November 2, 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 the County's 2002 benefit enhancement was excessive because it caused the AAL to grow at a much faster rate than the other items; and
3. Compares the SDCERA AAL growth with that of CalPERS, implying the more rapid growth at SDCERA is proof (evidence?) the benefit enhancement was inappropriate.

Following are our comments on each of the above:

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, comparable to the growth in an individual's 401(k) balance. In contrast, average personal income, median household income, inflation and population are all annual measures. Comparing the growth in a cumulative measure to the growth in an annual measure is not a meaningful comparison. 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 is expected to grow considerably faster. Relative to the growth in the County's annual fiscal measures cited in the article, a more comparable measure for a pension plan would be the growth in the actuarially determined contribution or the normal cost (i.e., the cost allocated to the current year's service).

2. Claim that the County's 2002 benefit enhancement was excessive because it caused the AAL to grow at a faster rate than the other items.

   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. Compares the SDCERA AAL growth with that of CalPERS, implying the more rapid growth at SDCERA is proof the benefit enhancement was inappropriate.

   There are various reasons the AAL for SDCERA may have changed at a different rate than CalPERS. For example, changes in assumptions (such as lowering the discount rate or implementing more conservative mortality assumptions), different relative growth in the size of the covered populations, or other demographic experience could all result in differing relative rates of growth in the AAL, in addition to changes due to benefit enhancements. Accordingly, we believe it is inappropriate to draw conclusions related to the size of benefit enhancements based on differences in the relative growth rate of the AAL without controlling for other differences that would affect these amounts.

   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 CalPERS AAL would.
   b. CalPERS AAL includes agencies that did not enhance benefits while those that did enhance benefits did so consistent with SDCERA benefit enhancements; both of these are indications the CalPERS AAL would grow slower than the SDCERA AAL.
   c. The 2002 SDCERA actuarial valuation showed a relatively large increase in the SDCERA AAL over 2001. SDCERA's 2002 Comprehensive Annual Financial Report indicates this increase is due to "*…enhanced benefits approved by the County Board of Supervisors in March 2002, experience losses, projected earlier retirement trends*….". We do not have access to the 2002 Actuarial Valuation Report and so can not speak to what portion was due to the benefit enhancement. Without knowing how much of the AAL increase was due to the benefit enhancement, a reader can not draw any inference as to the magnitude of the enhancement let alone its appropriateness.

   Accordingly, we believe no one should draw conclusions about the benefit level's appropriateness 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