2.

County Employees Retirement Act

2.1-1 INTRODUCTION

This information is presented to generally familiarize you with the "'37 Act" and retirement systems governed by the act.

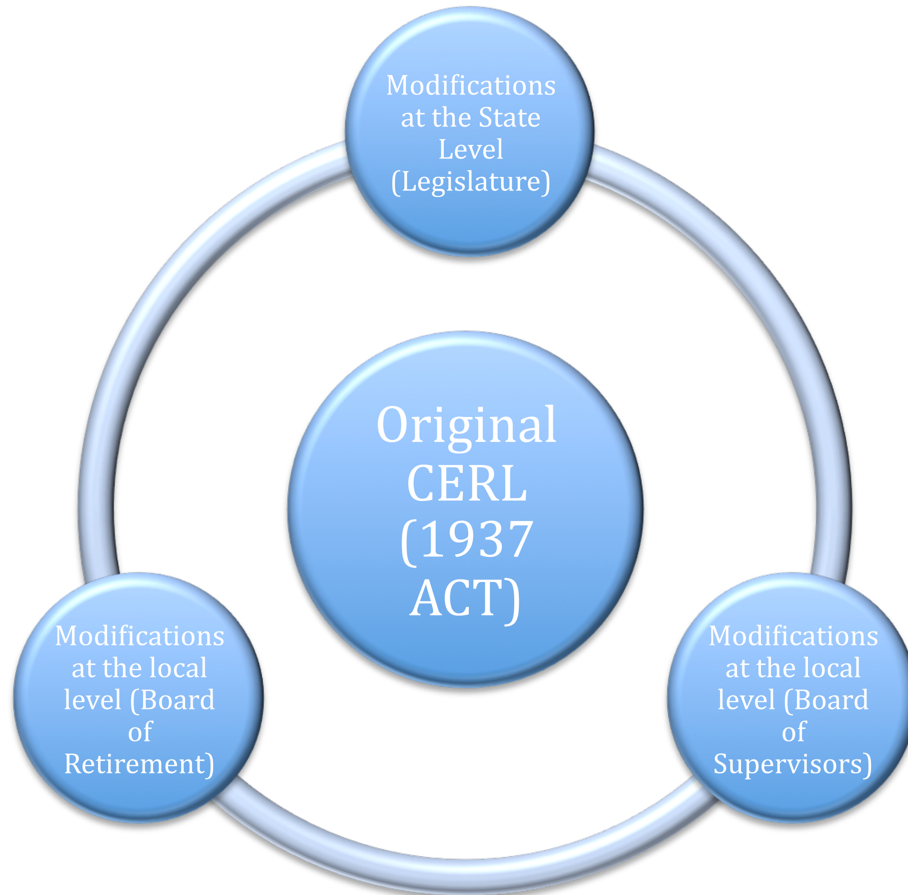
In some instances information presented is described in general terms and is **not** intended or suggested to be definitive, specific or complete and **may not** be current for some of the '37 Act systems.

Please consider this a *general overview* and basic introduction and intended to serve as an overview for individuals such as trustees, plan administrators, members of board of supervisors, legislators, labor and management representatives, plan participants and other interested parties, who are, to varying degrees, familiar with the County Employees' Retirement Law of 1937 (CERL) "the '37 Act" and retirement systems enacted pursuant to its provisions.

The '37 Act is a very dynamic piece of legislation. Each year, legislation is introduced that has direct impact on the operations of the systems. There are other activities such as court cases and initiatives that can fundamentally alter the operations of the systems.

One example was the approval by the California voters of the "California Pension Protection Act of 1992"

The '37 Act



2.2-1 CERL OVERVIEW

COUNTY RETIREMENT SYSTEMS

Initial Authorization

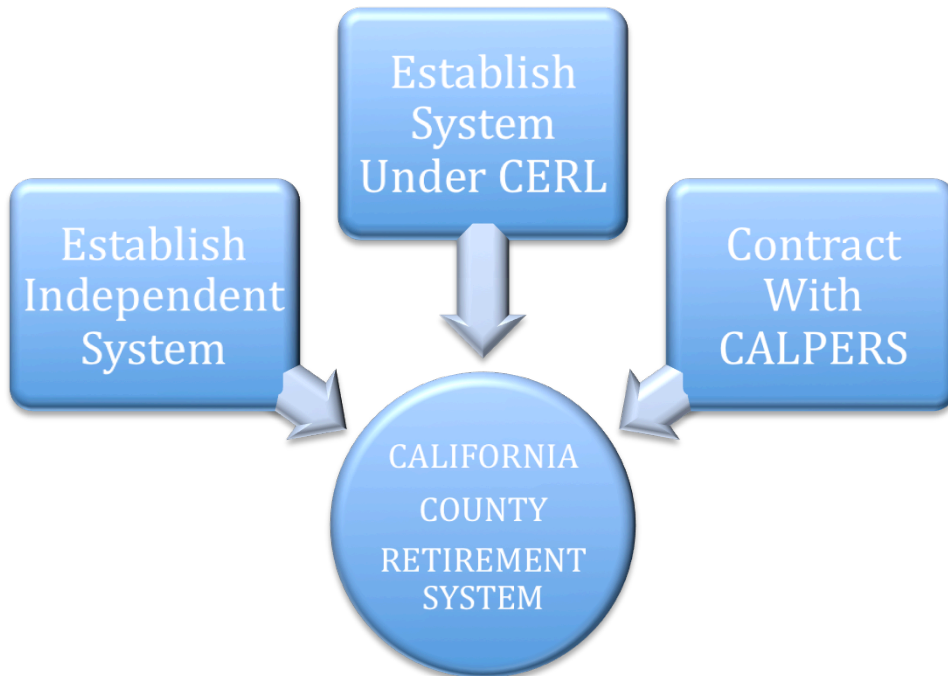
The Legislature initially authorized a retirement system for county employees with the enactment of the County Employees' Retirement Law of 1919. This law was replaced by the '37 Act and, was eventually repealed in 1947.

2.2-2 CERL OVERVIEW

COUNTY RETIREMENT SYSTEMS

Existing Law

Under existing law, a county may provide retirement benefits to its employees in three ways: Establish an independent system; or Contract with the California Public Employees' Retirement System (CalPERS), i.e. 37 California counties currently are under contract; or Establish a system under the CERL "37 Act"



2.2-3 CERL OVERVIEW

Independent Systems

Article XI, Section 1 of the California State Constitution authorizes general law counties to provide for the number, compensation, tenure and appointment of employees. In addition, Article XI, Sections 4 and 6, authorizes charter counties and charter cities to establish independent retirement systems if their charters so provide.

Two general law counties (**San Luis Obispo** and **Trinity**) and one city and county (**San Francisco**) currently are independent systems.

Trinity County also is a contracting agency with Cal PERS for providing benefits to its "safety" members.

CalPERS

In 1939, the Legislature authorized employees of counties (and other state public agencies) to join CalPERS at the individual county's option. Currently, there are 37 counties that participate in CalPERS.

2.2-4 CERL OVERVIEW

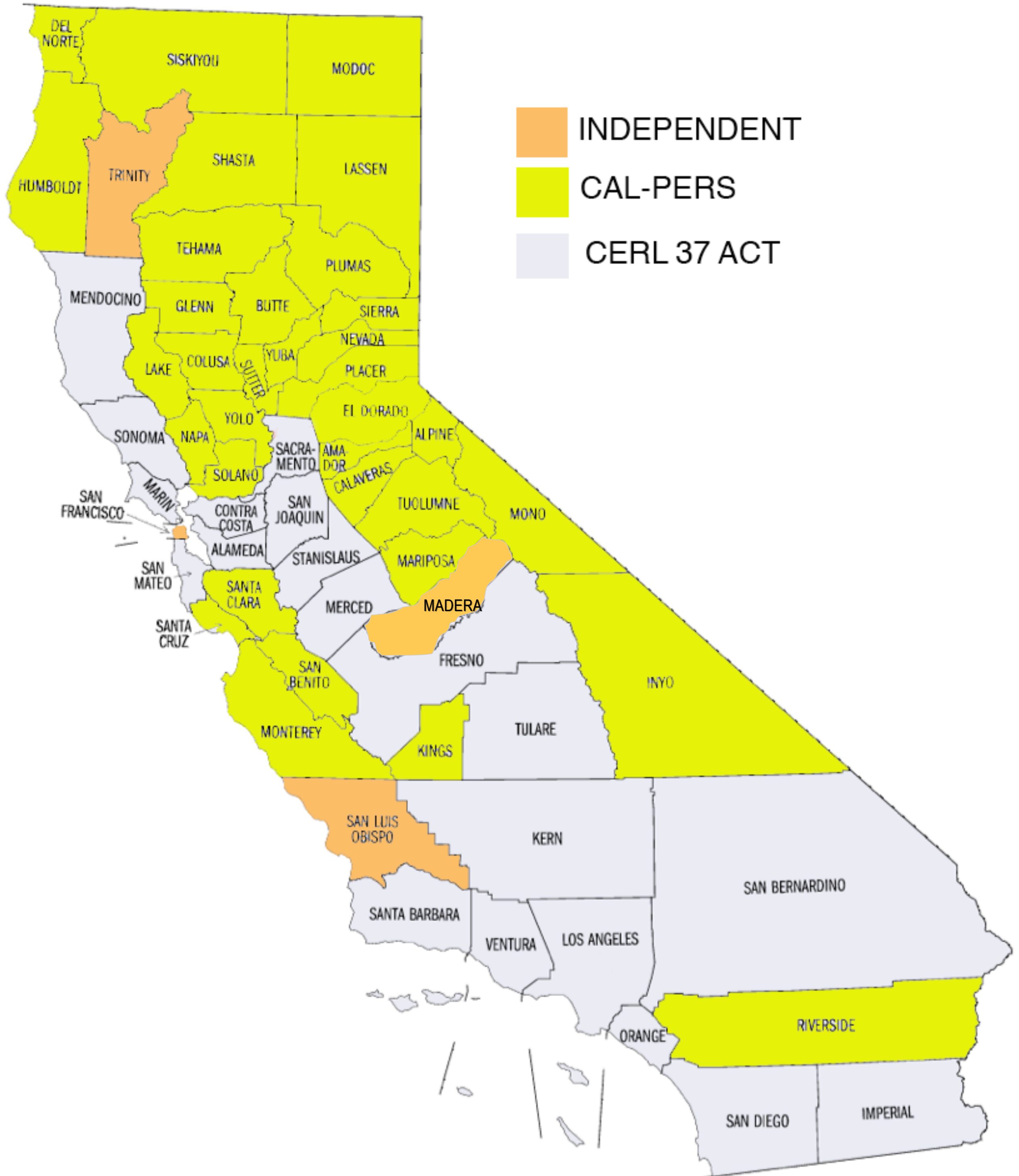
The CERL Systems

The 1937 Act provides for retirement systems for county and special district employees in those counties adopting its provisions. All changes, additions, or deletions to retirement systems established under this law require action by the State Legislature.

Twenty counties operate retirement systems under the provisions of the CERL.

The twenty counties are: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin, Mendocino, Merced, Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara, Sonoma, Stanislaus, Tulare and Ventura.

CALIFORNIA COUNTY RETIREMENT SYSTEMS BY TYPE



2.2-5 CERL OVERVIEW

The CERL Systems

Los Angeles, in 1938, was the first county to adopt the CERL provisions. Imperial was the last, establishing its system in 1951. Most of the county systems were created during the mid 1940's.

Because all permanent county employees are members of the county's retirement system, the memberships of the systems parallel the size of the sponsoring counties.

Los Angeles has the largest system with in excess of 151,400 members and beneficiaries, while Mendocino has the smallest system with slightly more than 2,300 members. Taken all together, as of June of 2009, the '37 Act systems have in excess of 420,000 members and represent $99.4 billion in assets.

These systems together constitute the third largest public employees "system" in the state, ranking behind the Public Employees' Retirement System (CalPERS) and the State Teachers' Retirement System (CalSTRS).

Section 2.3 provides financial details on each of the twenty systems.

2.2-6 CERL OVERVIEW

Stated Purpose

The CERL was enacted to recognize a public obligation to county and district employees who become incapacitated by age or long service in public employment and its accompanying physical disabilities.

The CERL accomplishes this purpose by making provisions for retirement compensation and death benefits as additional elements of compensation for services provided to the employer and the public.

Additionally, the CERL provides a means by which public employees who become incapacitated may be replaced by more capable employees to the betterment of public service without prejudice and without inflicting a hardship upon the employees removed.

2.2-7 CERL OVERVIEW

Complexity of the CERL

Although the ’37 Act as originally written was intended to be a system of benefits applicable to all systems enacted pursuant to its provisions, through legislative constitutional amendments, legislative statutory amendments and ambiguous language subjected to a multitude of interpretations by boards, administrators, legal advisors and courts, the administration of CERL systems has become complex, complicated and difficult.

The CERL is now replete with many unique provisions which are stated to be only applicable in counties of a certain “class” as determined by population.

Section 3.2 shows a list of SACRS county members and their classes.

2.2-8 CERL OVERVIEW

Complexity of the CERL

It is also replete with provisions which are only applicable in certain counties if specifically adopted by the board of supervisors or the board of retirement or both.

With the passage of recent legislation, all new benefits require an actuarial study be conducted to determine the present and future costs of implementing the benefit. Further, the action to adopt the benefit must be done in public session during a Retirement Board meeting and cannot be a consent item.

These provisions enable counties to provide levels of benefits to members which are appropriate for county resources and acceptable politically.

2.2-9 CERL OVERVIEW

Complexity of the CERL

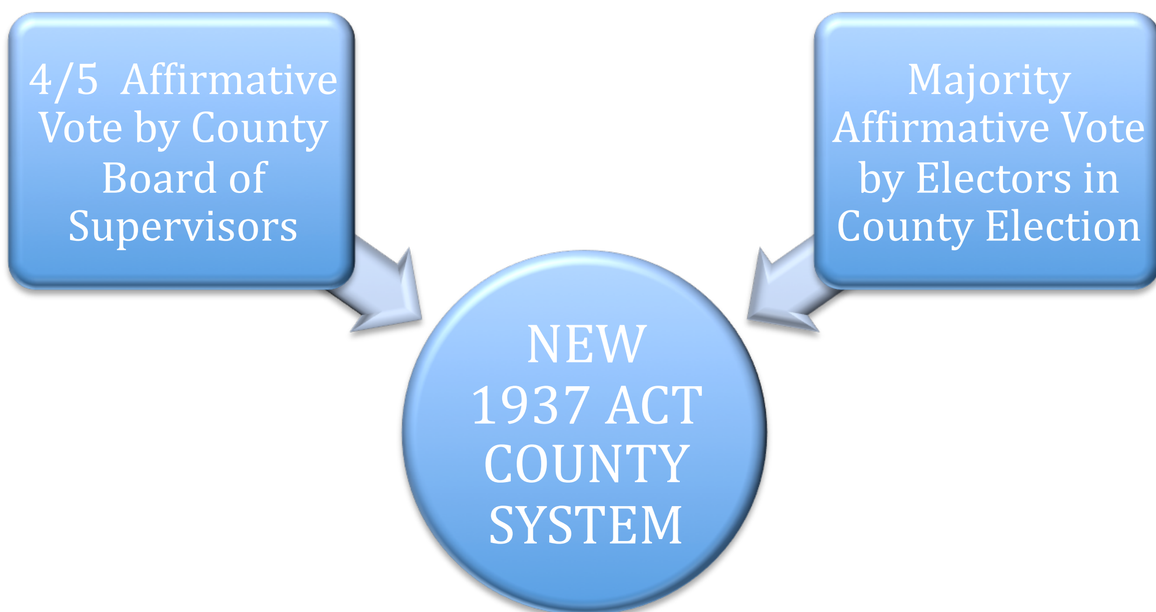
These reasons aside, without intimate knowledge of the specific system's history with respect to population size and past actions of the board of supervisors and the board of retirement, and without a system's plan summary description, it is virtually impossible for a reader of the CERL to determine, with reasonable certainty, the benefits of a particular CERL system.

Further complications arise out of the authority of the retirement boards to adopt provisions and make regulations for specific activities that are not apparent in the CERL itself.

2.2-9 CERL OVERVIEW

Establishing A System

The CERL provides two methods by which a county may establish a retirement system. The system may be created by 4/5ths vote of the county Board of Supervisors or by majority vote of the electors in a County special or general election.



2.2-10 CERL OVERVIEW

Establishing a System

Once a county elects to come under the CERL, the Act's provisions become operative on either the following January 1st or July 1st, but no sooner than 60 days after the appropriate election.

A system established pursuant to the CERL supersedes any previous established county retirement system.

2.2-11 CERL OVERVIEW

Board of Retirement

Each county implementing the 37 Act has a board of retirement which is charged with managing the system. These boards make administrative regulations.

If the boards have declared themselves to be independent agencies, then these regulations are not required to be approved by the county board of supervisors before implementation.

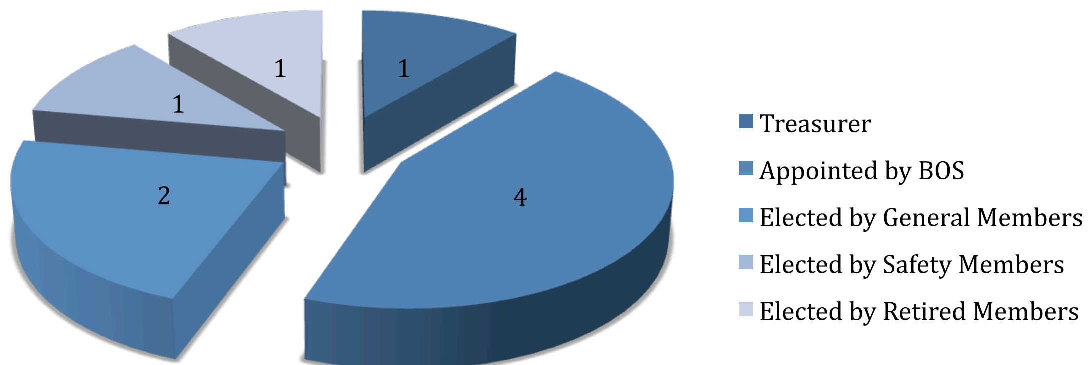
These boards of retirement must have nine members and, in systems that have law enforcement and fire suppression members, one alternative safety member, each serving a term of three years.

Board of Retirement

Composition of each board is determined by statute as follows:

1 County Treasurer
4 Qualified Members not in any way connected with county government, except one may be a county supervisor. These four positions are appointed by the board of supervisors
2 General Members of the retirement association as elected by the general members.
1 Safety Member (and one alternate safety member in counties where the board of retirement has adopted the necessary code sections) of the retirement association elected by the safety members.
1 Retired Member (and one alternate retiree member in counties where the board of retirement has adopted the necessary code sections) elected by its retired members.

Standard Board Composition



2.2-13 CERL OVERVIEW

Board of Investments

In any county in which the assets of the retirement system exceed eight hundred million dollars ($800,000,000), the board of supervisors may, by resolution, establish a Board of Investments which shall be responsible for all investments of the retirement system.

The composition and terms of office are basically the same as the board of retirement except appointed members of the board must have significant experience in institutional investing.

Currently, only Los Angeles County Employees' Retirement Association has a board of investments.

2.2-14 CERL OVERVIEW

Administrative Costs and Personnel

Under specific code sections unique to retirement systems, boards of retirement have the ability to have administrative, technical and clerical staff appointed by the respective board of retirement or board of investment.

When the staff is appointed by the board, the cost of administration is taken from the investment earnings of the system. The maximum administrative expenditure (excluding costs of investments and attorneys) is statutorily set at **.18 percent** of system assets.

2.2-15 CERL OVERVIEW

Administrative Costs and Personnel

System personnel are county employees and are subject to civil service or merit system rules of the county in which the retirement system is located.

A board-appointed administrator, a chief financial officer and assistant administrator, however, may not be subject civil service or merit system rules but may serve at the pleasure of the board.

Several systems have been moving to exempt more of their staff from the county employment status. This requires unique government code sections.

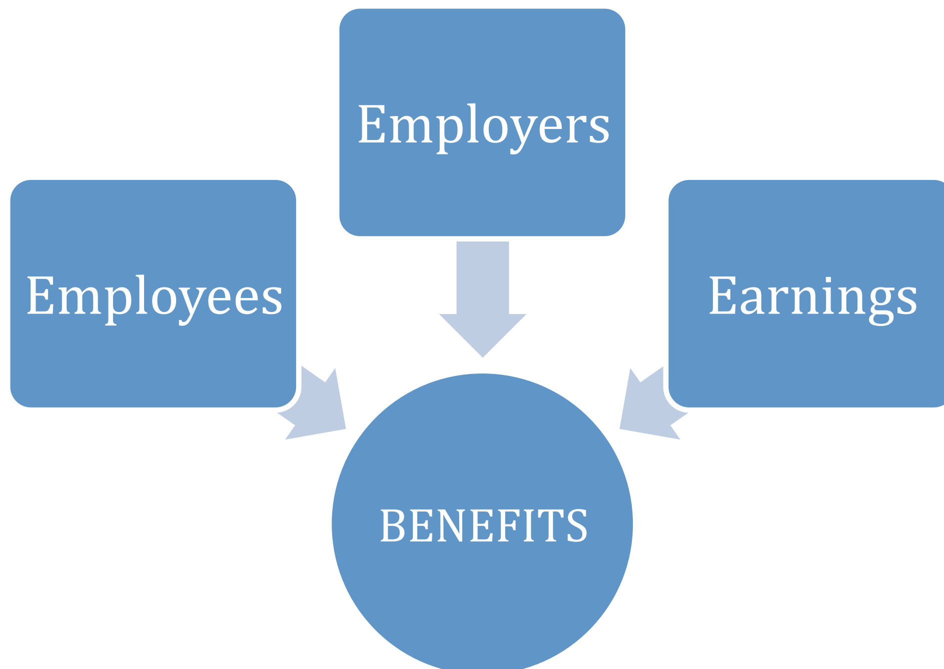
In all cases, personnel salaries are included in the salary ordinance or resolution adopted by the board of supervisors for compensation of county officers and employees.

2.2-15 CERL OVERVIEW

Funding

Funding of benefits is provided from three sources:

1) INVESTMENT INCOME
2) EMPLOYEE CONTRIBUTIONS
3) COUNTY AND SPECIAL DISTRICT (EMPLOYER) CONTRIBUTIONS



Investment Income

Investment income generally refers to the earnings derived from the investment of the system’s assets and consists of interest, dividends, rentals and capital appreciation.

Investment earnings are usually expressed as a percentage of the amount invested.

Because of this, the manner in which the value of these assets is reported can have a significant impact on the reported yield. That is, there are two common methods for reporting the value of assets:

(1) The book value, or the value of the asset based upon its original purchase price or acquisition cost, and

(2) The market value, or the assets’ current value.

2.2-17 CERL OVERVIEW

Investment Income

There are two methods for valuing assets: market value and book value. Market value is generally considered the more accurate of the two. All systems under the CERL now use market value to value assets. Assets used to be reported at book value which had the advantage of being simpler and more stable.

Investment Income

Prior to June 5, 1984, investment of assets were limited and controlled pursuant to Government Code Sections 31595 through 31595.6, and by Sections 1372 of the California State Financial Code. Listed below are the authorized investments allowed at that time. They are included here as an illustration of how far investment strategies have evolved in the past 25 years:

1	**Securities which were legal for savings bank investments**
2	**Deposits and interest in banks (if secured or collateralized at 110%)**
3	**Deposits in savings and loan associations (if secured or collateralized at 110%)**
4	**Registered warrants of municipalities**
5	**Real property leased to counties in the state**
6	**Deeds of trust and mortgages (not to exceed 25% of all funds invested)**
7	**Real property or improvements if acquired for sale or lease to a county board of education**
8	**Bonds issued pursuant to the Improvement Bond Act of 1915**
9	**The purchase of the right to receive rent from leases of real property to a railroad company**
10	**Common stocks (not to exceed 25% of the fund's assets, subject to restrictions)**
11	**Preferred stocks (not to exceed 5% of the fund's assets, accumulative with common stocks)**
12	**Mutual funds (not to exceed 25% of the fund's assets, accumulated with common stock holdings)**
13	**Real estate and leases for business or residential purposes (not to exceed 10% of the fund's assets and must have been approved by a unanimous vote of the retirement board)**
14	**Bonds, debentures, and notes legal for investment in savings banks in the state of New York or Massachusetts or in securities in which commercial banks were authorized to invest their funds.**

Investment Income

Proposition 21

On June 5, 1984, California voters approved **Proposition 21**, a legislative constitutional amendment that significantly altered the constitutional limitations on investments by public employee retirement funds.

Amendments to CERL were enacted on September 30, 1984, to reflect the changes approved by the passage of Proposition 21. These amendments, which were enacted in Assembly Bill No. 3508, Chaptered 1738, Statutes of 1984, replaced the restrictions on CERL funds investments with more flexible guidelines. These guidelines are primarily stated in Government Code Section 31595 as follows:

"Except as otherwise expressly restricted by the California Constitution and by law, the board may, in its discretion, invest or delegate the authority to invest the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board."

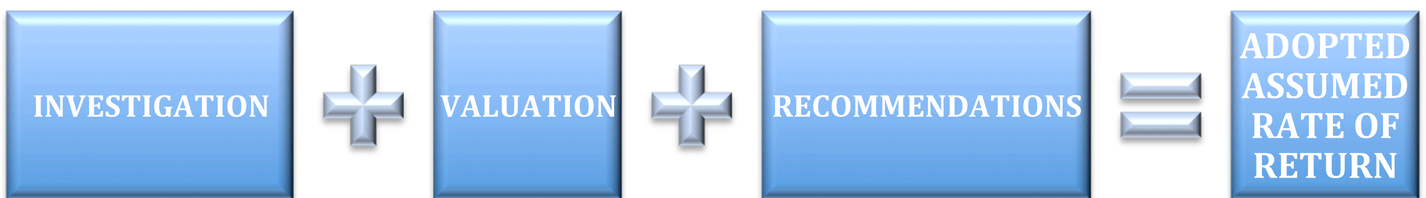
Proposition 21

Actuarial Evaluations

Government Code Section 7507 requires counties to secure the services of an enrolled actuary to provide actuarial evaluations of future annual costs before authorizing increases in public retirement plan benefits.

Section 31453 of the CERL requires that an actuarial valuation be made at least every three years to cover the mortality, service, compensation, and experience of the members and beneficiaries, and to evaluate the assets and liabilities of the retirement fund.

On the basis of the investigation, valuation, and recommendations of the actuary, the board of retirement must adopt an assumed rate of return on the system's investments for purposes of determining the level of required contributions and must recommend to the board of supervisors such changes in the rates of interest applied to employee accounts, the rates of contributions on members, and changes in county and district appropriations as are necessary to fund the system.



2.2-21 CERL OVERVIEW

Employee Contributions

With recent exceptions for “new” employees hired into specific tiers of the Government Code, retirement systems established pursuant to the CERL are contributory.

This means that a portion of the cost of the benefits to be derived is paid directly by the employees in the form of a deduction from each payroll cycle. The contributions made by the members are held in reserve and credited with interest to purchase an annuity at the time of retirement.

These contributions are known as “basic” contributions.

2.2-22 CERL OVERVIEW

Employee Contributions

The CERL specifies that certain basic rates of contributions be dependent upon the basic benefit formula adopted.

Those rates are set by the actuary to provide for an average annuity at a specified age as a percent of final compensation (the highest compensation earned by a member over a specified period of time.) Basic rate formulas may be established under the CERL to provide an average annuity at specified ages equal to fractions of final compensation for each year of service.

Employee Contributions

For the defined benefit plans, generally only three things affect the employee basic rate:

1) **Interest assumption.** Used to discount the value of the basic benefit at retirement to present date. The interest rate includes two components: the anticipated future rate of inflation and the "real" rate of return, which is the investment earnings in excess of inflation. The higher the interest assumption – whether due to inflation or real returns – the bigger the discount and the lower the employee contribution rate. The inflation component also affects future salaries as noted below.

2) **Mortality after service retirement.** Projected future costs of service retirement are directly related to the number of years for which payments are to be made. Longer life expectancies tend to increase employee contribution rates.

3) **Salary scale.** Like the interest assumption, the salary scale includes two components: the anticipated future rate of inflation and the "real" rate of salary increases, which are salary increases in excess of inflation. This means that a higher inflation assumption will increase both the interest assumption and the salary scale assumption. The higher the salary scale assumption, the higher the projected future final compensation for retiring members, and the higher the employee contribution.

Employee Contributions

In addition to funding the basic annuity, employee contributions are needed to fund annual cost-of-living increases.

This projected cost is considered by the actuary in determining appropriate employee rates.

Unlike the basic rate, the cost-of-living rate is affected by future experience, i.e. future service and disability retirements, withdrawals, deaths before retirement, etc.

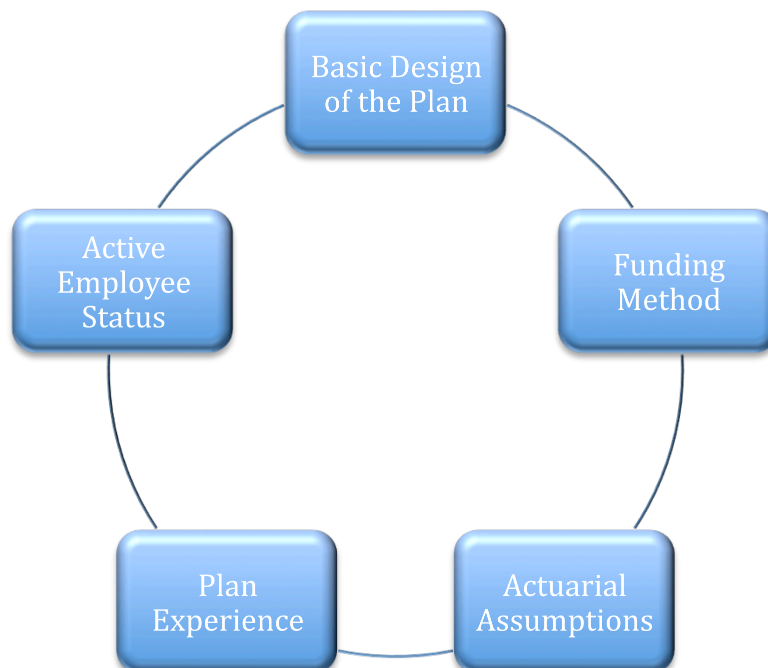
In many counties, contributions are a flat percentage of the employee's entire salary. However, if the benefit formula is integrated with Social Security benefits, the employee contributions may be set at different rates on portions of the employee's earnings above and below the Social Security integration level.

Typically, two-thirds of the rate is applied below the Social Security integration level, the full rate is applied to the excess.

Employee Contributions

After projecting the income from retirement system investments and employee contributions, the system's actuary determines the amount of employer contributions necessary to properly fund the system. The actuary first projects the level and timing of benefit payments and then recalculates the difference between the employer contributions, which are dependent upon five factors:

(1) The basic design of the plan
(2) Funding method used
(3) Actuarial assumptions used by the plan actuary in conjunction with the funding method
(4) Experience of the plan relative to actuarial assumptions of actuary
(5) Maturity status of active employees, i.e. average age and service.

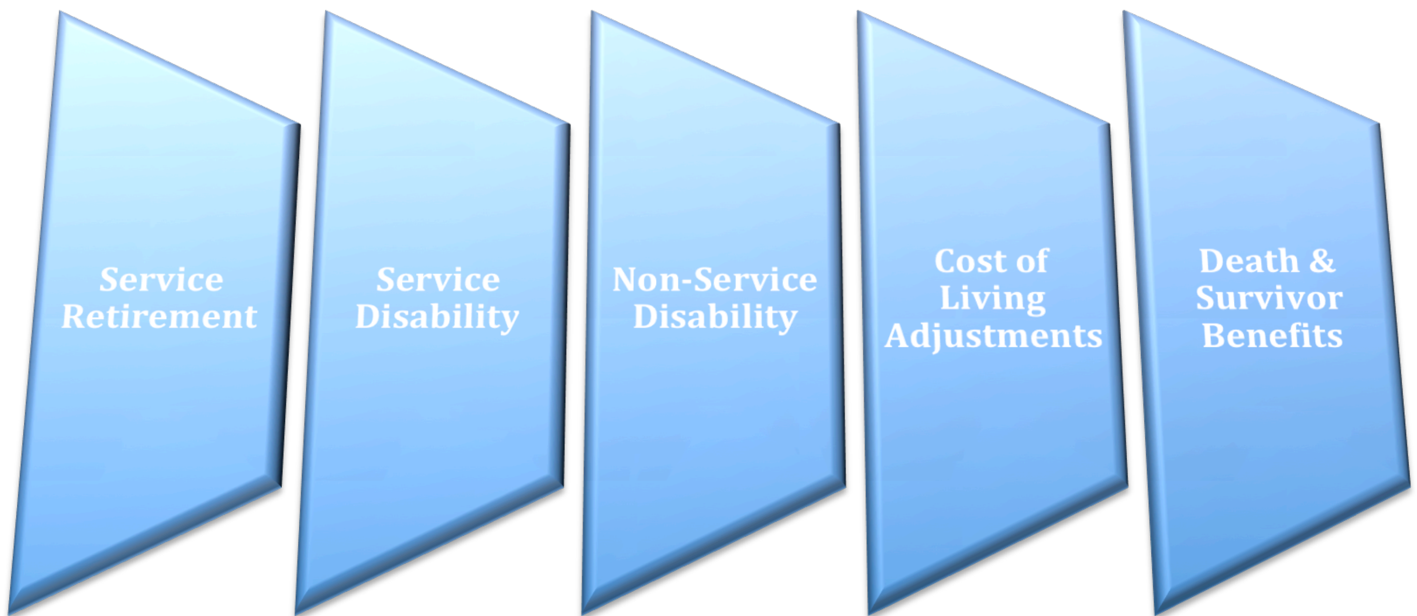


2.2-26 CERL OVERVIEW

Basic Design of the Plan

All systems under the CERL provide their members with income from

(1) Service retirement
(2) Non-service connected disability
(3) Service-connected disability
(4) Cost-of-living increases
(5) Death and survivor benefits



2.2-27 CERL OVERVIEW

Basic Design of the Plan

Employee contribution rates, as stated earlier, are calculated only with consideration of providing annuity payments at specific ages of retirement, and in consideration of subsequent cost-of-living increases on all continuing benefits of the annuity. All other costs of the system are borne by the employer, i.e. the county and member districts. Therefore, the greater the benefit provided to members and/or survivors, the greater the current and projected liability of the employer.

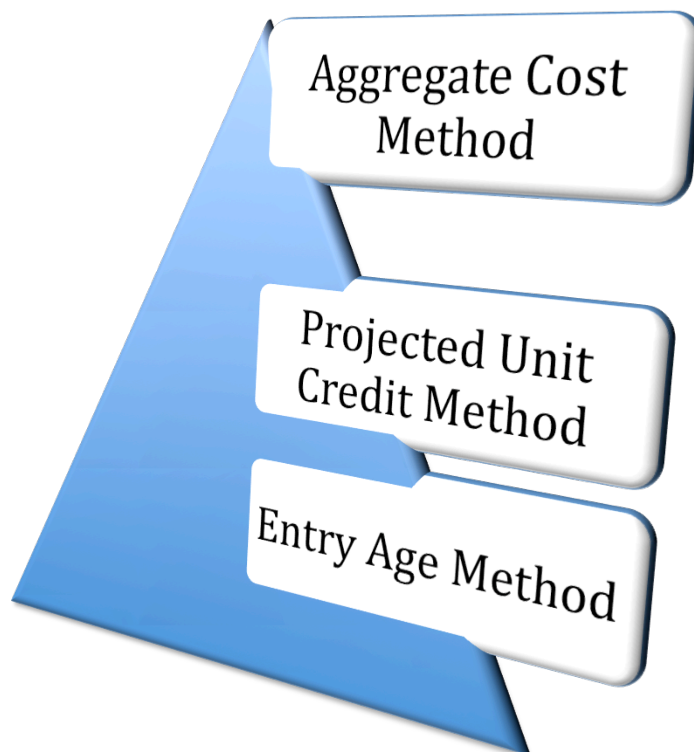
Also, the earlier the benefit is provided, the greater is the current and projected liability to the employer. The retirement benefits, once vested, become contractual obligations of the counties and must be paid.

Basic Design of the Plan

Funding Method

To determine the level of required contributions, the system's actuary must determine the value of all future benefits, and then allocate that value to the members' years of service to determine both the cost for the current year (the "normal cost") and the liability for past service (the "accrued liability"). The level of system assets is an important part of this process as well. This allocation is done using a "funding method" which is adopted by the board as part of the system's funding policy. There are three general types of funding methods which may be used.

The Three Kinds of Basic Plan Design



2.2-29 CERL OVERVIEW

Basic Design of the Plan - Aggregate Cost Method

The aggregate cost method assumes that all past and future benefits, which are not covered by current assets, will be funded as a level percentage of salary over the future working lifetimes of the active members. The future working lifetime is typically about 15 years. That percentage of salaries is the normal cost rate for the year, and makes up the entire contribution requirement for the year. There is no unfunded accrued liability under the aggregate cost method.

2.2-30 CERL OVERVIEW

Basic Design of the Plan - Projected Unit Credit Method

The projected unit credit method determines the normal cost for each year of service as the value of the benefit earned during that year, but based on salaries "projected" to retirement age. Similarly, the accrued liability is the value of benefits for service up to the valuation date, but again based on projected salaries, not current salaries. If the accrued liability is greater than the system assets, the difference is the unfunded accrued liability. The contribution requirement for the year is in two parts: the normal cost, plus an additional payment to fund or "amortize" the unfunded accrued liability (if any).

2.2-31 CERL OVERVIEW

Basic Design of the Plan - Entry Age Method

The entry age normal method starts by determining what percentage of salary would be needed to fund the member's benefit, assuming that the percentage is paid from hire (entry age") to retirement age. That percentage is the normal cost. The accrued liability is just the value today of the normal cost for all past years. Just with the projected unit credit, the contribution requirement for the year is in two parts: the normal cost, plus an additional payment to amortize any unfunded accrued liability.

Basic Design of the Plan - Comparison

Compared to the projected unit credit method, the normal cost under the entry age normal method is higher in the early years of service, and lower in the later years. The accrued liability is always larger under the entry age normal method than under the projected unit credit method.

For the projected unit credit and entry age normal methods, part of the system's funding policy is to set an amortization period. That is, to decide how fast to fund any unfunded accrued liability. Historically, most systems have used amortization periods of 20 to 30 years. For such systems, generally the total contribution requirement will be lowest using the projected unit credit method, the highest using the aggregate method, with the entry age normal method in the middle.

At this time, all but one '37 Act system use the entry age normal method, while that system utilizes the projected unit credit method.

Actuarial Assumptions

The system actuary is required at least every three years to perform an evaluation of the system and to recommend to the boards of retirement the adoption of an assumed rate of investment return and an assumed rate of salary increases.

The higher the assumed rate of investment return, the lower the required employee and employer contributions. Similarly, because retirement benefits and amounts are calculated based upon final compensation. And therefore are reflected in service/salary scales (percentage increase by years of service which is use in projecting salaries), these projected salaries are in turn used for estimating the amounts of pension payable at retirement.

They are also used for estimating the projected liability on account of other occurrences, i.e. disability, death and withdrawal activities of the plan.

2.2-34 CERL OVERVIEW

Experience of the Plan

In determining projected liabilities and assets necessary to fund the system, the actuary analyzes the experience of the system to determine the probabilities of members leaving the system because of non-vested withdrawal, death, disability retirement, service retirement, and vested termination.

These probabilities depend on other events. For example there is more workforce turnover, there are delayed retirements, etc.

2.2-35 CERL OVERVIEW

Average Age and Service

Generally, the younger the age of the member at entry, the greater the number of years of service toward retirement and the longer the employee and the employer will have to contribute to the system in order to finance his/her future benefits.

2.2-36 CERL OVERVIEW

Source of Funds

Employer contributions to the fund are usually provided from the county general funds which sources include property tax revenues, various state and/or federal subventions and special funds such as enterprise funds.

Acknowledgement

Special Thank You

A Special Thanks and Acknowledgement to

Mr. John R. Descamp, CEO – Retired Sacramento CERS,
Who wrote the original version of section 2-2 in October 1999

2.3 FINANCIAL OVERVIEW

Financial Statements for 37 Act Counties

Click on a county system below to display the financial statement as reported to the State Controller.

Alameda CERA	Sacramento CERS
Contra Costa CERA	San Bernardino CERA
Fresno CERA	San Diego CERA
Imperial CERA	San Joaquin CERA
Kern CERA	San Mateo
Los Angeles CERA	Santa Barbara CERA
Marin CERA	Sonoma CERA
Mendocino CERA	Tulare CERA
Merced CERA	Ventura CERA
Orange CERS	

2.4 CAFR

Comprehensive Annual Financial Reports for 37 Act Counties

Click on a county system below to open the system's website to view it's CAFR.

Alameda CERA	**Sacramento CERS**
Contra Costa CERA	**San Bernardino CERA**
Fresno CERA	**San Diego CERA**
Imperial CERA	**San Joaquin CERA**
Kern CERA	**San Mateo**
Los Angeles CERA	**Santa Barbara CERA**
Marin CERA	**Sonoma CERA**
Mendocino CERA	**Tulare CERA**
Merced CERA	**Ventura CERA**
Orange CERS	