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May 4, 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 Methodology for Implementation of Depooling**

Dear Marilyn:

This letter provides information related to a possible methodology for implementation of depooling that is generally consistent with the Board action to depool. This implementation would also avoid some of the data issues related to the retroactive application of depooling that have been encountered, as noted in our March 2, 2010 letter to the Board.

Background

At its October 14, 2009 meeting, the Board took action to depool CCCERA's assets, Actuarial Accrued Liability (AAL) and Normal Cost both by tier and by employer for determining employer contribution rates. However, the smaller employers (those with less than 50 active members) would continue to be pooled with the applicable County tier.

The Board action also included a retroactive application of the depooling back to December 31, 2002. This retroactive approach would not involve recalculation of employer rates prior to December 31, 2008. However, it would involve reflecting the separate experience of the employers in each individual cost group back to December 31, 2002.

In the results provided in our January 6, 2010 letter, we used an implementation date of December 31, 2008 to illustrate the effect of this depooling as if it were implemented on that date, on the retroactive basis just described. In practice, the implementation date would be December 31, 2009, so as to avoid changing the rates that were already adopted based on the completed December 31, 2008 valuation. The first employer rates actually affected by depooling would be those in the December 31, 2009 valuation that would go into effect July 1, 2011.



The January 6, 2010 letter contained results for General members only. This was due to the unresolved data issues for Safety members. The data issues were discussed in our March 2, 2010 letter.

Possible Methodology for Implementation of Depooling

After discussions with Retirement Association staff, we have developed a possible methodology for implementation of depooling that would be less data intensive than the method described above. It would also, in effect, reflect some of the separate terminal pay experience back to December 31, 2002 starting with the valuation in which depooling is first implemented.

This new methodology for implementation of depooling would not directly involve going back to December 31, 2002 to reflect the separate experience for the employers of each individual cost group. Instead, we would implement depooling starting with the December 31, 2009 actuarial valuation (or possibly December 31, 2010) and base the initial allocation of assets and liabilities for each cost group on the valuation results, prior to applying the following new procedure.

We would then develop different terminal pay assumptions for each cost group based on the actual terminal pay experience for those employers over the seven years ending December 31, 2009. These new terminal pay assumptions would then be applied in this valuation, after adoption of these assumptions by the Board.

This method would be less data intensive since it only requires verification of the members last employer or current employer as of December 31, 2009. This is different from how depooling was originally to be implemented, using a method which could involve verification of each member's employer code at different points in time during the six years prior to December 31, 2008. As mentioned in our March 2, 2010 letter, implementation of the original depooling poses a challenge since the employer specific historical data was never tracked. This is because it was never expected that this level of employer specific costs would be required.

This new methodology would in effect, reflect the last seven years of terminal pay experience on a prospective basis. This is because the Normal Cost and AAL for each separate cost group would now reflect the new cost group specific terminal pay assumptions. This is generally consistent with the original Board action to adopt depooling by employer and to reflect separate experience back to December 31, 2002. However, it would not reflect separate experience for any other assumption back to December 31, 2002.

On a prospective basis after implementing this methodology, there would still be data tracking issues related to when members transfer between employers and or/tiers. We would recommend that the final employer and tier absorb all of the liability associated with that member. This would be much less data intensive, but may not be preferable for the employers. As stated in our March 2, 2010 letter, allocating a member's liability amongst multiple employer and/or tiers presents significant challenges.

Timeline for Schedule of Implementation

We would propose the following timeline for implementation of the depooling described in this letter:

- Actuarial Experience Study for the period from January 1, 2007 through December 31, 2009 is completed in June or July 2010
 - Completed consistent with past practice
- Last employer code for General retirees is verified by Retirement Office by end of May 2010
 - Note that Safety retirees were already verified earlier this year
- December 31, 2009 employer code for active members based on new data system is provided by Retirement Office by end of June 2010
- New cost group specific terminal pay assumptions are developed and presented to the Board for adoption in July or August 2010
- December 31, 2009 actuarial valuation completed and presented to the Board for adoption in August or September 2010

Please note that depending on the availability of the December 31, 2009 employer code for active members based on the new data system, we may need to delay the implementation of the depooling until the December 31, 2010 actuarial valuation. However, we do understand that this means that the contribution rates with depooling would then not go into effect until July 1, 2012.

If there is any additional information you require, please let us know.

Sincerely,



Paul Angelo

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