of total
Health and Dental Insurance	\$645,873	36.0%
Retirement (ACERA)	\$624,388	34.8%
Social Security	\$255,921	14.2%
Flexible Benefit*	\$89,125	5.0%
SUI and Medicare	\$86,986	4.8%
Tools and Technology**	\$32,379	1.8%
Other Employee Benefits	\$31,610	1.8%
Payment in Lieu	\$18,364	1.0%
Bilingual Pay	\$9,720	0.5%
Life Insurance	\$1,961	0.1%
Employee Assistance Program	\$1,220	0.1%
Total Benefits	\$1,797,547	100.0%

*The Flexible Benefit is a \$1,500 annual contribution to each full time employee for the costs of mental/dental co-pays, supplemental life insurance, or health flexible spending accounts.

** Tools and Technology is an \$800 annual contribution to each full time employee for the costs of home office equipment, professional development, or personal technology that is work related.

It should also be noted here that, based on currently available information, we expect our health insurance costs to increase at a rate exceeding any increase in our salary budget. This has the potential to increase the total benefits rate above the projected figure above over the next several years. However, we will recommend a 49% benefits rate in the 2009-10 budget, and then will monitor it closely.

FUTURE IMPLICATIONS

Unless the financial markets experience a radical improvement, it is anticipated that employer rates will double from the aggregate rate of 14.9% currently to over 30% over the next five years, and then will continue at that level. (Note that First 5’s actual rate typically runs about .4% less than the ACERA aggregate rate.)

The annual rate of the increase varies depending on the different scenarios considered and selected by the Board of Retirement, as well as actual fund performance relative to assumed/projected fund performance.

It is important to note, however, that the increases do not end in 2009-10, and that they will continue for the next five years. These increases should be incorporated into the future Long Range Planning scenarios, as they will affect the use of the Sustainability Fund.

FISCAL IMPACT

The fiscal impact of a rate increase to 20.6% results in a benefits rate increase from 43% to 50%. The amount of benefits projected for 2009-10 at the 50% rate is \$2,442,478.

Submitted by:

Reviewed by:

Patricia Zapanta,
Acting Finance and Administration Director

Mark Friedman,
Chief Executive Officer