



Santa Barbara County  
Employees' Retirement System

A Pension Trust Fund for the  
County of Santa Barbara, California

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

Special thanks to the SBCERS Accounting staff for their support and help in the compilation of this publication.



SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
A Pension Trust Fund for the County of Santa Barbara, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For Fiscal Years Ended June 30, 2006 and 2005

**MISSION**

*SBCERS is committed to fulfilling its fiduciary responsibility  
by providing the highest quality of service to all members and plan sponsors  
and protecting promised benefits through prudent investing  
while ensuring reasonable expenses of administration.*

*Issued by:*

Oscar Peters, Retirement Administrator  
Ramona DeWitte, Accountant

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Santa Barbara, CA 93105

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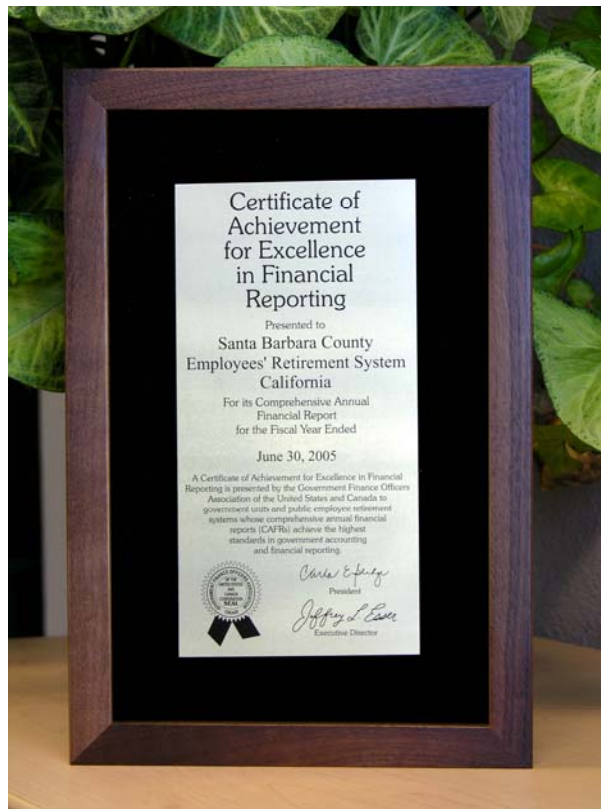
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# Introduction 1

## CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

Each year, the Government Finance Officers Association of the United States and Canada (GFOA) presents the Certificate of Achievement for Excellence in Financial Reporting to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) have been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive “spirit of full disclosure” to clearly communicate its financial story and motivate potential users to read the CAFR. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. For the 5<sup>th</sup> consecutive year, SBCERS has earned this prestigious award for the 2005 CAFR.



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*Also Awarded in 2001, 2002, 2003 and 2004*

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**OSCAR PETERS**  
**RETIREMENT ADMINISTRATOR**



**SANTA BARBARA COUNTY**  
**EMPLOYEES' RETIREMENT SYSTEM**

3916 State St., Suite 210, Santa Barbara, CA 93105  
Telephone (805) 568-2940  
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November 8, 2006

Santa Barbara County Employees' Retirement System  
Board of Retirement  
3916 State Street, Suite 210  
Santa Barbara, CA 93105

Dear Board Members,

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS) for the fiscal year ending June 30, 2006 and June 30, 2005. This report is intended to provide readers with complete and reliable information about the SBCERS' financial status, compliance with the law and administrative consistency with policy.

This was the fourth consecutive year that the performance of the investment portfolio exceeded the assumed rate of return. This is the fourth consecutive year that the County contribution rate increased. It is the first time in the last four years that the actuarially funded level of the System improved. The inconsistency of these events is the result of the actuarial smoothing process used by the SBCERS to reduce the volatility of the County contribution rates. Investment gains and losses are recognized over five years. At the end of any year there will be deferred gains and losses. The positive performance of the last year when combined with previous years resulted in SBCERS having deferred gains which will flow into the actuarial funding process over the next five years. The improvement in reported actuarially funded level is the first sign that the system has recovered from the market losses of 2001 through 2003. Last year the portfolio returned 10.8% compared to the actuarial assumed return of 8.16%. This is slightly better than the benchmark projected return of 10.7% and about the average for retirement funds. The system remains well funded and well positioned. It has an actuarial funding level of 85.8% and \$76 million of deferred gains which will be recognized in future years.

I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 14.

**The Comprehensive Annual Financial Report**

Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with SBCERS' management. It is our intent and belief that the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. The report is presented in five sections:

- the **Introduction Section** contains an overview of SBCERS and its organization. This section includes this letter of transmittal, a listing of the members of the Board of Retirement, the Retirement System organization chart, and a listing of professional consultants utilized by the retirement system;
- the **Financial Section** presents the financial condition and funding status of SBCERS. This section contains the opinion of the independent public accountants - Nasif, Hicks, Harris & Company, LLP, Management's Discussion and Analysis, the financial statements, and the related supplemental information;
- the **Investment Section** provides an overview of SBCERS' investment program. This section contains a report on investment activity, investment policies, investment results, and various investment schedules;
- the **Actuarial Section** communicates the Plan's funding status and presents other actuarial related information. This section contains general plan provisions, actuarial statistics, and the certificate of the consulting actuary, Buck Consultants;
- the **Statistical Section** presents information pertaining to SBCERS' operations on a multi-year basis.

## SBCERS AND ITS SERVICES

SBCERS was established on January 1, 1944, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for its employees and contracting districts under the California State Government Code, § 31450 (County Employees' Retirement Law of 1937). Members include all permanent full and part-time employees of the County of Santa Barbara and the following nine districts:

- Air Pollution Control District
- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Oak Hill Cemetery District
- Santa Barbara Association of Governments
- Santa Barbara Coastal Vector Control District
- Santa Maria Cemetery District
- Summerland Sanitary District

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investment of the System's assets under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(a) provides the Retirement Board has "the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions



thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

The Board consists of nine members and two alternates. The County Board of Supervisors appoints four, members of the Retirement System elect six (including the two alternates), and the County Treasurer is an ex-officio member. The Retirement System is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System. The Board of Retirement (Board) continues to demonstrate its commitment to providing accurate and timely service to our 5418 members and 2679 benefit recipients into the future.

## **SERVICE EFFORTS AND ACCOMPLISHMENTS**

### SERVICE

Retirement Pre-planning Workshops were launched in the spring of 2005 and have become a popular feature of SBCERS' outreach. In 2005-2006 the program presented bi-monthly workshops that were rotated between the cities of Lompoc, Santa Barbara and Santa Maria. Additionally, several "Question and Answer" sessions were hosted throughout the county using a casual format and were equally well received. Retirement benefit information is also presented at all County New Employee Orientation Meetings and for districts and/or departments upon request.

Medicare benefits were expanded, by the implementation of Medicare D, to provide prescription drug coverage effective January 1, 2006. Members covered by the SBCERS' plans had prescription drug coverage that was better than the new Medicare D plan. Our carriers integrated the Medicare D plan in their coverage by paying the Medicare D premium and providing the Medicare D discount to the covered retirees. This resulted in most Medicare covered retirees receiving the same prescription drug coverage at a lower premium. Service efforts were increased and a significant amount of staff time was devoted to generate numerous mailings, field calls, hold special workshops, and reconcile billings from the health insurance providers.

An annual Cost of Living increase of 3% was approved by the Board of Retirement for all eligible retirees and beneficiaries effective April 1, 2006 with a future carry-over of 1.5% for all members retired on or before April 1, 2006.

SBCERS continues to experience a high level of requests for service credit buybacks. During the fiscal year 82 service credit requests were processed including 20 purchases of Additional Retirement credit. The number of new retirement allowances continued to increase with 191 new retirees being added to the roll this year.

### STAFFING

The position of Assistant Retirement Administrator was added to the staff in January, 2006. This position is responsible for overseeing the service-oriented areas of benefits and disabilities. The Assistant Retirement Administrator has assumed the role of public information and communications specialist and is the facilitator for negotiating, addressing and resolving health, dental, and vision plan issues for retirees. Other staffing levels increased by three additional positions filling needs in accounting, benefits, and technology services.

### TECHNOLOGY

The member record imaging project launched in 2005 has settled into a routine process of both scanning and retrieval. Staff members quickly embraced the added benefit of spontaneous record retrieval for their daily tasks. Even though scanning is part of the daily task flow, it will take another two to three years before all member records are imaged. The imaging of documents for other areas of the business such as disability records, administrative records, and accounting records continue to be part of the imaging project and is several years out before reaching completion.

### ADMINISTRATION

The Santa Maria Office lease expired on June 30, 2006. New office space on the ground floor was leased at 2400 Professional Parkway. The staff relocated to the new, larger space in mid-June immediately following the annual health insurance open enrollment process. The newer offices are more conveniently located and easily accessible.

### **FINANCIAL INFORMATION**

SBCERS' management is responsible for the accuracy of the data, the completeness and fairness of the presentation of financial information, including all disclosures, and establishing and maintaining an internal control structure designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Nasif, Hicks, Harris & Company, LLP, independent auditors, have audited the financial statements and expressed their opinion that SBCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

### **INVESTMENTS**

The Board of Retirement has exclusive control of all investments of the Retirement System and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity and are authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. External investment management firms manage the assets of SBCERS. Staff and the System's investment consultant closely monitor the activity of these managers and assist the Board with implementation of investment policies and long-term investment strategies. The investment goals, policies, and procedures establish the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk control. For the current quarter ended June 30, 2006 SBCERS' investments provided (0.7)% return. SBCERS' annualized rate of return over the last one and three-years is 10.8% and 12.2% respectively, while the policy benchmark had annualized returns of 10.7% and 12.8% for one and three-year periods. More detail on SBCERS' investment performance and policies can be found in the Management Discussion and Analysis Report (page 14) and in the Investment section of the CAFR (page 39).

### **ACTUARIAL FUNDING STATUS**

Buck Consultants, an independent actuarial firm, is hired to conduct annual actuarial valuations to monitor SBCERS' funded status. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding progress of the Retirement System is calculated in accordance with Government Accounting Standards Board Statement No. 25 and compares the ratio of system liabilities for benefits earned versus current value of assets. The funded ratio as of June 30, 2006

was 85.8% using the entry age normal cost method. The actuarial process uses asset smoothing and a fifteen year amortization of experience gains and losses. As of the fiscal year ended June 30, 2006 the net assets were \$1.629 billion. More detailed information on methods and funding status can be found in the Financial and Actuarial sections of the CAFR.

Triennially, the Board's actuary performs a full analysis of all economic and non-economic assumptions; a valuation update using statistical information available for members is performed annually. The economic and non-economic assumptions are updated at the time the triennial experience study is performed. Triennial experience studies serve as the basis for changes in member and employer contribution rates necessary to properly fund the System. Recommendations are presented to the Board of Retirement for consideration. The last triennial experience study was performed as of June 30, 2006.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Barbara County Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the fifth consecutive year that SBCERS submitted the report for consideration and received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are again submitting it to the GFOA to determine its eligibility for another certificate.

### **ACKNOWLEDGMENTS**

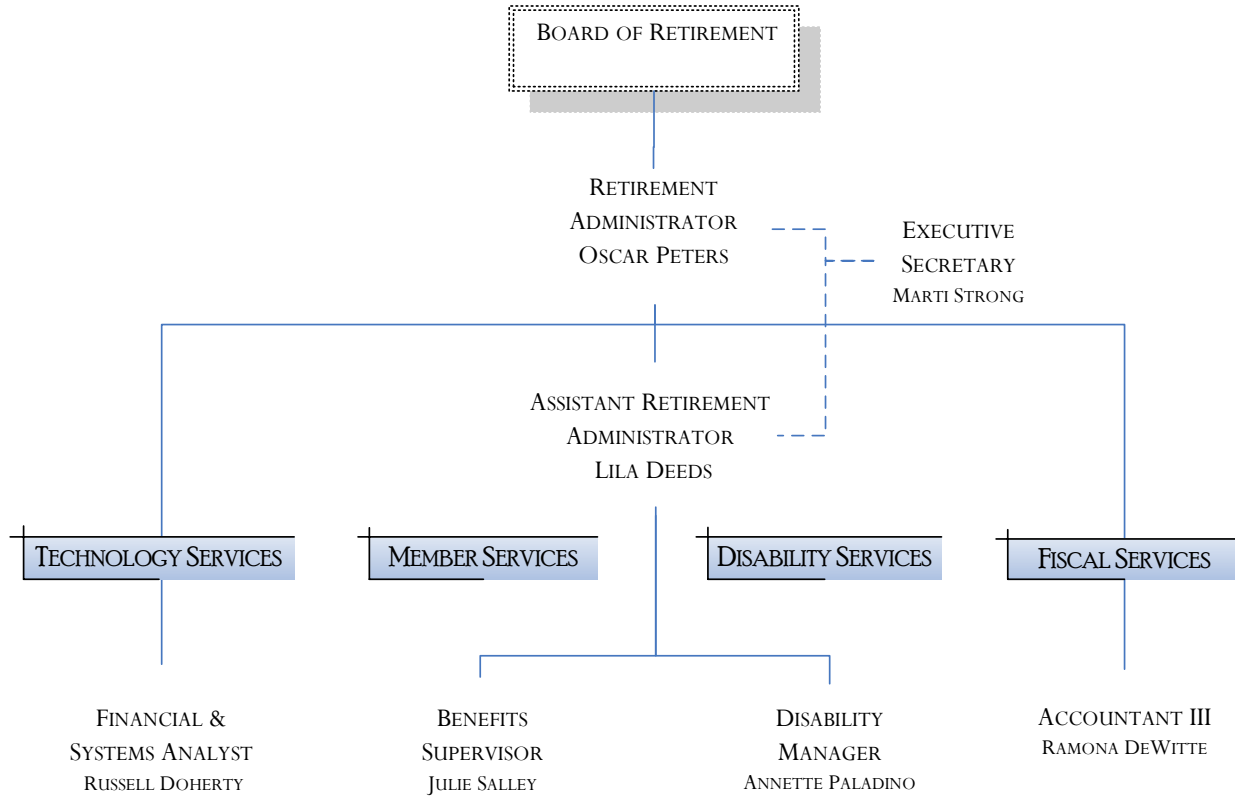
I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board, the members and the County to better evaluate and understand the Santa Barbara County Employees' Retirement System. I also want to express my thanks to the Board of Retirement for its dedicated effort and to the retirement staff for its commitment to SBCERS, a combination that assures the System's continued successful operation.

Respectfully submitted,



Oscar Peters  
Retirement Administrator

## 2006 ORGANIZATIONAL CHART



A listing of Professional Consultants can be located on page 10 in the Introduction section.  
 A listing of Investment Managers can be located on page 45 in the Investment section.



**Joni Gray**  
VICE CHAIR

Appointed by Board of Supervisors  
Present term expires December 2006



**Bernice James**  
CHAIR  
COUNTY TREASURER  
Ex Officio Member Mandated by Law



**Donald Kendig**  
SECRETARY

Elected by General Members  
Present term expires December 2008

# BOARD OF RETIREMENT



**George Bobolia**  
MEMBER

Elected by Retired Members  
Present term expires December 2008



**Paul Dore**  
MEMBER

Appointed by Board of Supervisors  
Present term expires December 2008



**Julie McCammon**  
MEMBER

Elected by Safety Members  
Present term expires December 2007



**Joseph C. Gallas**  
MEMBER

Appointed by Board of Supervisors  
Present term expires December 2008



**Kate Silsbury**  
MEMBER

Appointed by Board of Supervisors  
Present term expires December 2006



**Shawn Terris**  
MEMBER

Elected by General Members  
Present term expires December 2007



**Bob Bible**  
ALTERNATE SAFETY MEMBER

Elected by Safety Members  
Present term expires December 2007



**Ron Bruns**  
ALTERNATE MEMBER

Elected by Retired Members  
Present term expires December 2008

## LIST OF PROFESSIONAL CONSULTANTS

### **Actuary**

Buck Consultants, LLC

### **Independent Auditor**

Nasif, Hicks, Harris & Company, LLP

### **Custodian**

Mellon Global Securities Services

### **Legal Advisors**

Santa Barbara County Counsel  
Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP  
McCarthy & Kroes  
Reicker, Pfau, Pyle & McRoy, LLP  
Rogers, Sheffield & Campbell, LLP  
Steefel, Levitt & Weiss, PC

### **Investment Consultant**

Pension Consulting Alliance, Inc.

### **Other Specialized Services**

Levi, Ray & Shoup, Inc.  
Novanis

# Financial 11

## NASIF, HICKS, HARRIS & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF  
STEVEN J. HICKS  
JEFFERY P. HARRIS  
BARBARA ROGERS SCOLLIN  
JODY DOLAN HOLEHOUSE  
THOMAS W. BURK  
MARIANNE F. BLOOM  
ROBERT SWAYNE LYONS

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TELEPHONE (805) 966-1521  
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August 18, 2006

### Independent Auditors' Report

The Honorable Board of Retirement  
Santa Barbara County Employees' Retirement System

We have audited the accompanying financial statements of the Santa Barbara County Employees' Retirement System (SBCERS) as of and for the years ended June 30, 2006 and 2005, which collectively comprise SBCERS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Barbara County Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Santa Barbara County Employees' Retirement System as of June 30, 2006 and 2005, and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14-17, and the schedules of funding progress and employer contributions on page 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction section, schedules of administrative expenses, investment fees, and payments to consultants on pages 37-38, and the investments, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of administrative expenses, investment fees, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The information presented in the introduction, investments, actuarial, and statistical sections have not been audited by us and, accordingly, we express no opinion on them.

  
Nasif, Hicks, Harris & Co., LLP

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of the financial activities of Santa Barbara County Employees' Retirement System provides an overview of its fiscal operations for the fiscal year ending June 30, 2006. Please review it in conjunction with the Financial Statements.

### Financial Highlights

- Net Assets Held in Trust for Pension Benefits, as reported in the Statement of Plan Net Assets, totals \$1.629 billion, an increase of \$152.8 million or 10.4% from the prior year.
- Net investment income (including securities lending) increased by \$23.3 million or 17.25% from fiscal year 2004-2005 to 2005-2006.
- Contributions (member and employer) increased by \$7.5 million or 12.2% from fiscal year 2004-2005 to 2005-2006.
- Benefit payments increased by \$6.8 million or 10.5% from fiscal year 2004-2005 to 2005-2006.
- The latest actuarial valuation completed was as of June 30, 2006 and determined the funding status (the ratio of system assets to system liabilities) to be 85.8%. SBCERS' funding objective is to meet long-term benefit obligations through contributions and investment income.

Buck Consultants served as SBCERS' independent actuary.

### Overview of Financial Statements

This Management's Discussion and Analysis serves as an introduction to the basic financial statements. SBCERS has two basic financial statements, the notes to the financial statements, and two required supplementary schedules of historical trend information. The basic financial statements and the required disclosures comply with the Governmental Accounting Standards Board's accounting principles and reporting guidelines and utilize the accrual basis of accounting.

- The Statement of Plan Net Assets is the first basic financial report. This statement of account balances at fiscal year end reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed at fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.
- The Statement of Changes in Plan Net Assets is the second financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as Additions or Deductions to the plan.

- The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year.
- The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the actuarially funded status of the plan, and the progress made in accumulating sufficient assets to pay benefits when due.
- The Schedule of Employer Contributions, also a required supplementary schedule, presents historical trend information about the annual required contributions of the employer and the actual contributions made.

### Financial Analysis

Table 1 and Table 2 present condensed comparative summaries about SBCERS' financial results for the current and prior years.

The current fiscal period closed with net assets of \$1.629 billion. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

**Table 1 - PLAN NET ASSETS**

| <i>For the Years Ended June 30, 2006 and 2005</i> | <b>2006</b>                   | <b>2005</b>                   | <b>Increase/<br/>(Decrease)</b> | <b>Percent<br/>Increase/<br/>(Decrease)</b> |
|---|-------------------------------|-------------------------------|---------------------------------|---|
| Cash & Investments                                | \$1,676,124,593               | \$1,526,849,090               | \$149,275,503                   | 9.78%                                       |
| Securities Lending                                | 196,246,974                   | 190,456,778                   | 5,790,196                       | 3.04%                                       |
| Receivables                                       | 91,467,430                    | 77,093,133                    | 14,374,297                      | 18.65%                                      |
| Total Assets                                      | <u>1,963,838,997</u>          | <u>1,794,399,001</u>          | <u>169,439,996</u>              | <u>9.44%</u>                                |
| Securities Lending                                | 196,246,974                   | 190,456,778                   | 5,790,196                       | 3.04%                                       |
| Other Liabilities                                 | 138,633,733                   | 127,784,204                   | 10,849,529                      | 8.49%                                       |
| Total Liabilities                                 | <u>334,880,707</u>            | <u>318,240,982</u>            | <u>16,639,725</u>               | <u>5.23%</u>                                |
| Net Assets  | <u><u>\$1,628,958,290</u></u> | <u><u>\$1,476,158,019</u></u> | <u><u>\$152,800,271</u></u>     | <u><u>10.35%</u></u>                        |

| <i>For the Years Ended June 30, 2005 and 2004</i> | <b>2005</b>                   | <b>2004</b>                   | <b>Increase/<br/>(Decrease)</b> | <b>Percent<br/>Increase/<br/>(Decrease)</b> |
|---|-------------------------------|-------------------------------|---------------------------------|---|
| Cash & Investments                                | \$1,526,849,090               | \$1,387,605,918               | \$139,243,172                   | 10.03%                                      |
| Securities Lending                                | 190,456,778                   | 190,891,848                   | (435,070)                       | (0.23)%                                     |
| Receivables                                       | 77,093,133                    | 52,040,872                    | 25,052,261                      | 48.14%                                      |
| Total Assets                                      | <u>1,794,399,001</u>          | <u>1,630,538,638</u>          | <u>163,860,363</u>              | <u>10.05%</u>                               |
| Securities Lending                                | 190,456,778                   | 190,891,848                   | (435,070)                       | (0.23)%                                     |
| Other Liabilities                                 | 127,784,204                   | 93,027,438                    | 34,756,766                      | 37.36%                                      |
| Total Liabilities                                 | <u>318,240,982</u>            | <u>283,919,286</u>            | <u>34,321,696</u>               | <u>12.09%</u>                               |
| Net Assets  | <u><u>\$1,476,158,019</u></u> | <u><u>\$1,346,619,352</u></u> | <u><u>\$129,538,667</u></u>     | <u><u>9.62%</u></u>                         |

### Additions to Plan Net Assets

The sources of assets to fund the benefits SBCERS provides are the collection of member and employer contributions, along with the accumulated investment returns. These income sources for fiscal year 2005-2006 totaled \$227.8 million, compared with \$196.9 million in 2004-2005. This increase is primarily due to better returns in net investment income.

Member and employer contributions resulted in an increase of 12.2% over the contributions made in 2004-2005 primarily as the result of a substantial increase in the average contribution rate. The contribution rate increase was due to the result of

the lag in implementation of new rates and investment returns that were less than the corresponding assumed actuarial rate of return.

### Deductions from Plan Net Assets

The primary uses of SBCERS' assets include the payment of benefits to retired members and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering the System. The deductions for fiscal year 2005-2006 were \$75 million, an increase of \$7.6 million, or 11.24%, over 2004-2005. This increase can be attributed to the escalation of average monthly allowances at the time of retirement and granting the maximum allowable cost of living adjustment.

**Table 2 - CHANGES IN PLAN NET ASSETS**

| <i>For the Years Ended June 30, 2006 and 2005</i> | 2006                  | 2005                  | Percent                 |                         |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
|   |                       |                       | Increase/<br>(Decrease) | Increase/<br>(Decrease) |
| <b>Additions</b>                                  |                       |                       |                         |                         |
| Contributions                                     | \$ 69,034,338         | \$ 61,548,644         | \$ 7,485,694            | 12.16%                  |
| Investment Income (net)                           | 158,261,872           | 135,055,650           | 23,206,222              | 17.18%                  |
| Securities Lending (net)                          | 405,751               | 266,313               | 139,438                 | 52.36%                  |
| Other   | 55,990                | 49,497                | 6,493                   | 13.12%                  |
| <b>Total Additions</b>                            | <b>227,757,951</b>    | <b>196,920,104</b>    | <b>30,837,847</b>       | <b>15.66%</b>           |
| <b>Deductions</b>                                 |                       |                       |                         |                         |
| Pension Benefits                                  | 71,018,064            | 64,254,302            | 6,763,762               | 10.53%                  |
| Member Withdrawals                                | 1,474,822             | 1,284,974             | 189,848                 | 14.77%                  |
| Administrative Expense                            | 2,464,794             | 1,842,161             | 622,633                 | 33.80%                  |
| <b>Total Deductions</b>                           | <b>74,957,680</b>     | <b>67,381,437</b>     | <b>7,576,243</b>        | <b>11.24%</b>           |
| <b>Net Increase / (Decrease)</b>                  | <b>\$ 152,800,271</b> | <b>\$ 129,538,667</b> | <b>\$ 23,261,604</b>    | <b>17.96%</b>           |

| <i>For the Years Ended June 30, 2005 and 2004</i> | 2005                  | 2004                  | Percent                 |                         |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
|   |                       |                       | Increase/<br>(Decrease) | Increase/<br>(Decrease) |
| <b>Additions</b>                                  |                       |                       |                         |                         |
| Contributions                                     | \$ 61,548,644         | \$ 52,968,440         | \$ 8,580,204            | 16.20%                  |
| Investment Income (net)                           | 135,055,650           | 185,113,302           | (50,057,652)            | (27.04)%                |
| Securities Lending (net)                          | 266,313               | 204,787               | 61,526                  | 30.04%                  |
| Other   | 49,497                | 4,001                 | 45,496                  | 1137.12%                |
| <b>Total Additions</b>                            | <b>196,920,104</b>    | <b>238,290,530</b>    | <b>(41,370,426)</b>     | <b>(17.36)%</b>         |
| <b>Deductions</b>                                 |                       |                       |                         |                         |
| Pension Benefits                                  | 64,254,302            | 57,634,424            | 6,619,878               | 11.49%                  |
| Member Withdrawals                                | 1,284,974             | 1,467,988             | (183,014)               | (12.47)%                |
| Administrative Expense                            | 1,842,161             | 1,985,863             | (143,702)               | (7.24)%                 |
| <b>Total Deductions</b>                           | <b>67,381,437</b>     | <b>61,088,275</b>     | <b>6,293,162</b>        | <b>10.30%</b>           |
| <b>Net Increase / (Decrease)</b>                  | <b>\$ 129,538,667</b> | <b>\$ 177,202,255</b> | <b>\$ (47,663,588)</b>  | <b>(26.90)%</b>         |

### Investment Analysis

The Plan's investment performance is a function of the underlying financial markets for the period measured and the asset allocation.

Equity markets performed very well over the last year. While volatile, the value and small cap markets were the better performing domestic markets. All international markets outperformed the domestic markets and emerging markets were the best performing markets.

The fixed income allocation was nearly flat over the year. The asset class as a whole suffered from an uncertain outlook on the direction of longer term interest rates and the weakness of the U.S. dollar.

During the last year, the total portfolio had a return of 10.8%. This exceeded the actuarially assumed rate of 8.16% and outperformed the policy benchmark by approximately 10 basis points. The outperformance was primarily the result of relative outperformance in domestic equity. For detailed investment returns, fees and the Fund's asset allocation please refer to the investment section beginning on page 39.

### Funding Status

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, pension plans have been under-funded when the employer failed to make annual actuarially required contributions to the Plan. The County of Santa Barbara has traditionally contributed the annual required contribution (ARC) as determined by the Plan's Actuary. Currently \$1,628,958,290 in net assets is held in trust for benefits. All of the net assets are available to meet SBCERS' ongoing obligation to plan participants and their beneficiaries.

An indicator of funding status is the ratio of the actuarial value of the assets to the actuarial accrued liability (AAL). An increase in the percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the AAL. Performance in the stock and bond markets can have a material impact on the actuarial value of assets.

The funding ratio as of June 30, 2006 was 85.8% using the entry age normal method with a five year smoothing of the actuarial value of assets. As of the fiscal year ended June 30, 2006, the net assets were \$1.629 billion. The next actuarial valuation is scheduled for June 30, 2007.

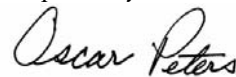
### Requests for Information

This financial report is designed to provide the Board of Retirement, our membership, taxpayers, investment managers, and vendors with a general overview of SBCERS' finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for copies or additional financial information should be addressed to:

SBCERS  
Retirement Administrator  
3916 State Street, Suite 210  
Santa Barbara, California, 93105

This report is also available on SBCERS' website under "Forms and Publications" at [www.countyofsb.org/sbcers](http://www.countyofsb.org/sbcers).

Respectfully submitted,



Oscar Peters  
Retirement Administrator

**STATEMENT OF PLAN NET ASSETS**

For the Fiscal Years Ended June 30, 2006 and 2005

|  | <u>JUNE 30, 2006</u>           | <u>JUNE 30, 2005</u>           |
|--|--------------------------------|--------------------------------|
| <b>ASSETS</b>  |                                |                                |
| Cash   | \$ 10,862,585                  | \$ 14,470,162                  |
| Receivables  |                                |                                |
| Contributions  | 2,279,476                      | 1,006,849                      |
| Accrued Interest   | 3,870,136                      | 3,084,757                      |
| Dividends  | 1,063,747                      | 1,004,926                      |
| Due from Brokers for Security Sales  | 84,254,071                     | 71,996,601                     |
| <b>Total Receivables</b>   | <u>91,467,430</u>              | <u>77,093,133</u>              |
| Investments at Fair Value  |                                |                                |
| Short Term Investments   | 32,313,116                     | 50,192,360                     |
| Alternative Equity   | 1,191,537                      | -                              |
| Domestic Equity  | 795,953,481                    | 730,202,552                    |
| Domestic Bonds   | 437,812,053                    | 388,611,803                    |
| International Equity   | 357,415,303                    | 285,101,895                    |
| Real Estate  | 40,576,518                     | 58,270,318                     |
| <b>Total Investments</b>   | <u>1,665,262,008</u>           | <u>1,512,378,928</u>           |
| Collateral Held for Securities Lent  | 196,246,974                    | 190,456,778                    |
| <b>Total Investments Including<br/>        Collateral Held for Securities Lent</b> | <u>1,861,508,982</u>           | <u>1,702,835,706</u>           |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,963,838,997</b>        | <b>\$ 1,794,399,001</b>        |
| <b>LIABILITIES</b>   |                                |                                |
| Accounts Payable   | \$ 164,180                     | \$ 188,599                     |
| Benefits Payable   | 1,128,497                      | 1,095,214                      |
| Collateral Held for Securities Lent  | 196,246,974                    | 190,456,778                    |
| Due to Brokers for Security Purchases  | 137,341,056                    | 126,500,391                    |
| <b>TOTAL LIABILITIES</b>   | <u>\$ 334,880,707</u>          | <u>\$ 318,240,982</u>          |
| <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>                               | <u><u>\$ 1,628,958,290</u></u> | <u><u>\$ 1,476,158,019</u></u> |

For a Schedule of Funding Progress see page 35.  
See accompanying Notes to Financial Statements.

**STATEMENT OF CHANGES IN PLAN NET ASSETS**

For the Fiscal Years Ended June 30, 2006 and 2005

|  | <u>JUNE 30, 2006</u>    | <u>JUNE 30, 2005</u>    |
|--|-------------------------|-------------------------|
| <b>ADDITIONS</b>                                     |                         |                         |
| Contributions  |                         |                         |
| Employers  | \$ 53,976,749           | \$ 46,720,797           |
| Plan Members   | 15,057,589              | 14,827,847              |
| <b>Total Contributions</b>                           | <b>69,034,338</b>       | <b>61,548,644</b>       |
| Investment Income                                    |                         |                         |
| Net Appreciation in Fair Value of Investments        | 127,740,795             | 106,888,032             |
| Interest   | 19,466,663              | 17,111,951              |
| Dividends  | 15,528,633              | 15,451,882              |
| <b>Total Investment Income</b>                       | <b>162,736,091</b>      | <b>139,451,865</b>      |
| Less Investment Expense                              | (4,474,219)             | (4,396,215)             |
| <b>Net Investment Income</b>                         | <b>158,261,872</b>      | <b>135,055,650</b>      |
| Securities Lending Income                            | 7,579,927               | 4,343,360               |
| Securities Lending Expense                           | (7,174,176)             | (4,077,047)             |
| <b>Net Securities Income</b>                         | <b>405,751</b>          | <b>266,313</b>          |
| Miscellaneous Income                                 | 55,990                  | 49,497                  |
| <b>Total Miscellaneous Income</b>                    | <b>55,990</b>           | <b>49,497</b>           |
| <b>TOTAL ADDITIONS</b>                               | <b>\$ 227,757,951</b>   | <b>\$ 196,920,104</b>   |
| <b>DEDUCTIONS</b>                                    |                         |                         |
| Benefits Paid  | 71,018,064              | 64,254,302              |
| Member Withdrawals                                   | 1,474,822               | 1,284,974               |
| Administrative Expense                               | 2,464,794               | 1,842,161               |
| <b>TOTAL DEDUCTIONS</b>                              | <b>\$ 74,957,680</b>    | <b>\$ 67,381,437</b>    |
| Net Increase   | 152,800,271             | 129,538,667             |
| <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b> |                         |                         |
| Beginning of Year                                    | 1,476,158,019           | 1,346,619,352           |
| <b>END OF YEAR</b>                                   | <b>\$ 1,628,958,290</b> | <b>\$ 1,476,158,019</b> |

See accompanying Notes to Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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SBCERS adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* for the year ended June 30, 2000. GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* have been implemented in the basic financial statements and accompanying notes. Implementation of GASB Statements No. 34, 37, 38, and 40 had no effect on Plan Net Assets.

#### Reporting Entity

SBCERS, with its own governing board, is an independent governmental entity separate and distinct from the County of Santa Barbara. SBCERS’ annual financial statements are referenced in the *Notes to the Basic Financial Statements* in the County of Santa Barbara’s Comprehensive Annual Financial Report.

#### Basis of Accounting

SBCERS follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board. The financial statements are prepared using the

accrual basis of accounting. Member and Employer contributions are recognized as revenue in the period in which the contributions are due, and benefits and refunds are recognized as expense when payable in accordance with the terms of each plan. Investment income is recognized as revenue when earned. Net appreciation in fair value of investments held by the Retirement System is recorded as an increase to investment income based on valuation of investments at year-end. Realized gains and losses are recognized upon the maturity or disposition of the security. Fair value of investments in commingled funds is based on the fund share price provided by the fund manager which is based on net asset value.

#### Cash and Deposits

Cash represents pooled cash and deposits with the Santa Barbara County Treasurer. Pooled cash approximates fair value. Income on pooled cash is allocated based on SBCERS’ average daily balance in relation to total pooled assets.

#### Crediting of Interest

Interest is credited at 4% semi-annually at June 30 and December 31 to Member, County, Retired Member and all other eligible Reserve accounts based on the ending balance at the last crediting period.



### Valuation of Investments

Debt and equity securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Fair value of investments in commingled funds is based on the fund share price provided by the fund manager which is based on net asset value.

### Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

### Reclassification

Certain financial statement items from the prior years' financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

## 2. PLAN DESCRIPTION

### General Provisions

The Santa Barbara County Employees' Retirement System (Retirement System) was established on January 1, 1944. It is governed by the California Constitution, the County Employees' Retirement Law of 1937 (CERL), and the bylaws, procedures and policies adopted by SBCERS' Board of Retirement. The Santa Barbara County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect the benefits of SBCERS members. SBCERS operates as a cost-sharing multiple-employer defined benefit plan for Santa

Barbara County and nine special districts:

- Air Pollution Control District
- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Oak Hill Cemetery District
- Santa Barbara Coastal Vector Control District
- Santa Barbara County Association of Governments
- Santa Maria Cemetery District
- Summerland Sanitary District

### Plan Membership

SBCERS provides retirement, disability, and death benefits to members and administers the plan sponsor's retiree health benefit program.

#### SBCERS' Membership

*As of June 30, 2006 and 2005*

|                                   | 2006         | 2005         |
|-----------------------------------|--------------|--------------|
| <b>Retirees and Beneficiaries</b> |              |              |
| Currently Receiving Benefits      | 2,679        | 2,561        |
| <b>Active Employees</b>           |              |              |
| Vested                            |              |              |
| General                           | 2,473        | 2,424        |
| Safety                            | 708          | 693          |
| Nonvested                         |              |              |
| General                           | 1,185        | 1,134        |
| Safety                            | 274          | 254          |
| <b>Terminated Vested Members</b>  |              |              |
| General                           | 626          | 610          |
| Safety                            | 152          | 147          |
| <b>Total Membership</b>           | <b>8,097</b> | <b>7,823</b> |

The Retirement System has four retirement plans of which three are currently available to all new permanent full-time employees and those part-time employees working at least 40 hours per pay period. All new General member employees are enrolled in the contributory General Plan 5. All new Safety members are enrolled in the contributory Safety Plan 4. All new APCD employees are enrolled in the contributory APCD

Plan (Tier 2). Non-contributory General Plan 2 is closed for new membership. The retirement benefits within the plan are based on age, years of service, final average salary and the benefit options selected.

### **Benefit Provisions**

#### **GENERAL PLAN 5, SAFETY PLAN 4, APCD PLAN:**

Pension benefits are based upon a combination of age, years of service, average monthly salary for the highest one or three consecutive years covered compensation, and the benefit payment option selected by the member. Disability benefits are based upon whether the disability was service-connected or nonservice-connected. Death benefits are based upon whether the death occurred before or after retirement and whether the death was service-connected or nonservice-connected.

**GENERAL PLAN 2:** Pension benefits are based upon a combination of age, years of service, and highest average monthly salary during any three years of employment and are coordinated with social security benefits. A separate long-term disability program is available for members who become disabled, regardless of length of service, or whether the disability is job related. Death benefits are based upon whether the death occurred before or after retirement.

### **Cost-of-Living Adjustment**

All plans, with the exception of General Plan 2, provide for retirement benefits subject to cost-of-living (COLA) adjustments for retired members. COLA adjustments are made to retired members' benefits each April based upon the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is located subject to a 3% maximum limitation.

### **Supplemental Cost-of-Living Adjustment**

In addition to basic cost-of-living increases, the Board of Retirement implemented a Supplemental Cost-of-Living adjustment (Supplemental COLA) program, effective January 1, 1998. The

Supplemental COLA is structured to maintain purchasing power at no less than 80% of the original benefit. The Supplemental COLA is applicable to members who have an accumulated loss of purchasing power of more than 20% due to inflation.

### **Vesting**

#### **GENERAL PLAN 5, SAFETY PLAN 4, APCD PLAN:**

Upon completing five years of creditable service, employees have irrevocable rights to receive benefits attributable to an employer's contributions, provided their contributions have not been withdrawn. Members are eligible to retire at age 50 with retirement credit of ten years from date of membership, or thirty years of creditable service (safety members twenty years) regardless of age, or upon attaining age 70.

If an employee terminates before rendering five years of service, the employee is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system within six months and elects to leave their accumulated contributions on deposit with the Retirement System.

Effective January 1, 2003 a member with less than five years of service may elect to leave accumulated contributions on deposit in the retirement fund. A member who continues membership under this provision is granted a deferred non-vested status and has no rights to future benefits except a refund of their account balance as of the date of termination.

If an employee terminates after five years of service, the employee may elect to leave the accumulated contributions in the retirement fund and receive a deferred retirement allowance at the time the member would have been entitled to the allowance if service had continued.

**GENERAL PLAN 2:** Upon completing ten years of creditable service, Plan 2 members have irrevocable rights to receive benefits. Plan 2

members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Once vested, Plan 2 members have a one-time election to defer accrued Plan 2 benefits and enter the contributory retirement plan in effect at that time. Contributions are based upon age at the time of transfer.

### **3. CONTRIBUTIONS**

#### **GENERAL PLAN 5, SAFETY PLAN 4, APCD PLAN:**

Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. For certain bargaining units, a portion of the member contribution is paid by the County. Member contributions are based upon each individual member's age of entry into

SBCERS. Member contributions cannot be withdrawn until separation from employment.

**GENERAL PLAN 2:** Employer contribution rates are recommended by the actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. There are no member contributions.

The actual contributions made for the years ended June 30, 2006 and 2005 were in accordance with actuarially determined contributions for the year.

For the years ended June 30, 2006 and 2005, covered payroll was \$287,382,000 and \$267,785,000 respectively, an increase of 7.3%. Contributions from all employers represented 18.8% and 17.4% respectively of covered payroll while contributions from all members represented 5.2% and 5.5% respectively of covered payroll.

#### **SBCERS' Contributions Made By Plan**

*As of June 30, 2006 and 2005*

|                                      | 2006                 | 2005                 |
|--------------------------------------|----------------------|----------------------|
| General Plan 2:                      |                      |                      |
| Employer contributions               | \$ 117,522           | \$ 95,659            |
| General Plan 5:                      |                      |                      |
| Employer contributions               | 30,190,841           | 26,574,145           |
| Member contributions                 | 9,451,305            | 9,458,525            |
| Safety Plan 4:                       |                      |                      |
| Employer contributions               | 23,005,881           | 19,387,794           |
| Member contributions                 | 5,391,392            | 5,156,666            |
| Air Pollution Control District Plan: |                      |                      |
| Employer contributions               | 662,504              | 663,199              |
| Member contributions                 | 214,893              | 212,656              |
| <b>Total</b>                         | <b>\$ 69,034,338</b> | <b>\$ 61,548,644</b> |

**SBCERS' Contributor Comparison***As of June 30, 2006 and 2005*

|              |                      | 2006                        |               | 2005                        |               |
|--------------|----------------------|-----------------------------|---------------|-----------------------------|---------------|
| EMPLOYER     | Santa Barbara County | \$ 52,110,743               | 96.5%         | \$ 45,044,029               | 96.4%         |
|              | Special Districts    | 1,866,006                   | 3.5%          | 1,676,768                   | 3.6%          |
|              |                      | <u>\$ 53,976,749</u>        | <u>100.0%</u> | <u>\$ 46,720,797</u>        | <u>100.0%</u> |
| MEMBER       | Santa Barbara County | \$ 14,723,169               | 97.8%         | \$ 14,489,842               | 97.7%         |
|              | Special Districts    | 334,420                     | 2.2%          | 338,005                     | 2.3%          |
|              |                      | <u>\$ 15,057,589</u>        | <u>100.0%</u> | <u>\$ 14,827,847</u>        | <u>100.0%</u> |
| <b>Total</b> |                      | <b><u>\$ 69,034,338</u></b> |               | <b><u>\$ 61,548,644</u></b> |               |

**4. RESERVES**

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. All reserves are fully funded.

**Member Contribution Reserve** represents the balance of member contributions. Additions represent member contributions and interest earnings; deductions represent refunds of member contributions and transfers to Retired Member Reserves.

**County and District Reserve** represents the balance of employer contributions for future retirement payments to current active members. Additions represent contributions from the employer and interest earnings; deductions represent transfers to Retired Members Reserves, lump sum death benefits, and payments under §31725.5 and §31725.6 of the County Employees' Retirement Law of 1937.

**Retired Member Reserve** represents the balance of transfers from Member Reserves and Employer Reserves and interest earnings, less payments to retired members.

**Burial Allowance Reserve** represents the balance of monies set aside to fund the lump sum death benefit for retirees. Additions represent interest earnings and excess earnings; deductions represent payments to the beneficiaries of retired members who are deceased.

**Health Coverage Reserve and Supplemental Health Coverage Reserve** represents the balance of monies set aside for the payment of health insurance offsets and cash benefits for retired members. Additions represent contributions from the employer, interest and excess earnings; deductions represent payments of premiums subsidies for retired members enrolled in a County sponsored health plan and cash payments for retired members who do not participate in the health plans.

**Sick Leave Reserve** represents the balance of monies set aside to fund the conversion of unused sick leave hours (maximum of 2080 hours) to service credit for the purpose of calculation of retirement benefits. Additions represent related earnings and excess earnings; deductions represent transfers to Retired Member Reserves.

**Spousal Continuance Reserve** represents monies transferred to fund the adoption of §31760.2 of the County Employees' Retirement Law of 1937 which specifically addresses marriage after retirement and subsequent eligibility for a continuance benefit. A 60 percent continuance is granted provided the surviving spouse was married to the retiree for at least two years prior to the member's death and the spouse is age 55 or older on the date of the retiree's death.

**Special Allowance Reserve** represents monies transferred to additional benefits, which have been granted by the Board of Retirement. Additions represent interest and excess earnings; deductions represent payments of special allowances to retired members.

**Contingency Reserve** represents reserves accumulated for future earnings deficiencies. The Contingency Reserve is used to satisfy the statutory requirement to reserve at least 1% of total assets against future earnings deficiencies.

**Market Stabilization Reserve** represents unrealized gains or losses recognized in the financial statements because of the adoption of GASB 25, which requires reporting investments at fair value instead of cost. The account was established to help offset the impact of market fluctuation. Semiannually, income and losses from investments stated at fair value are placed in this account as realized and available earnings are credited to other reserves.

#### **SBCERS' Reserves**

*At June 30, 2006 and 2005*

|  | <b>2006</b>                   | <b>2005</b>                   |
|--|-------------------------------|-------------------------------|
| Member Contribution Reserve                | \$148,181,920                 | \$134,586,828                 |
| County and District Reserve                | 496,447,927                   | 467,206,720                   |
| Retired Member Reserve                     | 747,078,120                   | 679,322,385                   |
| Burial Allowance Reserve                   | 5,392,745                     | 5,301,654                     |
| Health Coverage Reserve                    | 42,347,134                    | 45,040,785                    |
| Supplemental Health Coverage Reserve       | 51,888,127                    | 48,412,567                    |
| Sick Leave Reserve                         | 5,890,788                     | 5,446,364                     |
| Spousal Continuance Reserve                | 1,685,478                     | 1,558,320                     |
| Special Allowance Reserve                  | 18,820,407                    | 19,605,788                    |
| APCD Death Allowance Reserve               | 45,010                        | 39,235                        |
| Contingency Reserve                        | 24,769,811                    | 24,769,811                    |
| Market Stabilization Reserve               | 86,410,823                    | 44,867,562                    |
| <b>Total Value of Assets at Fair Value</b> | <b><u>\$1,628,958,290</u></b> | <b><u>\$1,476,158,019</u></b> |

## 5. DEPOSITS AND INVESTMENTS

SBCERS operates under the "Prudent Person Rule" which authorizes the Board of Retirement, at its discretion, to purchase, hold, or sell any form or type of investment, financial instrument, or enter into any financial transaction when prudent in the informed opinion of the Board.

### **Deposits**

The cash balance represents operating cash held by the County Treasurer. The portion of SBCERS' cash held by the County-Treasurer is a part of the County's cash and investment pool.

Accordingly, SBCERS' investments are held in the name of the County and are not specifically identifiable. At June 30, 2006, cost approximated fair value of the SBCERS' share of pooled cash and investments.

The market value of deposits approximated the bank balances at June 30, 2006 and 2005.

The cash amounted to \$10,862,585 and \$14,470,162 as of June 30, 2006 and 2005 respectively. These deposits are both uninsured and uncollateralized.

### **SBCERS' Summary of Investments**

*As of June 30, 2006 and 2005*

|                                     | <b>2006</b>                   | <b>2005</b>                   |
|-------------------------------------|-------------------------------|-------------------------------|
| Short Term Investments              | \$ 32,313,116                 | \$ 50,192,360                 |
| Alternative Equity                  | 1,191,537                     | -                             |
| Investments at Fair Value:          |                               |                               |
| Domestic Equity                     | 795,953,481                   | 730,202,552                   |
| Domestic Bonds                      | 437,812,053                   | 388,611,803                   |
| International Equity                | 357,415,303                   | 285,101,895                   |
| Real Estate                         | 40,576,518                    | 58,270,318                    |
| Collateral Held for Securities Lent | <u>196,246,974</u>            | <u>190,456,778</u>            |
| <b>Total Investments</b>            | <b><u>\$1,861,508,982</u></b> | <b><u>\$1,702,835,706</u></b> |

### Investment Risk

The Board of Retirement's investment policies and guidelines allocate the asset classes of the portfolio investments within ranges. The portfolio is maintained within the ranges and reported each month. The Board annually reviews the allocation model and the risk structure of the total portfolio. The investment policy does not address Credit risk, Concentration of Credit Risk, Interest Rate Risk, or Foreign Currency Risk, as investment managers within their specific mandates are given risk parameters that would result in limiting these types of risk on a total portfolio level. GASB Statement No. 40 requires that investments be evaluated to give an indication of the level of risk assumed at year-end, as follows:

- Credit Risk
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Interest Rate Risk
- Foreign Currency Risk

### Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SBCERS seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To control Credit Risk, credit quality guidelines have been established. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization are shown in following table:

### Credit Risk By Quality

As of June 30, 2006

(Dollars in Thousands)

| Fixed Income By Type            | Total            | Moody's/S&P Investment Grade |              |              |               |              |               |              |              |              |              |   |
|---------------------------------|------------------|------------------------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|---|
|                                 |                  | Aaa<br>AGY<br>UST            | Aa1          | Aa2          | Aa3           | A1           | A2            | A3           | Baa1         | Baa2         | Baa3         |   |
| Asset Backed Securities         | \$ 37,038        | \$37,038                     | -            | -            | -             | -            | -             | -            | -            | -            | -            | - |
| CMO Government Agencies         | 131,024          | 131,024                      | -            | -            | -             | -            | -             | -            | -            | -            | -            | - |
| Domestic Corporate Fixed Income | 60,361           | 4,482                        | 2,760        | 3,152        | 14,040        | 5,450        | 11,304        | 4,594        | 2,601        | 7,161        | 4,817        |   |
| Government                      | 120,344          | 120,344                      | -            | -            | -             | -            | -             | -            | -            | -            | -            |   |
| International Fixed Income      | 34,308           | 26,683                       | 304          | 315          | 1,957         | 105          | -             | 2,025        | 1,886        | 954          | 79           |   |
| Non-Govt Mortgage Backed        | 18,856           | 18,856                       | -            | -            | -             | -            | -             | -            | -            | -            | -            |   |
| US Govt Mortgages               | 3,782            | 3,782                        | -            | -            | -             | -            | -             | -            | -            | -            | -            |   |
| US Private Placements           | 10,284           | 3,979                        | -            | 2,606        | 574           | 728          | -             | 234          | 172          | 907          | 1,084        |   |
| <b>Subtotal</b>                 | <b>\$415,997</b> | <b>346,188</b>               | <b>3,064</b> | <b>6,073</b> | <b>16,571</b> | <b>6,283</b> | <b>11,304</b> | <b>6,853</b> | <b>4,659</b> | <b>9,022</b> | <b>5,980</b> |   |

(Dollars in Thousands)

| Fixed Income By Type            | Total            | Moody's/S&P Speculative Grade |              |              |            |            |              |            |              | Rating         |  |
|---------------------------------|------------------|-------------------------------|--------------|--------------|------------|------------|--------------|------------|--------------|----------------|--|
|                                 |                  | Ba1                           | Ba2          | Ba3          | B2         | B2         | B3           | Caa1       | Not<br>Rated | With-<br>drawn |  |
| Asset Backed Securities         | \$ 177           | -                             | -            | -            | \$ 177     | -          | -            | -          | -            | -              |  |
| Domestic Corporate Fixed Income | 5,903            | 1,305                         | 2,447        | 661          | -          | 330        | -            | 757        | -            | 403            |  |
| International Fixed Income      | 2,212            | 56                            | 204          | 1,127        | 466        | 313        | 33           | -          | 13           | -              |  |
| US Private Placements           | 13,524           | 1,524                         | -            | 252          | -          | 265        | 2,685        | 48         | 8,561        | 189            |  |
| <b>Subtotal</b>                 | <b>\$ 21,816</b> | <b>2,885</b>                  | <b>2,651</b> | <b>2,040</b> | <b>643</b> | <b>908</b> | <b>2,718</b> | <b>805</b> | <b>8,574</b> | <b>592</b>     |  |
| <b>Total</b>                    | <b>\$437,813</b> |                               |              |              |            |            |              |            |              |                |  |

**Custodial Credit Risk**

Custodial Credit Risk for deposits is the risk that, in the event of a financial institution's failure, SBCERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. Cash deposits are held by the County Treasurer within the County investment pool and as cash reserves in the master custodian short-term investment funds. The risks of the pool are addressed in the County CAFR. Additional insurance against loss and theft is provided through a Financial Institution Bond.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SBCERS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in SBCERS name, and held by a counter party. SBCERS' securities are not exposed to custodial risk as they are held by our custodial bank in our nominee name.

**Credit Risk Concentration**

As of June 30, 2006, SBCERS' investment portfolio contained no concentration of investments in any one entity (other than investments guaranteed by the U.S. Government, investments in mutual funds, and external investment pools) that represented 5 percent or more of the total investment portfolio.

**Securities Lending**

The Retirement System participates in securities lending transactions through its custodian Mellon Global Securities Services (Mellon) to increase income. Securities lending transactions are loans of securities to broker-dealers and other entities

for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

Collateral must be in the form of cash (both United States and foreign currency), securities issued or guaranteed by the U.S. Government, sovereign debt of foreign countries, or irrevocable bank letters of credit. Transactions are collateralized at no less than 100% percent of market value of the loaned security. Collateral is marked to market daily. The custodian invests the collateral received in short-term investment funds (maintained by the custodian), money market mutual funds, and other similar investments as the custodian may select.

At year-end, SBCERS had no credit risk exposure to borrowers because the collateral value exceeded market value.

The average term of all System loans is overnight or "on demand." The custodian will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. SBCERS cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Mellon indemnifies SBCERS to the extent of replacing the securities loaned.

Cash collateral is invested in the lending agent's short-term investment pool. As of June 30, 2006, cash collateral had an average duration of 47 days and an average weighted maturity of 165 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006, SBCERS had no credit risk exposure to borrowers.



**SBCERS' Securities Lending Program***As of June 30, 2006*

| Securities on Loan              | Market Value of<br>Securities on Loan | Cash Collateral<br>Received |
|---------------------------------|---------------------------------------|-----------------------------|
| Domestic Equities               | \$ 39,793,345                         | \$ 41,319,575               |
| Domestic Corporate Fixed Income | 129,834,469                           | 131,697,998                 |
| International Equities          | 22,825,129                            | 23,229,401                  |
| <b>Total</b>                    | <b>\$192,452,943</b>                  | <b>\$196,246,974</b>        |

**Interest Rate Risk**

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted

average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

**Interest Rate Risk***As of June 30, 2006*

| Totals By Sector           | Base Market<br>Value  | Option<br>Adjusted<br>Duration | Weighted<br>Average<br>Maturity | Market Value of<br>Securities with no<br>Duration Available |
|----------------------------|-----------------------|--------------------------------|---------------------------------|---|
| Agency                     | \$ 128,498,944        | 3.81                           | 19.17                           | \$ 2,525,027  |
| Asset Backed Securities    | 37,215,715            | 0.44                           | 13.74                           | -   |
| CMBS                       | 12,410,536            | 3.37                           | 27.79                           | -   |
| CMO Corporate              | 6,176,225             | 1.75                           | 26.15                           | 269,444   |
| Corporates & Other Credit  | 66,262,094            | 5.17                           | 8.45                            | -   |
| General Obligations        | 4,113,455             | 16.08                          | 16.45                           | -   |
| Government                 | 115,386,479           | 6.52                           | 9.62                            | -   |
| Other                      | 42,787,997            | 0.08                           | 0.08                            | 387,704   |
| US Govt Mortgages          | 3,427,630             | 4.04                           | 24.86                           | 354,270   |
| US Private Placements      | 15,247,591            | 2.99                           | 9.55                            | 8,561,088   |
| US Taxable Muni Bonds      | 843,990               | 13.56                          | 29.25                           | -   |
| Non US                     | 36,510,935            | 5.25                           | 9.76                            | 8,631   |
| <b>SubTotal</b>            | <b>\$ 468,881,291</b> |                                |                                 | <b>\$ 12,106,164</b>  |
| <b>Total Consolidation</b> | <b>\$ 480,987,755</b> |                                |                                 |   |

**Foreign Currency Risk**

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. SBCERS' international equity managers are permitted to invest in authorized countries.

Forward currency contract and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for defensive currency hedging. See further disclosure under the *Derivatives* sub-section.

**Foreign Currency Risk***As of June 30, 2006*

| TOTALS BY CURRENCY   |                                 | Market Value with Accruals | Percent of Total Net Asset Value |
|--|---------------------------------|----------------------------|----------------------------------|
| Totals by Asset Type   |                                 |                            |                                  |
| AUSTRALIAN DOLLAR  | Fixed Income Securities         | \$ 801                     | -                                |
|  | Equity                          | 5,069,934                  | 0.31                             |
| BRITISH POUND STERLING   | Fixed Income Securities         | 163,631                    | 0.01                             |
|  | Equity                          | 25,839,930                 | 1.59                             |
| CANADIAN DOLLAR  | Fixed Income Securities         | 7,374                      | -                                |
|  | Equity                          | 2,833,365                  | 0.17                             |
| DANISH KRONE   | Equity                          | 1,076,940                  | 0.07                             |
| EURO CURRENCY UNIT   | Fixed Income Securities         | 713,082                    | 0.04                             |
|  | Payable - Investments Purchased | (144,320)                  | (0.01)                           |
|  | Equity                          | 39,854,747                 | 2.45                             |
| HONG KONG DOLLAR   | Fixed Income Securities         | 617,020                    | 0.04                             |
|  | Equity                          | 3,894,341                  | 0.24                             |
| JAPANESE YEN   | Fixed Income Securities         | 73,887                     | -                                |
|  | Payable - Investments Purchased | (24,748)                   | -                                |
|  | Equity                          | 24,369,536                 | 1.50                             |
| NORWEGIAN KRONE  | Equity                          | 1,103,600                  | 0.07                             |
| SINGAPORE DOLLAR   | Equity                          | 828,659                    | 0.05                             |
| SWEDISH KRONA  | Equity                          | 957,874                    | 0.06                             |
| SWISS FRANC  | Fixed Income Securities         | 463,246                    | 0.03                             |
|  | Equity                          | 8,171,453                  | 0.50                             |
| <b>Total Securities Subject to Foreign Currency Risk</b>       |                                 | <b>115,870,354</b>         | <b>7.13</b>                      |
| <b>U.S. Dollar (Securities held by International Managers)</b> |                                 | <b>241,544,949</b>         | <b>14.83</b>                     |
| <b>Total International Investment Securities</b>               |                                 | <b>\$357,415,303</b>       | <b>21.96</b>                     |

## Derivatives

Derivative investments are investments that respond to changes in a reference asset or benchmark and do not represent direct investment in the referenced asset. Managers of some portfolios within the system use derivative

investments to get immediate market exposure and to protect or capture interest rate risk. At year-end, derivative investments were in Collateralized Mortgage Obligations (CMO), funded and unfunded credit swaps in addition to written puts.

### Holdings of Derivative Securities

As of June 30, 2006 and 2005

|                                     | 2006                 |                      | 2005                 |                      |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                     | Cost                 | Market               | Cost                 | Market               |
| Collateralized Mortgage Obligations | \$149,880,175        | \$150,472,014        | \$130,573,242        | \$130,710,889        |
| Funded Default Credit Swap Trust    | 2,332,616            | 2,346,447            | -                    | -                    |
| Unfunded Default Credit Swaps       | 38,067               | 19,125               | -                    | -                    |
| Written Puts                        | (20,174)             | (31,497)             | -                    | -                    |
| <b>Total Derivative Securities</b>  | <b>\$152,230,684</b> | <b>\$152,806,089</b> | <b>\$130,573,242</b> | <b>\$130,710,889</b> |

## 6. ACTUARIAL VALUATION

SBCERS retains an independent actuarial firm to conduct an actuarial valuation to monitor SBCERS' funding status and funding integrity. The last valuation was performed as of June 30, 2006, and determined the funded status of the plan to be 85.8% (calculated per GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.)

## 7. CONTINGENCIES

In the normal course of business, denials of applications for benefits are appealed to the Superior Court. The outcome of these decisions will have no material impact on the financial status of the System.

## 8. PLAN TERMINATION

There are no plan termination provisions under the County Employees' Retirement Law of 1937, which governs the operation of the Retirement System.

## 9. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire in 2006, 2007 and 2011. The Santa Maria office concluded a three-year lease June 30, 2006 and entered a five-year lease effective May 15, 2006. The Santa Barbara office lease began October 1, 2003 and extends to June 30, 2007. The Santa Barbara office lease requires that SBCERS pay a portion of the building's operating expenses based on square footage occupied.

Lease expense, exclusive of common area maintenance fees, in 2006 and 2005 was \$85,573 and \$68,840 respectively. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2006 are as follows:

### Minimum Lease Commitments

At June 30, 2006

| Lease Payments |                   |
|----------------|-------------------|
| 2006 - 2007    | \$ 113,012        |
| 2007 - 2008    | 55,486            |
| 2008 - 2009    | 57,072            |
| 2009 - 2010    | 58,913            |
| 2010 - 2011    | 55,410            |
| <b>Total</b>   | <b>\$ 339,893</b> |

## 10. ADMINISTRATIVE EXPENSES

Effective July 1, 2000 the Board of Retirement adopted Government Code §31522.1 and §31580.2. As a result, the Board has adopted an annual budget for the year ended June 30, 2006 that covers the expense of administration of the retirement system with the earnings of the

retirement fund and are limited to eighteen-hundreds of 1 percent (18 basis points) of total assets. Total administrative expenses for the year ended June 30, 2006 and 2005 were \$2,464,794 and \$1,842,161 of which \$2,090,386 and \$1,526,000 were subject to §31580.2 or 12.83 and 10.33 basis points respectively.

| <b>SBCERS' Administrative Expenses</b>              |                     |                     |
|---|---------------------|---------------------|
| <i>As of June 30, 2006 and 2005</i>                 | <b>2006</b>         | <b>2005</b>         |
| <b>Expenses Subject to Statutory Limitation</b>     |                     |                     |
| Employee Salaries and Benefits                      | \$1,233,665         | \$ 896,366          |
| Operating Expenses                                  | 499,731             | 406,060             |
| Professional Services                               | 356,990             | 223,574             |
| Total Expenses Subject to Statutory Limitation      | 2,090,386           | 1,526,000           |
| <b>Expenses Not Subject to Statutory Limitation</b> |                     |                     |
| Actuarial Costs                                     | 59,720              | 60,360              |
| Legal Costs   | 314,688             | 255,801             |
| Total Expenses Not Subject to Statutory Limitation  | 374,408             | 316,161             |
| <b>Total Administrative Expenses</b>                | <b>\$ 2,464,794</b> | <b>\$ 1,842,161</b> |

## 11. POST EMPLOYMENT HEALTH CARE BENEFITS

SBCERS administers a health care benefits program for retired members and their eligible dependents.

The County negotiates the health care contracts with the providers covering both active and retired members. Retirees are offered the same health plans as active employees as well as enhanced senior plans for retirees on Medicare. Retiree premiums are rated separately from active employees. Approximately 65% of eligible SBCERS retirees purchased health care through this program during 2005-2006.

SBCERS retirees receive a subsidy for health care premiums funded by the Health Coverage Reserves. Retirees who elect a County sponsored health plan receive a subsidy of \$15.00 per month per year of service. The cost of the health care premiums, after subsidy, is deducted from the retirees' monthly benefit payments.

Retirees who choose not to participate in a County sponsored health plan receive a benefit of \$4.00 per month per year of service.

A settlement agreement between the County and retirees provided for a benefit for all retired members as of June 24, 1988. In accordance with this settlement, the County agreed to guarantee a retiree health care subsidy of \$8 per month per year of service for members of SBCERS who had retired on or before June 24, 1988 and who participated in a County Sponsored health plan. For those that did not participate in a County sponsored health plan, the benefit was \$1.47 per month per year of service. The County Employees Retirement Law of 1937 (CERL) allows the Board of Retirement to allocate excess earnings to subsidize retired health insurance benefits in counties that provide health insurance subsidies for active members. Between 1996 and 2002, the Board of Retirement used "excess earnings" as defined in the California CERL to expand the subsidy from \$8 to \$15 and the benefit from \$1.47 to \$4 per month per year of service respectively. By definition in the CERL, these increases are not vested if funding of the benefit is insufficient.

| <b>SBCERS'</b>                            |                    |                  |                    |                  |
|---|--------------------|------------------|--------------------|------------------|
| <b>Health Care Benefits</b>               | <b>2006</b>        | <b>2006</b>      | <b>2005</b>        | <b>2005</b>      |
| <i>As of June 30, 2006 and 2005</i>       | <b>Benefit</b>     | <b>Enrollees</b> | <b>Benefit</b>     | <b>Enrollees</b> |
| Subsidy of \$15<br>per year of service    | \$6,004,809        | 1,752            | \$5,740,075        | 1,625            |
| Cash Option of \$4<br>per year of service | 449,201            | 927              | 435,124            | 936              |
| <b>Total Health Care<br/>Benefits</b>     | <b>\$6,454,010</b> | <b>2,679</b>     | <b>\$6,175,199</b> | <b>2,561</b>     |

The Government Accounting Standards Board (GASB) has recently issued Statements 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* that provides for new reporting and new disclosure requirements for Other Post Employment Benefits (OPEB) which includes retiree health benefits. Statement 43 affects reporting by SBCERS and must be implemented by Fiscal Year 2006-2007. Statement 45 affects reporting by the County and must be implemented by Fiscal Year 2007-2008. The statements require that an actuary determine the actuarial liability for retiree healthcare benefits.

The County, the other employer sponsors and SBCERS have not executed a formal plan document that provides for retiree health benefits. Under the new accounting rules, GASB Statement Numbers 43 and 45 will require that the liability related to the substantive plan for the benefits must be valued. The substantive plan is the plan as understood by the County and its employees. Since employees have not been informed of the non-vested nature of the benefits, it is reasonable to interpret the substantive plan to include the non-vested benefits, which is tentatively defined as the difference between the current \$15 and \$4 versus the original \$8 and \$1.47. Alternatively, if there

are insufficient earnings and the non-vested benefits can be reduced, the liability may be limited to the vested benefits plus assets set aside for non-vested benefits.

SBCERS established a Health Coverage Reserve and a Supplemental Health Coverage Reserve to pay for these benefits. The value of the reserve assets as of June 30, 2006 is \$94,235,261. GASB Statement Number 43 disclosure of the liability related to post employment benefits is required for the next plan year. Currently, a number of technical compliance issues may not permit SBCERS or the County to report the assets against the related liability. These issues include the lack of a formal plan that sets up a separate qualified trust and a determination of the vested status of benefits.

The funding of the health benefits via the transfer of excess earnings as allowed by CERL §31592.2 is inconsistent with current Internal Revenue Code (IRC) provisions.

SBCERS Board of Retirement has proposed that the system and the County set-up an IRC §401(h) plan. Currently SBCERS has treated the designated reserves as providing non-taxable subsidy payments to retirees who participate in the County sponsored health plan and wishes to formalize the practice under an IRC §401(h) plan.

**REQUIRED SUPPLEMENTARY INFORMATION**

Six-year historical trend information about the Retirement System is presented here as required supplementary information. This information is intended to help users assess the Retirement System’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employees’ retirement systems.

**Schedule of Funding Progress\*\***

| Valuation Date | (1)<br>Actuarial Value of Plan Assets | (2)<br>Actuarial Accrued Liability (AAL) | (3)<br>Funded Ratio<br>(1) ÷ (2) | (4)<br>Unfunded Actuarial Liability (UAAL)<br>(2) - (1) | (5)<br>Annual Covered Payroll | (6)<br>UAAL as a Percentage of Covered Payroll<br>(4) ÷ (5) |
|----------------|---------------------------------------|--|----------------------------------|---|-------------------------------|---|
| 06/30/06       | \$ 1,552,776,000                      | \$ 1,809,656,000                         | 85.8%                            | \$ 256,880,000  | \$ 287,382,000                | 89.4%   |
| 06/30/05       | 1,443,824,000                         | 1,687,632,000                            | 85.6%                            | 243,808,000   | 267,785,000                   | 91.0%   |
| 06/30/04       | 1,379,170,000                         | 1,578,769,000                            | 87.4%                            | 199,599,000   | 266,960,000                   | 74.8%   |
| 06/30/03 *     | 1,346,665,000                         | 1,454,864,000                            | 92.6%                            | 108,199,000   | 257,237,000                   | 42.1%   |
| 12/31/02       | 1,295,956,000                         | 1,363,605,000                            | 95.0 %                           | 67,649,000  | 251,834,000                   | 26.9%   |
| 12/31/00       | 1,171,138,000                         | **1,145,519,000                          | 102.2 %                          | (25,619,000)  | 219,739,000                   | (11.7)%   |
| 12/31/99       | 1,068,357,000                         | 1,067,377,000                            | 100.1%                           | (980,000)   | 199,448,000                   | (0.5)%  |

\*\* Excluding benefit improvements.

**Schedule of Employer Contributions**

| Year Ended | Annual Required Contributions (ARC) | Contributions Made As a Percentage of ARC |
|------------|-------------------------------------|---|
| 06/30/06   | \$ 53,977,000                       | 100.0%                                    |
| 06/30/05   | 46,721,000                          | 100.0%                                    |
| 06/30/04   | 39,335,000                          | 100.0%                                    |
| 06/30/03*  | 9,118,000                           | 100.0%                                    |
| 12/31/02   | 32,999,000                          | 100.0%                                    |
| 12/31/01   | 27,155,000                          | 100.0%                                    |
| 12/31/00   | 29,272,000                          | 100.0%                                    |

\* The scheduled timing of the actuarial valuation was changed to fiscal year basis effective June 30, 2003. The low ARC for June 30, 2003 only represents six (6) months of required employer contributions and is greatly impacted by the large annual pre-payment of contributions made by the County of Santa Barbara in July at the beginning of each fiscal year.

## Notes To The Required Supplementary Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the latest actuarial valuation dated June 30, 2006 is as follows:

|                                   |  |
|-----------------------------------|--|
| <b>Valuation date</b>             | June 30, 2006  |
| <b>Actuarial cost method</b>      | Entry age normal   |
| <b>Amortization method</b>        | 15-year amortization of actuarial gains and losses<br>(using a level percentage of projected payrolls)   |
| <b>Amortization period</b>        | 15-year closed amortization of each year's actuarial gain or loss<br>(adopted 04/09/2003)                |
| <b>Asset valuation method</b>     | Actuarial market value method with a smoothed fair value over<br>a five-year period (adopted 04/09/2003) |
| <b>Actuarial assumptions:</b>     |  |
| <i>Investment rate of return</i>  | 8.00%, 8.16 % APY (adopted 04/26/1995)   |
| <i>Projected salary increases</i> | 2% Merit and Longevity, 4.00 % Inflation (COLA)<br>(adopted 09/13/2006)                                  |
| <i>Cost-of-living adjustments</i> | Up to 3 % for General Plan 5, Safety Plan 4 and<br>APCD Plan (adopted 02/21/2001)                        |
|                                   | General Plan 2 is not eligible to receive these adjustments  |



**Schedule Of Administrative Expenses***For the Years Ended June 30, 2006 and 2005*

|  | <u>2006</u>         | <u>2005</u>         |
|--|---------------------|---------------------|
| <b>Personnel Services</b>                |                     |                     |
| Salaries and Employee Benefits           | \$ 1,233,665        | \$ 896,366          |
| <b>Total Personnel Services</b>          | <u>1,233,665</u>    | <u>896,366</u>      |
| <b>Professional Services</b>             |                     |                     |
| Actuarial Consulting Fees                | 59,720              | 60,360              |
| Computer Software Services and Support   | 128,696             | 123,243             |
| County Cost Allocation                   | 30,199              | (58,176)            |
| External Audit Fees                      | 24,806              | 23,625              |
| Disability Medical Fees                  | 133,002             | 96,228              |
| Disability Hearing Officer Fees          | 49,800              | 42,918              |
| Disability Stenographic Fees             | 24,142              | 18,585              |
| Disability Attorney Fees                 | 153,579             | 113,116             |
| Legislative and Other Legal Services     | 111,309             | 99,767              |
| Other Professional Services              | 16,145              | 20,069              |
| <b>Total Professional Services</b>       | <u>731,398</u>      | <u>539,735</u>      |
| <b>Communication</b>                     |                     |                     |
| Postage                                  | 36,302              | 38,902              |
| Telecommunication                        | 31,073              | 18,936              |
| Training                                 | 93,174              | 42,816              |
| Transportation and Travel                | 24,164              | 16,774              |
| <b>Total Communication</b>               | <u>184,713</u>      | <u>117,428</u>      |
| <b>Rents / Leases / Structures</b>       |                     |                     |
| Rents/Leases – Structure                 | 125,941             | 72,762              |
| Furniture & Fixtures                     | 16,554              | 5,402               |
| Building Maintenance                     | 20,657              | 26,644              |
| Equipment                                | -                   | 21,707              |
| <b>Total Rents / Leases / Structures</b> | <u>163,152</u>      | <u>126,515</u>      |
| <b>Miscellaneous</b>                     |                     |                     |
| Computer Equipment and Supplies          | 43,506              | 52,824              |
| Other Office Expenses                    | 74,139              | 44,597              |
| Insurance                                | 34,221              | 64,696              |
| <b>Total Miscellaneous</b>               | <u>151,866</u>      | <u>162,117</u>      |
| <b>Total Administrative Expenses</b>     | <u>\$ 2,464,794</u> | <u>\$ 1,842,161</u> |

**Schedule Of Investment Fees***For the Years Ended June 30, 2006 and 2005*

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| <b>Investment Activity</b>                      |                     |                     |
| Investment Management Fees                      |                     |                     |
| <b>Stock Managers</b>                           |                     |                     |
| Domestic  | \$ 1,966,717        | \$ 1,748,948        |
| International                                   | 1,303,716           | 1,140,403           |
| <b>Bond Managers</b>                            |                     |                     |
| Domestic  | 718,798             | 726,739             |
| <b>Real Estate</b>                              |                     |                     |
| REIT  | 220,445             | 394,674             |
| <b>Total From Investment Activity</b>           | <u>4,209,676</u>    | <u>4,010,764</u>    |
| <b>Other Investment Expenses</b>                |                     |                     |
| Consultant                                      | 135,000             | 230,000             |
| Custodian                                       | 129,543             | 155,451             |
| <b>Total Other Investment Expenses</b>          | <u>264,543</u>      | <u>385,451</u>      |
| <b>Total Fees and Other Investment Expenses</b> | <u>\$ 4,474,219</u> | <u>\$ 4,396,215</u> |

**Schedule of Payments to Consultants***For the Years Ended June 30, 2006 and 2005*

|                                      | <u>2006</u>       | <u>2005</u>       |
|--------------------------------------|-------------------|-------------------|
| Actuarial Services                   | \$ 59,720         | \$ 60,360         |
| Audit Services                       | 24,806            | 23,625            |
| Legal Services                       | 264,888           | 255,801           |
| <b>Total Payments to Consultants</b> | <u>\$ 349,414</u> | <u>\$ 339,786</u> |

## Investment 39



September 22, 2006

Retirement Board  
Santa Barbara County Employees Retirement System (SBCERS)  
3916 State Street, Suite 210  
Santa Barbara, CA 93105

Dear Board Members:

This letter reviews the investment performance of the Santa Barbara County Employees Retirement System (“System”) for the fiscal year ended June 30, 2006. During this period of time, the SBCERS total investment portfolio increased by \$152.2 million to a value of \$1.6 billion. The portfolio is broadly diversified, holding investments ranging from domestic equities to publicly traded real estate. The System has been effective in using its resources in a cost-effective manner to ensure that benefits continue to flow to plan participants.

The System’s custodian, Mellon Bank, independently prepared the underlying performance data. The performance calculations were made in compliance with GIPS Performance Presentation Standards. PCA serves as SBCERS’ independent investment consultant and evaluated the System’s performance in relation to market benchmarks, appropriate manager peer groups and other public pension funds.

The most critical factor influencing overall investment performance is the allocation of the SBCERS portfolio across major asset classes. The second quarter report for 2006 reflects asset allocation guidelines adopted by the System during the fourth quarter of 2005. The portfolio’s actual allocation is closely aligned with policy. The international equity asset class was slightly overweight, while domestic fixed income was slightly underweight.

Over the last year, the SBCERS investment portfolio produced an overall return of 10.8% ranking near median performance versus its peers\*. The portfolio outperformed policy by approximately 10 basis points largely due to relative outperformance in domestic equity.

Over the last five years, the SBCERS investment portfolio produced an average annual return of 7.1%, exceeding its policy benchmark by 10 basis points. During the last three years, the SBCERS portfolio generated an average annual 12.2% return versus a 12.8% return for the policy benchmark. For periods ending June 30, the SBCERS portfolio has outperformed its policy benchmark in three of the latest five one-year periods.

Sincerely,

Neil Rue, CFA  
Principal

\* This is net of commingled fund fees, but before separate account fees. Policy benchmark returns are calculated gross of fees.

## INVESTMENT POLICIES

External investment management firms manage the System's investment assets. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The Retirement Board (the Board), having sole and exclusive authority and fiduciary responsibility for the investment and administration of the system, has adopted an Investment Objectives and Policy Statement, which reflect the Board's policies for management of the System's investments.

1. The investment of the assets of the Retirement System shall be based on a financial plan that will consider:
  - the financial condition of the Retirement System
  - the expected long-term capital market outlook
  - the Board's risk tolerance
  - future growth of active and retired participants
  - inflation and the rate of salary increase
  - cash flow

The financial plan measures the potential impact on pension cost of alternative

investment policies in terms of risk and return based on various levels of asset diversification and the current and projected liability structure of the retirement plan.

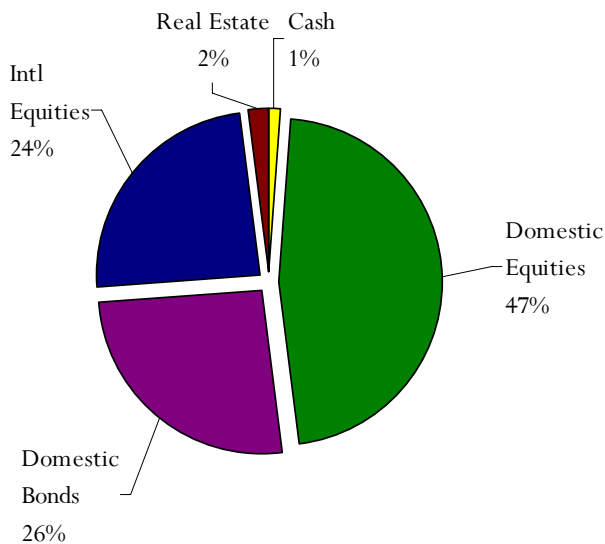
2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure, shall be sufficiently diversified to maintain risk at a reasonable level, determined by the Board without imprudently sacrificing return. The Board shall determine performance benchmarks against which the asset allocation plan shall be reviewed to ensure that the asset mix remains appropriate to meet long-term goals of the investment program.
3. In accordance with the asset allocation guidelines, the Board will select external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation.
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

**INVESTMENT SUMMARY**

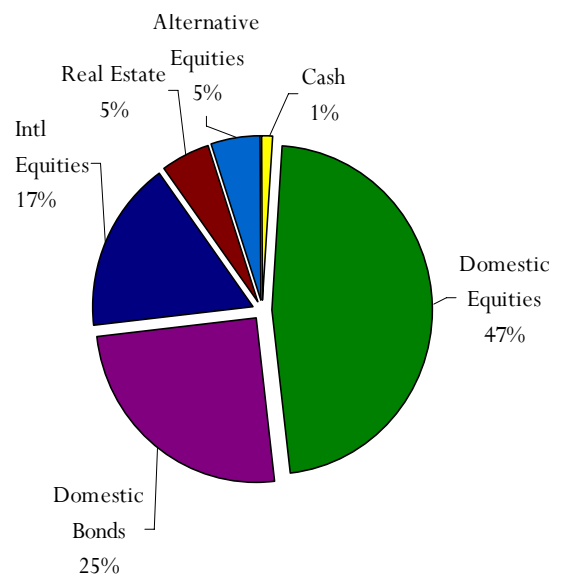
*As of June 30, 2006*

|  | Market Value     | Percent of Total Market Value |
|--|------------------|-------------------------------|
| Cash                                   | \$ 10,862,585    | 0.65                          |
| Short Term Investments                 | 32,313,116       | 1.93                          |
| U.S. Government and Agency Instruments | 255,149,794      | 15.22                         |
| Domestic Corporate Bonds               | 146,142,694      | 8.72                          |
| Global Bonds                           | 36,519,565       | 2.18                          |
| Total Bonds                            | 437,812,053      | 26.12                         |
| Alternative Equities                   | 1,191,537        | 0.07                          |
| Domestic Equities                      | 795,953,481      | 47.49                         |
| Global Equities                        | 357,415,303      | 21.32                         |
| Total Equities                         | 1,154,560,321    | 68.88                         |
| Real Estate                            | 40,576,518       | 2.42                          |
| Total                                  | \$ 1,676,124,593 | 100.00                        |

**Actual Asset Allocation**



**Target Asset Allocation**



**INVESTMENT RESULTS BASED ON FAIR MARKET VALUE***As of June 30, 2006*

| <b>Investments</b>               | <b>Current Year</b> | <b>Annualized</b> |                 |
|----------------------------------|---------------------|-------------------|-----------------|
|                                  |                     | <b>3 - year</b>   | <b>5 - year</b> |
| Domestic Equity                  | 11.55%              | 13.08%            | 4.45%           |
| <i>Russell 3000 Benchmark</i>    | 9.56%               | 12.56%            | 3.53%           |
| International Equity             | 27.42%              | 23.37%            | 10.40%          |
| <i>MSCI-ACWI x US Benchmark*</i> | 27.07%              | 25.60%            | 10.44%          |
| Domestic Bonds                   | (0.10%)             | 3.37%             | 6.54%           |
| <i>Lehman Universe Benchmark</i> | (0.81%)             | 2.05%             | 4.97%           |
| Real Estate**                    | (5.27%)             | 18.03%            | -               |
| <i>NCREIF Benchmark***</i>       | 22.06%              | 25.6%             | -               |
| Total Fund                       | 10.80%              | 12.24%            | 7.11%           |
| <i>SBCERS Policy Benchmark</i>   | 10.70%              | 12.80%            | 7.00%           |

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with Global Investment Performance Standards (GIPs). Returns are gross of fees.

\* Reassigned to MSCI ACWI 1/1/2003

\*\* Transitioned to this category January 2006, no position was held in this category October through December 2005

\*\*\* Reassigned to NCREIF index as of 4/1/2006

**SCHEDULE OF TOP TEN EQUITY SECURITIES AND TOP TEN BOND HOLDINGS***As of June 30, 2006***TOP TEN EQUITY SECURITIES by Market Value**

| <b>Shares/Par</b> | <b>Security Name</b>         | <b>Market Value</b> |
|-------------------|------------------------------|---------------------|
| 340,784           | RREEF America II             | \$ 40,576,518       |
| 371,563           | Exxon Mobil Corp             | 22,795,390          |
| 427,022           | Citigroup Inc Com            | 20,603,812          |
| 485,246           | General Elec Co Com          | 15,993,708          |
| 631,093           | Pfizer Inc Com Stk USD 0.05  | 14,811,753          |
| 254,400           | Expeditors Intl Wash Inc Com | 14,248,944          |
| 286,776           | Bank Of America Corp         | 13,793,926          |
| 242,151           | JPMorgan Chase & Co Com      | 10,170,342          |
| 170,941           | American Intl Group Inc Com  | 10,094,066          |
| 152,092           | Johnson & Johnson Com        | 9,113,353           |

**TOP TEN BOND HOLDINGS by Market Value**

| <b>Shares/Par</b> | <b>Security Name</b>            | <b>Market Value</b> |
|-------------------|---------------------------------|---------------------|
| 25,505,000        | U S Treasury Notes 4.25%        | \$ 23,995,104       |
| 20,000,000        | U S Treasury Notes 3.88%        | 19,090,000          |
| 18,705,000        | Commit To Pur FNMA SF Mtg 5.50% | 17,951,189          |
| 11,145,000        | U S Treasury Bonds 5.25%        | 11,099,751          |
| 8,595,000         | U S Treasury Bonds 8.00%        | 10,993,564          |
| 9,210,000         | Commit To Pur FNMA SF Mtg 6.00% | 9,054,351           |
| 7,670,000         | Commit To Pur FNMA SF Mtg 5.00% | 7,164,547           |
| 6,745,000         | U S Treasury Notes 3.63%        | 6,639,104           |
| 6,615,000         | U S Treasury Notes 4.50%        | 6,295,496           |
| 5,190,000         | Federal Natl Mtg Assn 5.25%     | 5,182,007           |

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS *As of June 30, 2006*

| <u>TYPE OF INVESTMENT</u>          | <u>MARKET VALUE</u>     | <u>% of PORTFOLIO</u> |
|------------------------------------|-------------------------|-----------------------|
| <b>ALTERNATIVE EQUITY</b>          |                         |                       |
| Secondary Pvt Equity LP            | \$ 1,191,537            | 0.07                  |
| <b>Alternative Equity Total</b>    | <b>1,191,537</b>        | <b>0.07</b>           |
| <b>EQUITY</b>                      |                         |                       |
| Aerospace & Defense                | \$ 6,461,947            | 0.39                  |
| Basic Industries                   | 20,673,193              | 1.23                  |
| Business Services                  | 8,858,238               | 0.53                  |
| Capital Goods                      | 55,860,200              | 3.33                  |
| Chemicals                          | 17,065,681              | 1.02                  |
| Commingled Funds US/Intl           | 299,766,138             | 17.88                 |
| Consumer Durables                  | 13,113,304              | 0.78                  |
| Consumer Non-Durables              | 51,547,285              | 3.08                  |
| Consumer Services                  | 65,209,606              | 3.89                  |
| Energy                             | 74,740,593              | 4.46                  |
| Financial Services                 | 197,099,007             | 11.76                 |
| Health Care                        | 99,101,908              | 5.91                  |
| Media                              | 22,639,007              | 1.35                  |
| Mutual Funds-Intl                  | 42,304,243              | 2.52                  |
| Other                              | 4,149,046               | 0.25                  |
| Pharmaceuticals                    | 6,151,876               | 0.37                  |
| Technology                         | 113,556,828             | 6.77                  |
| Transportation                     | 31,297,821              | 1.87                  |
| Utilities                          | 23,772,862              | 1.42                  |
| <b>Equity Total</b>                | <b>\$ 1,153,368,783</b> | <b>68.81</b>          |
| <b>BONDS</b>                       |                         |                       |
| Asset Backed Securities            | \$ 29,657,890           | 1.77                  |
| Banking & Finance                  | 48,610,834              | 2.90                  |
| Collateralized Mortgage Oblig      | 160,507,951             | 9.58                  |
| Education                          | 3,574,223               | 0.21                  |
| Government Bonds - US              | 119,180,852             | 7.11                  |
| Government Bonds - Intl            | 18,913,707              | 1.13                  |
| Health Care                        | 549,602                 | 0.03                  |
| Housing                            | 539,232                 | 0.03                  |
| Industrial                         | 10,017,091              | 0.60                  |
| Insurance                          | 661,325                 | 0.04                  |
| International Corporate Bonds      | 6,225,960               | 0.37                  |
| Private Placements                 | 19,926,454              | 1.19                  |
| Oil & Gas                          | 2,291,504               | 0.14                  |
| Other Corporate Bonds              | 2,064,558               | 0.12                  |
| Transportation                     | 1,070,938               | 0.06                  |
| Utilities                          | 13,831,348              | 0.83                  |
| Yankee Bonds                       | 188,584                 | 0.01                  |
| <b>Bonds Total</b>                 | <b>\$ 437,812,053</b>   | <b>26.12</b>          |
| <b>REAL ESTATE</b>                 |                         |                       |
| Equity REIT                        | 40,576,518              | 2.42                  |
| <b>Real Estate Total</b>           | <b>40,576,518</b>       | <b>2.42</b>           |
| <b>CASH &amp; CASH EQUIVALENTS</b> | <b>43,175,701</b>       | <b>2.58</b>           |
| <b>Grand Total</b>                 | <b>\$ 1,676,124,593</b> | <b>100.00</b>         |



**LIST OF INVESTMENT MANAGERS****Alternative Equity**

Lexington Partners Inc.

**Domestic Equity**

AllianceBernstein

Alliance Capital Management LP

Babson SCG

Dimensional Fund Advisors

Invesco

Starbuck, Tisdale &amp; Associates

**International Equity**

Fidelity Asset Management

New Star Institutional Managers Limited

State Street Global Advisors

The Boston Company

**Domestic Bonds**

Lehman Brothers Asset Management

Reams Asset Management

STW Fixed Income

**Real Estate**

RREEF America LLC

**SCHEDULE OF PROFESSIONAL FEES AND SERVICE***As of June 30, 2006*

|                                | <b>Assets Under<br/>Management</b> | <b>Fees</b>         | <b>Basis<br/>Points</b> |
|--------------------------------|------------------------------------|---------------------|-------------------------|
| Investment Managers            |                                    |                     |                         |
| Bond Managers                  | \$ 437,812,053                     | \$ 718,798          | 4.29                    |
| Equity Managers                | 1,154,560,320                      | 3,270,433           | 19.51                   |
| Real Estate Manager            | 40,576,518                         | 220,445             | 1.32                    |
| Short Term Investments         | 32,313,116                         | -                   | -                       |
| Total Investment Managers      | <u>1,665,262,008</u>               | <u>4,209,676</u>    | <u>25.12</u>            |
| Other Investment Service Fees: |                                    |                     |                         |
| Cash                           | 10,862,585                         | -                   | -                       |
| Custodian Fees                 | -                                  | 129,543             | .77                     |
| Investment Consultant Fees     | -                                  | 135,000             | .81                     |
|                                | <u>10,862,585</u>                  | <u>264,543</u>      | <u>1.58</u>             |
| Total Investment Service Fees  | <u>\$ 1,676,124,593</u>            | <u>\$ 4,474,219</u> | <u>26.70</u>            |

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Actuarial 47 



October 31, 2006

Board of Retirement  
Santa Barbara County  
Employees' Retirement System  
3916 State Street, Suite 210  
Santa Barbara, CA 93105

Re: *Actuarial Certification of the Santa Barbara County Employees' Retirement System*

Members of the Board:

Buck Consultants LLC is the Consulting Actuary for the Santa Barbara County Employees' Retirement System. An actuarial valuation is performed annually. The date of the most recent actuarial valuation was June 30, 2006. In each actuarial study, we conduct an examination of all participant data for reasonableness.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 2006, the amortization period is 15 years. The funding objective of the Plan is to establish contribution rates which, over time, will remain as a level percentage of payroll unless Plan benefit provisions are changed.

For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all gains and losses (returns above or below expected returns) over five years. The System's financial statements are audited by an outside auditor.

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by us as being appropriate for use under the Plan. An analysis of the Plan's noneconomic experience was performed as of June 30, 2006 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan. An experience study is performed triennially. The next experience analysis is due to be performed as of June 30, 2009.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Harold A. Loeb".

Harold A. Loeb, A.S.A., E.A., M.A.A.A.  
Principal and Consulting Actuary

A handwritten signature in black ink, appearing to read "Dylan Porter".

Dylan Porter, F.S.A., E.A., M.A.A.A.  
Director and Consulting Actuary

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

### Actuarial Assumptions And Methods

Recommended by the Actuary and adopted by the Board of Retirement. The actuarial assumptions used to determine the liabilities are based on the results of the June 30, 2006 Experience Study. The Board of Retirement adopted the new assumptions on 09/13/2006. The actuarial valuation of the assets and liabilities of SBCERS were determined with respect to the following:

#### *Noneconomic assumptions*

- The probabilities of members separating from active service on account of nonvested and vested withdrawal, retirement for service, death and disability, and
- The mortality rates to be experienced among retired persons.

#### *Economic assumptions*

- Interest earnings to be realized on the funds over many years in the future, and
- The relative increases in a member's salary from the date of the valuation to the date of separation from active service.

#### *Other assumptions*

- SPOUSES AND DEPENDENTS - During the period investigated, 80% of male employees and 50% of female employees were assumed married at retirement, with wives assumed three years younger than husbands.
- RECIPROCITY - 50% of members who terminate with a vested benefit were assumed to enter a reciprocal system.
- DEFERRAL AGE FOR VESTED TERMINATIONS - The assumed deferral age for vested General members was assumed to be 62 and for vested Safety members to be 55.

### Actuarial Cost Method

SBCERS uses the Entry Age Normal Cost Method. The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level of percentage of the projected salaries of present and future members of SBCERS over specified fixed periods of time. The UAAL is being funded over fifteen years from the valuation date each new liability is first recognized (adopted 04/09/2003).

### Actuarial Asset Valuation Method

Five-year smoothed method based on the difference between expected and actual market value of assets as of the valuation date (adopted 04/09/2003).

### Amortization of Gains and Losses

Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability and amortized over fifteen years (adopted 04/09/2003).

### Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 8.00%, compounded semi-annually, exclusive of both investment and administrative expenses (adopted 04/26/1995).

### Projected Salary Increases

Rates of annual salary increases assumed for the purpose of the valuation are 2% annually for merit and longevity and 4.0% for inflation (cost-of-living adjustments) (adopted 09/13/2006).

## Rates of Separation from Employment

Various rates are dependent upon member's age, sex, and retirement plan.

During the experience study period (July 1, 2003 to June 30, 2006):

- *Pre-Retirement Death*
  - the number of deaths was lower than expected for General male members, resulting in *death while eligible* rates being lowered to reflect the improved mortality.
- *Ordinary Disability*
  - the incidence of *ordinary disability* was lower than expected for General male members, resulting in *ordinary disability* rates being lowered for this group.
  - the incidence of *ordinary disability* was higher than expected for Safety members, but the pattern has reversed since the last experience study resulting in no change in rates to this group at this time.
- *Duty Disability*
  - The number of actual separations due to *duty disability* was lower than expected for General male members and higher than expected for Safety members. This resulted in *duty disability* rates being lowered for General males and increased for Safety members.
- *Service Retirement*
  - The number of actual separations due to *service retirement* was lower than expected for General male members and higher than expected for General female members. This resulted in *service retirement* rates being lowered for General males and increased for General females.
- *Withdrawal*
  - the incidence of *withdrawal* was slightly lower than expected for General male members and Safety members. The pattern has reversed since the last experience study resulting in no change in *withdrawal* rates to this group at this time.
- *Vested Termination*
  - the number of actual separations due to *vested termination* was higher than the number of expected separations for General members resulting in increasing the *vested termination* rates for both male and female groups. The number of actual separations due to *vested termination* was lower than expected for Safety members. Taking into account the experience over the last six years, there is no change to the *vested termination* rates for this group.

None of the other types of separation demonstrated a statistically significant trend.

### Post-Retirement Benefit Increases

Cost-of-Living benefit increases of up to 3% per year are assumed for the valuation in accordance with the benefits provided for General Plan 5, Safety Plan 4 and APCD Plan (adopted 02/21/2001). General Plan 2 is not eligible to receive these adjustments (adopted 02/21/2001).

### Expectation of Life After Retirement

During the period investigated, the number of actual deaths after Service Retirement was lower than expected for General females and Safety members. The number of expected deaths is very close to the number of actual deaths. Taking into account the experience over the last six years, there is no change to the **Service Retirement Mortality tables** listed below:

1994 Group Annuity Mortality Tables:

- for General Male members, setback 2 years
- for General Female members, set forward 1 year
- for Safety Male members, setback 2 years
- for Safety Female members, set forward 1 year

*Note: No setback means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.*

### Expectation of Life After Disability

During the period investigated, the number of actual deaths after Disability Retirement was lower than expected for General and Safety members. A new **Disability Retirement Mortality table** was recommended and adopted 9/13/2006 that will better reflect the future experience.

1994 Group Annuity Mortality Tables:

- for General Male members, set forward 5 years
- for General Female members, set forward 5 years
- for Safety Male members, set forward 2 years
- for Safety Female members, set forward 2 years

*Note: No setback means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.*

### Mortality Tables Impact on Employee Contribution Rates

Member contribution rates will continue to be based on the following unisex mortality tables:

1994 Group Annuity Mortality Tables:

- for General Male members, set back 3 years
- for Safety Male members, set back 2 years

*Note: No setback means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.*

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

| Valuation Date | Plan Type | Active Members | Average Annual Salary | Average   | % Increase in Average Salary |
|----------------|-----------|----------------|-----------------------|-----------|------------------------------|
| June 30, 2000  | General   | 3,503          | \$ 146,199,000        | \$ 41,735 | 2.8%                         |
|                | Safety    | 930            | 49,790,000            | 53,538    | 4.0%                         |
|                | Total     | <u>4,433</u>   | <u>\$ 195,989,000</u> | 44,211    | 3.0%                         |
| June 30, 2001  | General   | 3,631          | \$ 159,944,000        | \$ 44,050 | 5.5%                         |
|                | Safety    | 953            | 53,787,000            | 56,440    | 5.4%                         |
|                | Total     | <u>4,584</u>   | <u>\$ 213,731,000</u> | 46,625    | 5.5%                         |
| June 30, 2002  | General   | 3,660          | \$ 175,920,000        | \$ 48,066 | 9.1%                         |
|                | Safety    | 961            | 58,763,000            | 61,148    | 8.5%                         |
|                | Total     | <u>4,621</u>   | <u>\$ 234,683,000</u> | 50,786    | 8.9%                         |
| June 30, 2003  | General   | 3,648          | \$ 193,102,000        | \$ 52,934 | 10.1%                        |
|                | Safety    | 925            | 64,135,000            | 69,335    | 13.4%                        |
|                | Total     | <u>4,573</u>   | <u>\$ 257,237,000</u> | 56,251    | 10.8%                        |
| June 30, 2004  | General   | 3,559          | \$ 199,365,000        | \$ 56,017 | 5.8%                         |
|                | Safety    | 944            | 67,596,000            | 71,606    | 3.3%                         |
|                | Total     | <u>4,503</u>   | <u>\$ 266,961,000</u> | 59,285    | 5.4%                         |
| June 30, 2005  | General   | 3,558          | \$ 199,371,000        | \$ 56,035 | 0.0%                         |
|                | Safety    | 947            | 68,414,000            | 72,244    | 0.9%                         |
|                | Total     | <u>4,505</u>   | <u>\$ 267,785,000</u> | 59,442    | 0.3%                         |
| June 30, 2006  | General   | 3,658          | \$ 214,405,000        | \$ 58,613 | 4.6%                         |
|                | Safety    | 982            | 72,977,000            | 74,315    | 2.9%                         |
|                | Total     | <u>4,640</u>   | <u>\$ 287,382,000</u> | 61,936    | 4.2%                         |

## SCHEDULE OF RETIREES &amp; BENEFICIARIES ADDED TO AND REMOVED FROM RETIREMENT PAYROLL

| Fiscal Year | Added to Rolls |                  | Removed from Rolls |                  | Rolls at End of Year |                  | % Increase in Retiree Allowance | Average Annual Allowance |
|-------------|----------------|------------------|--------------------|------------------|----------------------|------------------|---------------------------------|--------------------------|
|             | Number         | Annual Allowance | Number             | Annual Allowance | Number               | Annual Allowance |                                 |                          |
| 2000        | 183            | \$ 3,271,182     | ( 89)              | \$ 864,965       | 2,068                | \$ 34,176,776    | 11.99%                          | \$16,526                 |
| 2001        | 126            | \$ 2,183,588     | ( 66)              | \$ 862,260       | 2,128                | \$ 36,766,740    | 7.58%                           | \$17,278                 |
| 2002        | 182            | \$ 4,869,205     | ( 69)              | \$ 729,682       | 2,241                | \$ 41,805,316    | 13.70%                          | \$18,655                 |
| 2003        | 184            | \$ 5,470,614     | ( 80)              | \$ 1,362,009     | 2,345                | \$ 47,280,006    | 13.10%                          | \$20,160                 |
| 2004        | 185            | \$ 4,846,363     | ( 90)              | \$ 1,316,001     | 2,440                | \$ 52,267,967    | 10.55%                          | \$21,420                 |
| 2005        | 202            | \$ 6,264,388     | ( 81)              | \$ 1,410,780     | 2,561                | \$ 58,823,879    | 12.54%                          | \$22,969                 |
| 2006        | 191            | \$ 4,784,912     | ( 73)              | \$ 1,257,887     | 2,679                | \$ 64,580,012    | 9.79%                           | \$24,106                 |



## ACTUARY SOLVENCY TEST

| Valuation Date | Actuarial Accrued Liabilities for |                            |                                  | Total AAL    | Reported Assets | Portion of Accrued Liabilities Covered by Reported Assets |      |        |
|----------------|-----------------------------------|----------------------------|----------------------------------|--------------|-----------------|---|------|--------|
|                | Active Member Contribution        | Retirees and Beneficiaries | Active Members Employer Financed |              |                 | (1)   | (2)  | (3)    |
|                | (1)                               | (2)                        | (3)                              |              |                 |   |      |        |
| 06/30/2006     | \$ 137,148                        | \$ 788,479                 | \$ 884,029                       | \$ 1,809,656 | \$ 1,552,776    | 100%  | 100% | 70.9%  |
| 06/30/2005     | \$ 125,040                        | \$ 715,319                 | \$ 847,273                       | \$ 1,687,632 | \$ 1,443,824    | 100%  | 100% | 71.2%  |
| 06/30/2004     | \$ 115,530                        | \$ 633,082                 | \$ 830,157                       | \$ 1,578,769 | \$ 1,379,170    | 100%  | 100% | 76.0%  |
| 06/30/2003     | \$ 105,570                        | \$ 572,737                 | \$ 776,557                       | \$ 1,454,864 | \$ 1,346,665    | 100%  | 100% | 86.1%  |
| 12/31/2002     | \$ 122,032                        | \$ 460,031                 | \$ 781,542                       | \$ 1,363,605 | \$ 1,295,956    | 100%  | 100% | 91.3%  |
| 12/31/2000     | \$ 98,215                         | \$ 396,275                 | *\$ 651,029                      | \$ 1,145,519 | \$ 1,171,138    | 100%  | 100% | 103.9% |
| 12/31/1999     | \$ 90,308                         | \$ 359,969                 | \$ 617,100                       | \$ 1,067,377 | \$ 1,068,357    | 100%  | 100% | 100.2% |
| 12/31/1998     | \$ 85,113                         | \$ 318,476                 | \$ 546,616                       | \$ 950,205   | \$ 938,295      | 100%  | 100% | 97.8%  |

\* Excluding benefit improvements.

## ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

|                                       | <u>Unfunded Liability</u> | <u>Contribution Rate</u> |
|---------------------------------------|---------------------------|--------------------------|
| <b>Values as of June 30, 2005</b>     | <b>\$ 243,808,000</b>     | <b>19.78%</b>            |
| Adjustment through June 30, 2006      | 2,244,000                 | 0.44%                    |
| Changes due to . . .                  |                           |                          |
| Asset losses/(gains)                  | 7,856,000                 | 0.24%                    |
| Other losses (demographic experience) | 8,904,000                 | 0.27%                    |
| Change in actuarial assumptions       | (7,040,000)               | (0.22)%                  |
| Change in plan provision              | 1,108,000                 | 0.39%                    |
| <b>Total changes</b>                  | <b>13,072,000</b>         | <b>1.12%</b>             |
| <b>Values as of June 30, 2006</b>     | <b>\$ 256,880,000</b>     | <b>20.90%</b>            |

## PROBABILITY OF SEPARATION FROM ACTIVE SERVICE

The following tables indicate the probability of separation from active service for each of eight separate sources of termination:

|                      |  |
|----------------------|--|
| SERVICE RETIREMENT   | Member retires after satisfaction of requirements of age and/or service for reasons other than disability.                       |
| WITHDRAWAL           | Member terminates and elects refund of member contributions.   |
| VESTED TERMINATION   | Member terminates and contributions are left on deposit.   |
| DUTY DISABILITY      | Member receives disability retirement; disability is employment related.   |
| ORDINARY DISABILITY  | Member receives disability retirement; disability not employment related.  |
| DUTY DEATH           | Member dies prior to retirement; death is employment related.  |
| ORDINARY DEATH       | Member dies prior to eligibility for retirement; death not employment related.   |
| DEATH WHILE ELIGIBLE | Member dies prior to retirement but after satisfaction of age and/or requirements for service retirement or ordinary disability. |

The probability shown for each cause of termination represents the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 25 is .1380, then we are assuming that 13.8 percent of the active members at age 25 will terminate without vested rights during the next year.

**Rate of Separation Prior to Retirement**

*Assumptions adopted September 13, 2006*

**GENERAL MEMBERS – MALE**

| Age | Service Retirement | Withdrawal | Vested Termination | Duty Disability | Ordinary Disability | Duty Death | Ordinary Death | Death While Eligible |
|-----|--------------------|------------|--------------------|-----------------|---------------------|------------|----------------|----------------------|
| 20  | 0.00%              | 18.98%     | 0.00%              | 0.01%           | 0.00%               | 0.01%      | 0.01%          | 0.00%                |
| 30  | 0.00%              | 9.78%      | 0.59%              | 0.02%           | 0.00%               | 0.01%      | 0.02%          | 0.01%                |
| 40  | 0.00%              | 4.95%      | 1.56%              | 0.07%           | 0.02%               | 0.01%      | 0.03%          | 0.02%                |
| 50  | 2.00%              | 2.65%      | 1.95%              | 0.17%           | 0.10%               | 0.01%      | 0.07%          | 0.07%                |
| 60  | 12.70%             | 1.50%      | 0.91%              | 0.29%           | 0.29%               | 0.01%      | 0.18%          | 0.21%                |
| 70  | 100.00%            | 0.00%      | 0.00%              | 0.00%           | 0.00%               | 0.00%      | 0.00%          | 0.00%                |

**Rate of Separation Prior to Retirement**

*Assumptions adopted September 13, 2006*

**GENERAL MEMBERS – FEMALE**

| Age | Service Retirement | Withdrawal | Vested Termination | Duty Disability | Ordinary Disability | Duty Death | Ordinary Death | Death While Eligible |
|-----|--------------------|------------|--------------------|-----------------|---------------------|------------|----------------|----------------------|
| 20  | 0.00%              | 17.25%     | 0.00%              | 0.01%           | 0.00%               | 0.01%      | 0.01%          | 0.00%                |
| 30  | 0.00%              | 11.00%     | 1.32%              | 0.01%           | 0.02%               | 0.01%      | 0.02%          | 0.01%                |
| 40  | 0.00%              | 5.50%      | 2.44%              | 0.06%           | 0.07%               | 0.01%      | 0.04%          | 0.01%                |
| 50  | 3.00%              | 2.60%      | 2.31%              | 0.14%           | 0.22%               | 0.01%      | 0.06%          | 0.03%                |
| 60  | 6.60%              | 1.65%      | 0.53%              | 0.25%           | 0.42%               | 0.01%      | 0.18%          | 0.11%                |
| 70  | 100.00%            | 0.00%      | 0.00%              | 0.00%           | 0.00%               | 0.00%      | 0.00%          | 0.00%                |

**Rate of Separation Prior to Retirement**

*Assumptions adopted September 13, 2006*

**SAFETY MEMBERS**

| Age | Service Retirement | Withdrawal | Vested Termination | Duty Disability | Ordinary Disability | Duty Death | Ordinary Death | Death While Eligible |
|-----|--------------------|------------|--------------------|-----------------|---------------------|------------|----------------|----------------------|
| 20  | 0.00%              | 7.00%      | 0.00%              | 0.02%           | 0.00%               | 0.01%      | 0.01%          | 0.00%                |
| 30  | 0.00%              | 3.80%      | 2.28%              | 0.10%           | 0.00%               | 0.01%      | 0.02%          | 0.01%                |
| 40  | 0.00%              | 1.50%      | 0.91%              | 0.40%           | 0.07%               | 0.02%      | 0.02%          | 0.04%                |
| 50  | 5.50%              | 0.40%      | 0.13%              | 0.82%           | 0.09%               | 0.06%      | 0.05%          | 0.07%                |
| 60  | 100.00%            | 0.00%      | 0.00%              | 0.00%           | 0.00%               | 0.00%      | 0.00%          | 0.00%                |

**Years of Life Expectancy after Service Retirement**

*Assumptions Adopted September 13, 2006*

| GENERAL   |       |        | SAFETY |        | GENERAL    |      |        | SAFETY |        |
|-----------|-------|--------|--------|--------|------------|------|--------|--------|--------|
| Age       | Male  | Female | Male   | Female | Age        | Male | Female | Male   | Female |
| <b>50</b> | 32.55 | 33.94  | 32.55  | 33.94  | <b>80</b>  | 9.40 | 9.71   | 9.40   | 9.71   |
| <b>55</b> | 27.95 | 29.24  | 27.95  | 29.24  | <b>85</b>  | 7.00 | 7.06   | 7.00   | 7.06   |
| <b>60</b> | 23.52 | 24.70  | 23.52  | 24.70  | <b>90</b>  | 5.07 | 4.98   | 5.07   | 4.98   |
| <b>65</b> | 19.39 | 20.46  | 19.39  | 20.46  | <b>95</b>  | 3.61 | 3.51   | 3.61   | 3.51   |
| <b>70</b> | 15.66 | 16.54  | 15.66  | 16.54  | <b>100</b> | 2.66 | 2.50   | 2.66   | 2.50   |
| <b>75</b> | 12.34 | 12.90  | 12.34  | 12.90  | <b>105</b> | 2.04 | 1.83   | 2.04   | 1.83   |
|           |       |        |        |        | <b>110</b> | 1.62 | 1.50   | 1.62   | 1.50   |

1994 GA (x-2, y+1) for General Members

1994 GA (x-2, v+1) for Safety Members

**Years of Life Expectancy after Disability Retirement**

*Assumptions Adopted September 13, 2006*

**GENERAL MEMBERS**

| Age        | Male  | Female |
|------------|-------|--------|
| <b>50</b>  | 26.15 | 30.17  |
| <b>55</b>  | 21.83 | 25.59  |
| <b>60</b>  | 17.84 | 21.28  |
| <b>65</b>  | 14.29 | 17.31  |
| <b>70</b>  | 11.12 | 13.60  |
| <b>75</b>  | 8.37  | 10.31  |
| <b>80</b>  | 6.19  | 7.54   |
| <b>85</b>  | 4.42  | 5.34   |
| <b>90</b>  | 3.16  | 3.76   |
| <b>95</b>  | 2.39  | 2.67   |
| <b>100</b> | 1.84  | 1.94   |
| <b>105</b> | 1.53  | 1.54   |
| <b>110</b> | 1.45  | 1.45   |

1994 GA (x+5, y+5) for General

**Years of Life Expectancy after Disability Retirement**

*Assumptions Adopted September 13, 2006*

**SAFETY & PROBATION MEMBERS**

| Age        | Male  | Female |
|------------|-------|--------|
| <b>50</b>  | 28.85 | 32.99  |
| <b>55</b>  | 24.39 | 28.31  |
| <b>60</b>  | 20.18 | 23.82  |
| <b>65</b>  | 16.37 | 19.65  |
| <b>70</b>  | 12.98 | 15.78  |
| <b>75</b>  | 9.96  | 12.22  |
| <b>80</b>  | 7.44  | 9.14   |
| <b>85</b>  | 5.43  | 6.59   |
| <b>90</b>  | 3.86  | 4.64   |
| <b>95</b>  | 2.81  | 3.28   |
| <b>100</b> | 2.15  | 2.34   |
| <b>105</b> | 1.68  | 1.74   |
| <b>110</b> | 1.49  | 1.49   |

1994 GA (x+5, y+5) for Safety

**Salary Increase Assumption***As of June 30, 2006*

| <b>Age</b> | <b>General<br/>Members</b> | <b>Safety<br/>Members</b> | <b>Age</b> | <b>General<br/>Members</b> | <b>Safety<br/>Members</b> |
|------------|----------------------------|---------------------------|------------|----------------------------|---------------------------|
| 20         | 10.0%                      | 10.0%                     | 46         | 6.0%                       | 5.0%                      |
| 21         | 10.0%                      | 10.0%                     | 47         | 6.0%                       | 5.0%                      |
| 22         | 10.0%                      | 10.0%                     | 48         | 6.0%                       | 5.0%                      |
| 23         | 10.0%                      | 10.0%                     | 49         | 6.0%                       | 5.0%                      |
| 24         | 10.0%                      | 10.0%                     | 50         | 5.5%                       | 5.0%                      |
| 25         | 10.0%                      | 10.0%                     | 51         | 5.5%                       | 5.0%                      |
| 26         | 10.0%                      | 10.0%                     | 52         | 5.5%                       | 4.5%                      |
| 27         | 9.0%                       | 10.0%                     | 53         | 5.5%                       | 4.5%                      |
| 28         | 9.0%                       | 10.0%                     | 54         | 5.5%                       | 4.5%                      |
| 29         | 8.5%                       | 9.5%                      | 55         | 5.5%                       | 4.5%                      |
| 30         | 8.5%                       | 7.5%                      | 56         | 5.5%                       | 4.5%                      |
| 31         | 8.5%                       | 7.0%                      | 57         | 5.5%                       | 4.5%                      |
| 32         | 8.5%                       | 7.0%                      | 58         | 5.5%                       | 4.5%                      |
| 33         | 7.5%                       | 7.0%                      | 59         | 5.5%                       | 4.5%                      |
| 34         | 7.5%                       | 7.0%                      | 60         | 5.5%                       | 4.5%                      |
| 35         | 7.5%                       | 7.0%                      | 61         | 5.0%                       | 4.5%                      |
| 36         | 7.5%                       | 6.5%                      | 62         | 5.0%                       | 4.5%                      |
| 37         | 7.5%                       | 6.5%                      | 63         | 5.0%                       | 4.5%                      |
| 38         | 7.5%                       | 6.5%                      | 64         | 5.0%                       | 4.5%                      |
| 39         | 7.5%                       | 6.5%                      | 65         | 5.0%                       | 4.5%                      |
| 40         | 6.5%                       | 6.0%                      | 66         | 4.5%                       | 4.5%                      |
| 41         | 6.5%                       | 6.0%                      | 67         | 4.5%                       | 4.5%                      |
| 42         | 6.5%                       | 6.0%                      | 68         | 4.5%                       | 4.5%                      |
| 43         | 6.5%                       | 6.0%                      | 69         | 4.5%                       | 4.5%                      |
| 44         | 6.5%                       | 6.0%                      | 70         | 4.5%                       | 4.5%                      |
| 45         | 6.5%                       | 5.0%                      |            |                            |                           |

Salary scale assumption reflects 4.00% for inflation, graded merit and longevity.

## SUMMARY OF MAJOR PLAN PROVISIONS

### Eligibility

- First pay period following date of employment

### Definition of Salary

- Highest 12 consecutive months of compensation earnable for General Plans 5A and 5B, Safety Plans 4A, 4B, 6A and APCD Plans 1 and 2
- Highest 36 consecutive months of compensation earnable for General Plan 2, Safety Plans 4C, 4D, 6B and part-time members in all plans

### Service Retirement

#### NORMAL RETIREMENT AGE

- Age 65 for §31486.4 (General Plan 2)
- Age 57 for §31676.12 (General Plan 5)
- Age 55 for §31664.2 (Safety Plan 4)
- Age 50 for §31664 (Safety Plan 6) and
- Age 55 for §31676.15 (APCD Plan)

#### EARLY RETIREMENT

- Age 50 and 10 years for General Plan 5 and APCD Plan
  - Age 55 and 10 years for General Plan 2
- OR
- 30 years for General Plan 5 and APCD Plan
  - 20 years for Safety Plans 4 and 6

#### BENEFIT AT NORMAL RETIREMENT AGE

- 2 percent of final average salary per year of service times benefit factor (§31676.12 and §31676.15 respectively) for General Plan 5 and APCD Plan
- 2 percent of final average salary per year of service (maximum 35 years) plus 1 percent of final average salary per year of service in excess of 35 (maximum 10 years) reduced by 1/35 of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan 2
- 3 percent of final average salary per year of service time benefit factor (§31664.2) for Safety Plans 4 and 6

## BENEFIT ADJUSTMENTS

- Reduced for retirement before:
  - ♦ Age 65 for § 31486.4 (General Plan 2)
  - ♦ Age 57 for § 31676.12 (General Plan 5)
  - ♦ Age 55 for §31664.2 (Safety Plan 4)
  - ♦ Age 50 for §31664 (Safety Plan 6) and
  - ♦ Age 55 for § 31676.15 (APCD Plan)
 Reductions for § 31486.4 are actuarial equivalents
  
- Increased for retirement after:
  - ♦ Age 57 for § 31676.12 (General Plan 5)
  - ♦ Age 55 for § 31676.15 (APCD Plan)

**Disability Retirement**

- Non-service connected for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - ♦ 1.8 percent of final average salary per year of service, with maximum of 33 1/3 percent if projected service is used (age 62 for General Plan 5, age 55 for Safety Plans 4 and 6 and age 65 for APCD Plan) or
  - ♦ 90 percent of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible)
  
- Service connected for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - ♦ Greater of 50 percent of final average salary or service retirement benefit (if eligible)
  
- General Plan 2 purchases long-term insurance policy
  - ♦ 60 percent of salary provided outside of the Plan
  - ♦ Payments are reduced by other disability income benefits
  - ♦ Service retirement at age 65 (credit given toward service retirement while disabled under the LTD Plan)

**Death Before Retirement**

- Non-service connected before eligible to retire for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - ♦ Refund of contributions plus 1/12 of last year's salary per year of service up to 6 years
  
- Eligible for non-service connected disability or service retirement for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - ♦ 60 percent of member's accrued allowance
  
- Service connected for General Plan 5, Safety Plans 4 and 6, and APCD Plan
  - ♦ 50 percent of salary
  
- Benefit for General Plan 2
  - ♦ 1/12 of last year's salary per year of service up to 6 years

### **Death After Retirement**

- \$5,000 lump sum death benefit for General Plan 5, Safety Plans 4 and 6, and APCD Plan
- Service retirement or non-service connected disability
  - 60 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - 50 percent of member's allowance payable to an eligible spouse for General Plan 2
- Service connected disability
  - 100 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - 50 percent of member's allowance payable to an eligible spouse for General Plan 2

### **Vesting**

- Must leave contributions on deposit
- Five years of service for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- Ten years of service for General Plan 2

### **Member's Contributions**

- Based on entry age
- Half rates for General Plan 5A, Safety Plans 4A, 4C, 4D, 6A and 6B and APCD Plan 1
- Full rates for General Plan 5B, Safety Plan 4B and APCD Plan 2
- General Plan 2 is noncontributory

### **Maximum Benefit**

- 100 percent of final average salary for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- Benefit and Social Security combined cannot exceed 70 percent of final average salary if service is less than 35 years, otherwise 80 percent for General Plan 2

### **Cost-Of-Living**

- Up to 3 percent cost-of-living adjustment for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- None for General Plan 2



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**Schedule of Additions By Source**

| <b>Fiscal Year</b> | <b>Member Contributions</b> | <b>Employer Contributions</b> | <b>Gross Return on Investments</b> | <b>Investment Expenses</b> | <b>Other Income</b> | <b>Total</b>  |
|--------------------|-----------------------------|-------------------------------|------------------------------------|----------------------------|---------------------|---------------|
| 2006               | \$15,057,589                | \$53,976,749                  | \$170,316,018                      | \$(11,648,395)             | \$55,990            | \$227,757,951 |
| 2005               | 14,827,847                  | 46,720,797                    | 143,795,225                        | (8,473,262)                | 49,497              | 196,920,104   |
| 2004               | 13,633,762                  | 39,334,678                    | 190,516,409                        | (5,198,320)                | 4,001               | 238,290,530   |
| 2003               | 12,796,575                  | 33,799,166                    | 57,301,619                         | (4,426,277)                | 4,012               | 99,475,095    |
| 2002               | 10,480,593                  | 31,759,299                    | (57,204,548)                       | (5,177,584)                | 4,400               | (20,137,840)  |
| 2001               | 8,458,680                   | 29,346,269                    | (44,280,522)                       | (8,253,395)                | 596,247             | (14,132,721)  |
| 2000               | 7,348,582                   | 30,057,229                    | 78,590,073                         | (2,447,083)                | -                   | 113,548,801   |
| 1999               | 7,039,762                   | 29,088,462                    | 115,349,949                        | (2,505,666)                | -                   | 148,972,507   |
| 1998               | 5,725,100                   | 30,138,293                    | 171,769,936                        | (2,460,806)                | -                   | 205,172,523   |
| 1997               | 5,145,910                   | 30,638,075                    | 149,579,897                        | (2,397,481)                | -                   | 182,966,402   |

**Schedule of Deductions By Type**

| <b>Fiscal Year</b> | <b>Benefits Paid</b> | <b>Refunds</b> | <b>Administrative Expenses</b> | <b>Total</b> |
|--------------------|----------------------|----------------|--------------------------------|--------------|
| 2006               | \$71,018,064         | \$1,474,822    | \$2,464,794                    | \$74,957,680 |
| 2005               | 64,254,302           | 1,284,974      | 1,842,161                      | 67,381,437   |
| 2004               | 57,634,424           | 1,467,988      | 1,985,863                      | 61,088,275   |
| 2003               | 51,443,905           | 1,204,495      | 1,520,815                      | 54,169,215   |
| 2002               | 46,792,742           | 885,479        | 1,715,345                      | 49,393,566   |
| 2001               | 40,775,721           | 1,144,835      | 1,523,493                      | 43,444,049   |
| 2000               | 37,537,933           | 991,089        | 697,085                        | 39,226,107   |
| 1999               | 33,493,394           | 893,349        | 620,626                        | 35,007,369   |
| 1998               | 29,827,368           | 880,164        | 409,548                        | 31,117,080   |
| 1997               | 27,352,099           | 557,461        | 239,205                        | 28,148,765   |

**Schedule of Benefit Expenses By Type**

| <b>Fiscal Year</b> | <b>Benefits Paid General</b> | <b>Benefits Paid Safety</b> | <b>Death Benefits</b> | <b>Total Benefit Expense</b> |
|--------------------|------------------------------|-----------------------------|-----------------------|------------------------------|
| 2006               | \$43,258,485                 | \$27,439,334                | \$320,245             | \$71,018,064                 |
| 2005               | 38,419,896                   | 25,474,122                  | 360,284               | 64,254,302                   |
| 2004               | 38,007,015                   | 19,335,644                  | 291,765               | 57,634,424                   |
| 2003               | 33,663,687                   | 17,349,343                  | 430,875               | 51,443,905                   |
| 2002               | 31,877,649                   | 14,669,468                  | 245,625               | 46,792,742                   |
| 2001               | 28,365,250                   | 12,067,274                  | 343,197               | 40,775,721                   |
| 2000               | 26,250,846                   | 11,047,682                  | 239,405               | 37,537,933                   |
| 1999               | 24,631,860                   | 8,777,855                   | 83,679                | 33,493,394                   |
| 1998               | 22,360,856                   | 7,411,340                   | 55,172                | 29,827,368                   |
| 1997               | 19,611,373                   | 7,611,850                   | 128,876               | 27,352,099                   |

## Schedule of Average Benefit Payments

|                           | Years of Service |         |         |         |        |         |
|---------------------------|------------------|---------|---------|---------|--------|---------|
|                           | 0-9              | 10-14   | 15-19   | 20-24   | 25-29  | 30+     |
| <b>June 30, 2006</b>      |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$2,390          | \$1,989 | \$1,773 | \$1,366 | \$936  | \$1,091 |
| Average Annual Benefit    | 28,680           | 23,870  | 21,271  | 16,396  | 11,235 | 13,096  |
| Number of Active Retirees | 1,472            | 355     | 286     | 237     | 209    | 120     |
| <b>June 30, 2005</b>      |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$2,328          | \$1,851 | \$1,635 | \$1,279 | \$885  | \$1,076 |
| Average Annual Benefit    | 27,938           | 22,214  | 19,624  | 15,345  | 10,616 | 12,915  |
| Number of Active Retirees | 1,367            | 363     | 264     | 234     | 219    | 114     |
| <b>June 30, 2004</b>      |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$2,163          | \$1,837 | \$1,472 | \$1,156 | \$927  | \$959   |
| Average Annual Benefit    | 25,950           | 22,044  | 17,665  | 13,870  | 11,124 | 11,508  |
| Number of Active Retirees | 1,281            | 337     | 267     | 244     | 216    | 95      |
| <b>June 30, 2003</b>      |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$2,046          | \$1,789 | \$1,329 | \$1,014 | \$941  | \$928   |
| Average Annual Benefit    | 24,549           | 21,471  | 15,944  | 12,167  | 11,295 | 11,132  |
| Number of Active Retirees | 1,181            | 365     | 258     | 274     | 189    | 78      |
| <b>December 31, 2002</b>  |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$1,907          | \$1,675 | \$1,277 | \$923   | \$946  | \$887   |
| Average Annual Benefit    | 22,881           | 20,101  | 15,323  | 11,072  | 11,349 | 10,641  |
| Number of Active Retirees | 1,125            | 349     | 264     | 275     | 193    | 69      |
| <b>December 31, 2001</b>  |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$1,764          | \$1,691 | \$1,218 | \$911   | \$648  | \$602   |
| Average Annual Benefit    | 21,172           | 20,291  | 14,617  | 10,930  | 7,775  | 7,226   |
| Number of Active Retirees | 1,113            | 365     | 257     | 270     | 188    | 69      |
| <b>December 31, 2000</b>  |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$1,890          | \$1,714 | \$1,290 | \$897   | \$910  | \$684   |
| Average Annual Benefit    | 22,679           | 20,563  | 15,480  | 10,768  | 10,923 | 8,213   |
| Number of Active Retirees | 1,013            | 311     | 285     | 301     | 132    | 56      |
| <b>December 31, 1999</b>  |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$1,893          | \$1,518 | \$1,168 | \$865   | \$778  | \$710   |
| Average Annual Benefit    | 22,721           | 18,221  | 14,019  | 10,384  | 9,331  | 8,522   |
| Number of Active Retirees | 914              | 313     | 309     | 304     | 125    | 47      |
| <b>December 31, 1998</b>  |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$1,839          | \$1,314 | \$1,058 | \$834   | \$741  | \$735   |
| Average Annual Benefit    | 22,063           | 15,762  | 12,700  | 10,004  | 8,895  | 8,823   |
| Number of Active Retirees | 857              | 309     | 328     | 287     | 102    | 39      |
| <b>December 31, 1997</b>  |                  |         |         |         |        |         |
| Average Monthly Benefit   | \$1,736          | \$1,212 | \$951   | \$819   | \$709  | \$611   |
| Average Annual Benefit    | 20,832           | 14,543  | 11,412  | 9,829   | 8,497  | 7,333   |
| Number of Active Retirees | 817              | 316     | 345     | 252     | 87     | 34      |

| <b>Schedule of Participating Employers</b> | <b>June 30, 2006</b> | <b>June 30, 2005</b> |
|--|----------------------|----------------------|
| County of Santa Barbara:                   |                      |                      |
| General Members                            | 3,524                | 3,425                |
| Safety Members                             | 982                  | 947                  |
| Total:                                     | 4,506                | 4,372                |
| Participating District Members:            |                      |                      |
| Air Pollution Control                      | 56                   | 56                   |
| Carpinteria Cemetery                       | 2                    | 2                    |
| Carpinteria-Summerland Fire Protection     | 33                   | 33                   |
| Goleta Cemetery                            | 4                    | 6                    |
| Oak Hill Cemetery                          | 3                    | 3                    |
| Santa Barbara Association of Governments   | 18                   | 16                   |
| Santa Barbara Vector Control               | 6                    | 5                    |
| Santa Maria Cemetery                       | 8                    | 8                    |
| Summerland Sanitary                        | 4                    | 4                    |
| Total:                                     | 134                  | 133                  |
| Total Active Membership:                   | 4,640                | 4,505                |

### Employer Contribution Rates

Effective July 1, 2005

| <b>Employer</b>       | <b>General</b> |                |                | <b>Safety</b>  |                | <b>General</b>         |                        |
|-----------------------|----------------|----------------|----------------|----------------|----------------|------------------------|------------------------|
|                       | <b>Plan 2</b>  | <b>Plan 5A</b> | <b>Plan 5B</b> | <b>Plan 4A</b> | <b>Plan 4B</b> | <b>APCD<br/>Plan 1</b> | <b>APCD<br/>Plan 2</b> |
| Santa Barbara County  | 7.69%          | 14.36%         | 14.38%         | 30.82%         | 27.68%         | -                      | -                      |
| Air Pollution Control | -              | -              | -              | -              | -              | 16.21%                 | 17.30%                 |
| Special Districts     | -              | 14.36%         | -              | 30.82%         | -              | -                      | -                      |

**Member Contribution Rates***Effective July 1, 2004*

| Entry<br>Age | General            |                    | Safety             |                    | APCD               |                    |
|--------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|              | Plan 5A            | Plan 5B            | Plan 4A            | Plan 4B            | Plan 1             | Plan 2             |
|              | FAS 1 - Half Rates | FAS 1 - Full Rates | FAS 1 - Half Rates | FAS 1 - Full Rates | FAS 1 - Half Rates | FAS 1 - Full Rates |
| 20           | 3.20%              | 6.39%              | 5.45%              | 10.90%             | 3.77%              | 7.55%              |
| 21           | 3.21               | 6.41               | 5.51               | 11.01              | 3.78               | 7.56               |
| 22           | 3.22               | 6.43               | 5.57               | 11.13              | 3.79               | 7.58               |
| 23           | 3.23               | 6.46               | 5.62               | 11.25              | 3.80               | 7.61               |
| 24           | 3.25               | 6.49               | 5.68               | 11.37              | 3.82               | 7.64               |
| 25           | 3.26               | 6.53               | 5.74               | 11.48              | 3.83               | 7.67               |
| 26           | 3.28               | 6.56               | 5.80               | 11.60              | 3.85               | 7.71               |
| 27           | 3.30               | 6.61               | 5.86               | 11.72              | 3.88               | 7.75               |
| 28           | 3.33               | 6.65               | 5.92               | 11.84              | 3.90               | 7.80               |
| 29           | 3.35               | 6.71               | 5.98               | 11.96              | 3.93               | 7.85               |
| 30           | 3.38               | 6.76               | 6.04               | 12.08              | 3.96               | 7.91               |
| 31           | 3.41               | 6.82               | 6.10               | 12.20              | 3.99               | 7.98               |
| 32           | 3.44               | 6.88               | 6.16               | 12.33              | 4.02               | 8.04               |
| 33           | 3.48               | 6.95               | 6.23               | 12.45              | 4.06               | 8.11               |
| 34           | 3.51               | 7.02               | 6.29               | 12.58              | 4.10               | 8.19               |
| 35           | 3.55               | 7.09               | 6.35               | 12.71              | 4.13               | 8.27               |
| 36           | 3.59               | 7.17               | 6.42               | 12.84              | 4.18               | 8.35               |
| 37           | 3.63               | 7.25               | 6.48               | 12.97              | 4.22               | 8.44               |
| 38           | 3.67               | 7.33               | 6.55               | 13.10              | 4.26               | 8.53               |
| 39           | 3.71               | 7.42               | 6.61               | 13.23              | 4.31               | 8.62               |
| 40           | 3.75               | 7.51               | 6.68               | 13.36              | 4.36               | 8.72               |
| 41           | 3.80               | 7.60               | 6.75               | 13.49              | 4.41               | 8.82               |
| 42           | 3.85               | 7.70               | 6.81               | 13.63              | 4.46               | 8.92               |
| 43           | 3.90               | 7.79               | 6.88               | 13.76              | 4.51               | 9.03               |
| 44           | 3.95               | 7.89               | 6.95               | 13.89              | 4.57               | 9.14               |
| 45           | 4.00               | 8.00               | 7.01               | 14.03              | 4.63               | 9.25               |
| 46           | 4.05               | 8.10               | 7.08               | 14.16              | 4.68               | 9.37               |
| 47           | 4.11               | 8.21               | 7.15               | 14.30              | 4.74               | 9.49               |
| 48           | 4.16               | 8.33               | 7.22               | 14.45              | 4.80               | 9.61               |
| 49           | 4.22               | 8.44               | 7.30               | 14.60              | 4.87               | 9.73               |
| 50           | 4.28               | 8.56               | 7.38               | 14.76              | 4.93               | 9.86               |
| 51           | 4.34               | 8.68               | 7.46               | 14.92              | 5.00               | 9.99               |
| 52           | 4.40               | 8.81               | 7.54               | 15.08              | 5.07               | 10.13              |
| 53           | 4.47               | 8.93               | 7.63               | 15.26              | 5.14               | 10.27              |
| 54           | 4.53               | 9.06               | 7.72               | 15.45              | 5.21               | 10.41              |
| 55           | 4.60               | 9.20               |                    |                    |                    |                    |
| 56           | 4.67               | 9.34               |                    |                    |                    |                    |
| 57           | 4.74               | 9.48               |                    |                    |                    |                    |
| 58           | 4.81               | 9.62               |                    |                    |                    |                    |
| 59 &         | 4.89               | 9.77               |                    |                    |                    |                    |

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**ACCUMULATED BENEFIT OBLIGATION:** The actuarial present value of benefits (whether vested or nonvested) attributed by the pension benefit formula to employee service rendered before a specific date and based on employee service and compensation (if applicable) before that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumptions about future compensation levels.

**ACCUMULATED PLAN BENEFITS:** Benefits attributable under the provisions of a pension plan to employees for services rendered to the benefit information date.

**ACTUARIAL ASSUMPTIONS:** Assumptions used in the actuarial valuation process as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods and other relevant items.

**ACCRUAL BASIS:** The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

**ACTUARIAL ACCRUED LIABILITY:** The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

**ACTUARIAL GAIN (LOSS):** A measure of the difference between actual and expected experience based upon a set of actuarial assumptions. Examples include higher than expected salary increases (loss) and a higher return on fund assets than anticipated (gain).

**ACTUARIAL PRESENT VALUE:** The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

**AMORTIZED OR UAAL PAYMENT:** The portion of the pension plan contribution, which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion. Equivalently, it is a series of periodic payments required to pay off a debt.

**AMORTIZATION:** (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

**AUDITOR'S REPORT:** In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report of a government. It includes (a) the five combined financial statements in the combined statements - overview and their related notes (the "liftable" GPFS) and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, required supplementary information, extensive introductory material and a detailed statistical section. Every government reporting entity should prepare a CAFR.

**ENTRY AGE ACTUARIAL COST METHOD:** A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

**NORMAL COST:** The ongoing annual cost allocated to the system by a particular actuarial cost method for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member.

**PENSION BENEFIT OBLIGATION (PBO):** The standardized measure of funding status and progress required by the GASB to be disclosed in the notes to the financial statements. It is the actuarial present value of credited projected benefits, prorated on service and discounted at a rate equal to the expected return on present and future plan assets.

**PENSION CONTRIBUTION:** The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations.

**PENSION TRUST FUND:** A trust fund used to account for a PERS. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus.

**UNFUNDED ACTUARIAL ACCRUED LIABILITY:** The excess of the actuarial accrued liability over the actuarial value of assets.