

**Kern County Employees'
Retirement Association
Supplemental Retiree Benefit Reserve (SRBR)**

**Actuarial Valuation and Review
as of June 30, 2015**



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100 MONTGOMERY STREET, SUITE 500 SAN FRANCISCO, CA 94104
T 415.263.8200 www.segalco.com

December 1, 2015

*Board of Retirement
Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, California 93311*

Dear Board Members:

We are pleased to submit our Supplemental Retiree Benefit Reserve (SRBR) Actuarial Valuation and Review as of June 30, 2015. It summarizes the actuarial data on members included in the SRBR valuation, determines the funding status of the SRBR benefits and analyzes the preceding year's experience.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Retirement Board. The census information on which our calculations were based was prepared by KCERA and the financial information was provided by the Retirement Association. That assistance is gratefully acknowledged.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

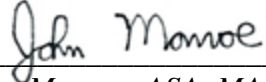
The actuarial calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

Segal Consulting, a Member of The Segal Group, Inc.

By: 
*Paul Angelo, FSA, MAAA, EA, FCA
Senior Vice President and Actuary*


*John Monroe, ASA, MAAA, EA
Vice President and Actuary*

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SECTION 1: Valuation Summary for KCERA SRBR Valuation

Purpose and Scope

This report has been prepared by Segal Consulting to present a valuation of the Kern County Employees' Retirement Association Supplemental Retiree Benefit Reserve (SRBR) benefits as of June 30, 2015. The valuation was performed to determine the funded status of the SRBR benefits. The funded status information presented in this report is based on:

- The benefit provisions of the SRBR, as administered by the Retirement Association;
- The characteristics of covered active members, vested terminated members, retired members and beneficiaries as of June 30, 2015, provided by the Retirement Association;
- The SRBR value as of June 30, 2015, provided by the Retirement Association;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Note that the investment return assumption of 7.50% used in this report was determined without taking into consideration any impact of the 50/50 excess earnings allocation between the retirement and SRBR asset pools.

SECTION 1: Valuation Summary for KCERA SRBR Valuation

Significant Issues in this Valuation

- The results of this valuation reflect the increase in the SRBR Death Benefit from \$3,000 to \$5,000 effective January 1, 2015.
- The funded status of the SRBR “Approved Benefits” decreased from 225% as of June 30, 2014 to 212% as of June 30, 2015. Approved Benefits are those that have already been approved by the Retirement Board. Under the Board’s “20/20” Policy, the goal is to have a 20% reserve for the death benefits, SRBR Tier 1 and SRBR Tier 2 benefits and 20 years of expected SRBR Tier 3 payments. The funded status of this SRBR “Targeted Funding with Reserves” decreased from 184% as of June 30, 2014 to 174% as of June 30, 2015.
- The funded status of the total SRBR benefits decreased from 182% as of June 30, 2014 to 175% as of June 30, 2015. The total SRBR benefits include all projected benefits expected to be paid to current plan members.
- The decrease in the funded status for total SRBR benefits was primarily due to the change in the SRBR Death Benefit and an investment loss, since the rate of return on the available SRBR (after smoothing) during 2014/2015 was about 6.6%, which is less than the 7.50% assumption. These losses were offset to some extent by the passage of time (i.e., expected changes in the funded status) and lower inflation as compared to expected.
- We assume that the Consumer Price Index (CPI) will increase by 3.25% per year, based on our long-term assumption for inflation. The actual increase in the CPI from 2013 to 2014 was 1.3%. Because the CPI increased by less than 2.5% (the maximum COLA possible), COLA bank balances were drawn down to supplement COLAs when available. Current SRBR Tier 3 benefits mostly stayed the same because CPI increases in recent years were lower than the COLA increases for most retirees. However, future projected increases in SRBR Tier 3 benefits for current retirees are expected to occur later than previously expected. This led to the part of the increase in the funded ratio that was due to low inflation described above.
- The following table compares the reserves and liabilities for the total SRBR benefits as of:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
1. Available SRBR Reserves		
a. Total SRBR	\$183,959,000	\$185,867,000
b. 0.5% COLA Account	<u>62,692,000</u>	<u>66,201,000</u>
c. Available SRBR Reserve (1.a. – 1.b.)	121,267,000	\$119,666,000
2. Present Value of Total Benefits:		
a. Approved Benefits	57,231,000	53,152,000
b. Future Benefits	<u>11,911,000</u>	<u>12,539,000</u>
c. Total (2.a. + 2.b.)	69,142,000	\$65,691,000
3. PVB minus Reserves (2.c.) – (1.c.)	-52,125,000	-53,975,000
4. Funded Ratio, Total SRBR Benefits (1.c.) ÷ (2.c.)	175.4%	182.2%

SECTION 2: Valuation Results for KCERA SRBR Valuation

A. INTRODUCTION

Additional benefits may be provided to KCERA active and retired members under the plan provisions adopted by the County as provided under article 5.5 of the County Employees Retirement Association Law of 1937 (CERL). These are the Supplemental Retiree Benefit Reserve (SRBR) benefits, and the Board of Retirement has defined these as:

Approved Benefits – These are the SRBR benefits that have already been approved by the Retirement Board. They include all SRBR Tier 1, SRBR Tier 2 and SRBR Death Benefits, as well as the SRBR Tier 3 benefits approved through the valuation date (June 30, 2015).

Future Benefits – These are the SRBR Tier 3 benefits expected to be approved in future years in order to maintain 80% purchasing power.

Article 5.5 governs the crediting of interest to reserves and the allocation of Undistributed Earnings. Undistributed Earnings are the amounts that remain after earnings have

been used to credit interest to the Plan's reserves. They are generally thought of as earnings in excess of those assumed to be earned under the actuarial valuation assumptions.

Under the provisions of Article 5.5, and in accordance with the Board's Interest Crediting Policy, if Undistributed Earnings remain, then 50% of those Earnings are allocated to the SRBR and the remaining 50% are allocated as additional interest credits to all other reserve funds excluding the Contingency Reserve and the SRBR.

A summary of the benefits provided by the SRBR is displayed in Exhibit II. Note that, in addition, the KCERA Board has set aside a portion of the SRBR reserve to help pay for an additional 0.5% COLA adopted under the Ventura Settlement. The assets and liabilities related to this additional 0.5% COLA are included in the regular valuation and are therefore excluded from this SRBR valuation.

SECTION 2: Valuation Results for KCERA SRBR Valuation

B. DEMOGRAPHIC DATA

Chart 1 below provides a summary of the number of members eligible for Approved Benefits as of June 30, 2015. It also contains information on the monthly SRBR benefits in pay status as of June 30, 2015.

Each of the various SRBR benefits and their eligibilities are described in Exhibit II.

CHART 1

Table of Coverage

Members Eligible for Approved Benefits as of June 30, 2015	Death Benefits	SRBR1	SRBR2	SRBR3
1. Active Members	8,481	870	-	-
2. Deferred Vested Members	2,053	304	-	-
3. Retirees and Beneficiaries	6,492	6,410	493	432
4. Total	17,026	7,584	493	432
5. Total monthly benefits in pay status as of June 30, 2015		\$210,000	\$76,100	\$127,500
6. Average monthly benefit in pay status as of June 30, 2015		\$33	\$154	\$295

SECTION 2: Valuation Results for KCERA SRBR Valuation

C. FUNDED STATUS

Undistributed Earnings are the only source of funding for the SRBR Benefits. By their very nature, Undistributed Earnings are produced on an inconsistent basis and cannot be relied upon on to appear in any single period. Because of this, the funding of SRBR Benefits is set up differently than funding for Regular Benefits. KCERA compares the SRBR Reserve against three liability measures to understand its short-term, medium-term and long-term funding position. All of these funding targets are based on the Present Value of Benefits (PVB) for SRBR Benefits.

The actuarial assumptions and methods used to determine the PVB are shown in Exhibit I. These are generally the same assumptions and methods used in the regular June 30, 2015 KCERA valuation.

The short-term, medium-term and long-term funding position are described as follows:

- Funded status of the SRBR “Approved Benefits”
- Funded status of the Targeted SRBR Liabilities
- Funded status of the Total SRBR Benefits

Approved Benefits are the SRBR benefits that have already been approved by the Retirement Board. They include all Tier 1, Tier 2 and Death Benefits, as well as the Tier 3 benefits approved through the valuation date. The Present Value of Approved Benefits is the short-term funding target for the SRBR.

The chart below shows the funded status of “Approved Benefits.”

CHART 2

Funded Status of Approved Benefits

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
1. Available SRBR Reserves		
a. Total SRBR	\$183,959,000	\$185,867,000
b. 0.5% COLA Account	<u>62,692,000</u>	<u>66,201,000</u>
c. Available SRBR Reserve (1.a. – 1.b.)	\$121,267,000	\$119,666,000
2. Present Value of Approved Benefits		
a. Death Benefits	14,961,000	8,780,000
b. SRBR1	28,060,000	28,596,000
c. SRBR2	4,871,000	5,538,000
d. SRBR3	<u>9,339,000</u>	<u>10,238,000</u>
e. Total	\$57,231,000	\$53,152,000
3. PVB Minus Reserves Available (2.e. – 1.c.)	-\$64,036,000	-\$66,514,000
4. Funded Ratio, Approved Benefits (1.c./2.e.)	211.9%	225.1%

SECTION 2: Valuation Results for KCERA SRBR Valuation

C. FUNDED STATUS (continued)

In 2001, KCERA did an extensive review of the benefits provided through the SRBR and the financial strength of the SRBR. The Board decided to use a funding target based on a combination of Approved and Projected SRBR Benefits.

The target liability is the PVB for SRBR Tier 1, SRBR Tier 2 and SRBR Death Benefits. For SRBR Tier 3 Benefits, the target liability is the Present Value of projected payments for the 20-year period beginning with the valuation date.

Under the Board’s 20/20 policy, the goal is to have a 20% reserve for the death benefits, SRBR Tier 1 and SRBR Tier 2 benefits and 20 years of expected SRBR Tier 3 payments. This is the Targeted Funding with Reserves. The Present Value of Targeted Funding with Reserves is the medium-term funding target for the SRBR.

Under the Board’s 20/20 policy, if the Present Value of the Targeted Funding with Reserves is more than 100% funded, the Board may consider increasing the SRBR approved benefits. As of June 30, 2015, the funded status is over the 100% benchmark, at 174.0%.

The chart below shows the funded status of “Targeted Funding.”

CHART 3

Funded Status of Targeted Funding

	Liabilities	Liabilities with Reserves
1. June 30, 2015 Available SRBR Reserves	\$121,267,000	\$121,267,000
2. June 30, 2015 Present Value of Targeted Funding		
a. Death Benefits	14,961,000	17,953,000
b. SRBR1	28,060,000	33,672,000
c. SRBR2	4,871,000	5,845,000
d. SRBR3 (20 years of expected payments)	<u>12,206,000</u>	<u>12,206,000</u>
e. Total	\$60,098,000	\$69,676,000
3. PVB minus Reserves (2.e. – 1.)	-\$61,169,000	-\$51,591,000
4. Funded Ratio, Targeted Funding (1./2.e.)	201.8%	174.0%

SECTION 2: Valuation Results for KCERA SRBR Valuation

C. FUNDED STATUS (continued)

KCERA's long-term funding target for the SRBR is based on the Present Value of all projected SRBR Benefits.

The chart below shows the funded status of total SRBR Benefits.

CHART 4

Funded Status of Total SRBR Benefits

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
1. Available SRBR Reserves	\$121,267,000	\$119,666,000
2. Present Value of Total Benefits		
a. Approved Benefits	57,231,000	53,152,000
b. Future Benefits	<u>11,911,000</u>	<u>12,539,000</u>
c. Total	\$69,142,000	\$65,691,000
3. PVB minus Reserves (2.c. – 1.)	-\$52,125,000	-\$53,975,000
4. Funded Ratio, Total SRBR Benefits (1./2.c.)	175.4%	182.2%

SECTION 2: Valuation Results for KCERA SRBR Valuation

C. FUNDED STATUS (continued)

The funded status of Total SRBR Benefits as measured by the funded ratio decreased from 182.2% as of June 30, 2014 to 175.4% as of June 30, 2015.

The following chart details the changes in the funded ratio from the prior year's valuation to the current year's valuation.

The decrease in the funded status for total SRBR benefits was primarily due to the change in the SRBR Death Benefit, an investment loss, since the rate of return on the available SRBR (after smoothing) during 2014/2015 was about 6.6%, which is less than the 7.50% assumption and other liability losses. These losses were offset to some extent by the passage of time (i.e., expected changes in the funded status) and lower inflation as compared to expected.

CHART 5

Reconciliation of Funded Ratio for Total SRBR Benefits

1. Funded Ratio as of June 30, 2014	182.2%
2. Changes due to:	
a. Passage of Time (Expected Changes)	8.1%
b. Investment Loss	-1.6%
c. Inflation Gain	8.7%
d. Other Liability Gain/Loss	-5.4%
e. Plan Change to SRBR Death Benefit	<u>-16.6%</u>
f. Total	-6.8%
3. Funded Ratio as of June 30, 2015	175.4%

SECTION 3: Supporting Exhibits for KCERA SRBR Valuation

EXHIBIT I

Actuarial Assumptions and Methods

Actuarial Assumptions:	The same actuarial assumptions used in the KCERA June 30, 2015 Actuarial Valuation and Review.
Actuarial Value of Assets:	Supplemental Retiree Benefit Reserve value as of valuation date.
Actuarial Cost Method:	Not applicable, since only the Present Value of Future Benefits (PVB) is determined in this report.

SECTION 3: Supporting Exhibits for KCERA SRBR Valuation

EXHIBIT II
Summary of Plan Provisions

Benefits Provided:	The SRBR currently provides four categories of benefits:
Tier 1:	\$35.50 per month payable to retirees who were hired on or before July 1, 1994.
Tier 2:	Three additional monthly stipends payable to retirees: <ul style="list-style-type: none">• \$1.372 per year of service for members who retired prior to 1985. This was granted July 1, 1994.• \$5.470 per year of service for members who retired prior to 1985. This was granted July 1, 1996.• \$10.276 per year of service for members who retired prior to 1981. This was granted July 1, 1997.
	Upon death of the retired member, 60% of the Tier 1 and Tier 2 SRBR benefits continue to the retired member's beneficiary.
Tier 3:	Additional benefits to maintain 80% purchasing power protection. Upon death, this benefit continues to be paid to the retired member's beneficiary based on the applicable continuation percentage under the member's form of payment elected at retirement.
Death Benefit:	An additional one-time post-retirement death benefit of \$5,000 is paid to a retired member's beneficiary upon the death of the retired member.
Plan Changes:	The Death Benefit has been increased from \$3,000 to \$5,000 effective January 1, 2015.

SECTION 3: Supporting Exhibits for KCERA SRBR Valuation

**EXHIBIT III
Summary of SRBR Valuation Results**

Present Value of Projected Benefits

Approved Benefits	Death Benefit	SRBR1	SRBR2	SRBR3	Total
Active Members	\$3,274,000	\$3,078,000	\$0	\$0	\$6,352,000
Deferred Vested Members	640,000	1,170,000	0	0	1,810,000
Retirees and Beneficiaries	<u>11,047,000</u>	<u>23,812,000</u>	<u>4,871,000</u>	<u>9,339,000</u>	<u>49,069,000</u>
Total	\$14,961,000	\$28,060,000	\$4,871,000	\$9,339,000	\$57,231,000

Future Benefits

Active Members	\$0	\$0	\$0	\$4,835,000	\$4,835,000
Deferred Vested Members	0	0	0	164,000	164,000
Retirees and Beneficiaries	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,912,000</u>	<u>6,912,000</u>
Total	\$0	\$0	\$0	\$11,911,000	\$11,911,000

Total Approved and Future Benefits

Active Members	\$3,274,000	\$3,078,000	\$0	\$4,835,000	\$11,187,000
Deferred Vested Members	640,000	1,170,000	0	164,000	1,974,000
Retirees and Beneficiaries	<u>11,047,000</u>	<u>23,812,000</u>	<u>4,871,000</u>	<u>16,251,000</u>	<u>55,981,000</u>
Total	\$14,961,000	\$28,060,000	\$4,871,000	\$21,250,000	\$69,142,000

Available SRBR Reserves

Total SRBR	\$183,959,000
Additional 0.5% COLA Account	<u>62,692,000</u>
Available SRBR	\$121,267,000

Funded Ratios

Approved Benefits	211.9%
Total Approved and Future Benefits	175.4%

SECTION 3: Supporting Exhibits for KCERA SRBR Valuation

**EXHIBIT IV
Projected Cash Flow for SRBR Tier 3 Payments**

Year Beginning July 1,	Projected SRBR Tier 3 Payments
2015	\$1,501,000
2016	1,428,000
2017	1,378,000
2018	1,334,000
2019	1,290,000
2020	1,240,000
2021	1,191,000
2022	1,139,000
2023	1,090,000
2024	1,047,000
2025	1,007,000
2026	969,000
2027	934,000
2028	899,000
2029	862,000
2030	829,000
2031	797,000
2032	765,000
2033	734,000
2034	705,000

Value of Non-Discounted 20-Year Cash Flow: \$21,139,000

Present Value of Projected 20-Year Cash Flow: \$12,206,000

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