September 27, 2018

Ebony Shelton
Financial Policy and Planning Director
County of San Diego, Office of Financial Planning
County Administration Center
1600 Pacific Highway, Rm 352
San Diego, CA, 92101
MailStop: A-5

Re: Transparent California July 24, 2018 Blog/Article

Dear Ms. Shelton:

The County of San Diego participates in the San Diego County Employees Retirement Association defined benefit system. On July 24, 2018 Transparent California released a short Blog/Article (https://blog.transparentcalifornia.com/2018/07/24/1237-increase-in-promised-pensions-dwarfs-san-diegos-economic-growth-taxpayers-ability-to-pay/) titled "*1,237% increase in promised pensions dwarfs San Diego's economic growth, taxpayers' ability to pay*". The County has asked the California Actuarial Advisory Panel (CAAP) to review the article and provide comments pursuant to California Government Code §7507.2(b)(6).

The article:

1. Compares the growth in the San Diego County Employees Retirement Association (SDCERA) Actuarial Accrued Liability (AAL) with the growth in the County's average personal income, median household income, inflation and population;
2. Claims that, since the AAL is growing at a much faster rate than the other items, the County's 2002 benefit enhancement was excessive; and
3. Compares the SDCERA AAL growth with that of CalPERS, implying the more rapid growth at SDCERA is proof the benefit enhancement was inappropriate.

Following are our comments on each of the article's claims:

1. Growth in AAL compared to average personal income, median household income, inflation and population:

   The rate of growth in the AAL is a cumulative measure, similar to the growth in an individual's 401k balance. In contrast, average personal income, median household income, inflation and population are all annual measures. Comparing something that accumulates over time to an annual measure is not appropriate. For example, if an individual were saving money in a 401(k) plan it would be inappropriate to compare the growth in their accumulated balance to the growth in their annual contribution; the accumulated balance should grow considerably faster. Relative to the County's annual fiscal measures cited in the article, a more comparable annual measure for a pension plan would be the actuarially determined contribution or the normal cost (i.e. the cost assigned to the current years' service).

2. Relationship between the AAL growing at a faster rate than the other items and the County's benefit level:

   As noted above the AAL is expected to grow faster than average personal income, median household income, inflation and population. Furthermore, the growth in the AAL is not generally related to benefit levels. For example, for an individual saving money in a 401(k) plan, the percentage growth in their account balance is the same regardless if they consistently save 1% of their salary each year or 20% of their salary each year. The fact that the AAL does grow faster than annual measures is not an indication of whether benefits are or are not adequate or excessive.

3. The SDCERA AAL growth is more rapid than CalPERS' AAL growth.

   There are various reasons the AAL would increase over time and the County should note:
   a. CalPERS has been slower to implement discount rate changes than SDCERA has been; this difference means the SDCERA AAL would grow faster than the CalPERSAAL.
   b. CalPERS AAL includes agencies that did not enhance benefits; this difference means the CalPERS AAL would grow slower than the SDCERA AAL.
   c. San Diego County has likely seen more active employee growth than CalPERS agencies have; this difference means the SDCERA AAL would grow faster than the CalPERS AAL.

   Accordingly, we believe it is inappropriate to draw conclusions from comparing the AAL growth rate for CalPERS to that of SDCERA, unless these and other factors are taken into consideration.

Let us know if you need clarification on the above or if you have any further questions.

Sincerely

Paul Angelo, Chair