

## **STANISLAUS COUNTY ALLEGES BUCK CONSULTANTS SERIOUSLY DAMAGED PENSION FUND**

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YourPublicMoney.Com takes no position on whether or not the allegations concerning Buck Consultants in these articles are accurate. However, the County of Mendocino and its Retirement Association clearly should have investigated these allegations - they are serious.

### **3/11/09: County Pension Generations Tension:**

“... an actuarial firm ... audited the pension plan's past payout assumptions and found them flawed.”

... higher (County) contribution costs stem from what the audit called **flawed assumptions** made in the past about what the county will owe to future retirees. The assumptions deal with **when employees retire, how they will opt to take their pension benefits, when they will get salary raises, how long they will live, and what the inflation rate and rate of return will be on the pension fund.**

The county's contribution to the pension fund would increase by 70 percent to 90 percent if the estimates are accurate ...”

### **4/8/09: Stanislaus May Suspend Retirees' "Ad Hoc" Benefits:**

“ ... **Retirement board members** asked their legal and actuarial consultants about taking **legal action against a firm they claim misadvised them in setting employer contributions** in the past. The consultants said **litigation was possible or a complaint could be filed with regulators** for possible disciplinary action

...

StanCERA, like other public employee retirement systems across the country, is suffering from **severe losses in its investment portfolio**. But actuaries said Wednesday the **system is being "eaten by two tigers,"** the second being the **faulty assumptions made by the board's previous actuarial firm, Buck Consultants.**

According to the new actuaries, **Buck Consultants overstated the number of employees who will cash out benefits when they reach retirement eligibility.** Veteran employees are much less likely to opt for lump sum payments today or seek employment elsewhere.

The previous firm also **improperly calculated retirement rates,** the experts said.

**Because of the faulty assumptions, StanCERA didn't collect enough employer contributions in previous years and has to increase the rates.”**

#### **4/9/09: County Retirees - Look at the Big Picture (Editorial)**

“We've known since December that serious long-term funding problems loom for the Stanislaus County Employee Retirement Association because of **bad assumptions by its former actuarial firm.**

Now an analysis by the association's new actuarial firm shows that the problem will be more acute and more prolonged than expected.

And because of the way that retirement account is funded, **most of the pain will fall not on the association but on taxpayers,** because county government, the largest employer participating in the retirement fund, is forced to increase its contribution to make up for shortfalls.

...

Representatives from **EFI Actuaries, the new firm,** provided ... **blunt assessments.**

**"You've been eaten by two tigers,"** Bob McCrory told the retirement board. One tiger is the investment losses being felt by individuals and retirement funds across the country; the full impact of those losses is yet to be known. The **other tiger** is the **bad actuarial forecasting.** McCrory suggested that the assumptions were so flawed that **his firm would join the county in filing a complaint with the professional standards board."**

#### **12/24/09: Retirees Challenge StanCERA Over \$60M Reserve Shift**

“A retiree group has filed a lawsuit challenging the Stanislaus County retirement board's decisions in April to shift \$60 million in reserves to ease the county's pension obligations for 2009-10.

...

This year, the county was expected to pump more money into the main pension fund because **StanCERA's previous actuaries had made faulty assumptions about retirement patterns.**

...

**RESCO (Retired Employees of Stanislaus County) also is suing StanCERA's previous actuaries, Buck Consultants,** in the U.S. District Court in Fresno. That lawsuit charges that the firm's faulty projections about the number of employees who will draw benefits from StanCERA resulted in a shortfall of employer contributions to the fund in recent years.

RESCO says **Buck should be held responsible for the interest that StanCERA would have gained from the contributions.**

...”

Wednesday, Mar. 11, 2009

# County pension generates tension

## Extra benefits to retirees at risk as costs escalate

By Tim Moran  
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Stanislaus County Employees' Retirement Association administrator Tom Watson painted a grim picture of pension costs to the county Tuesday at the Board of Supervisors' meeting.

The bottom line is that the county may need to contribute an additional \$15 million to \$17 million a year to the retirement system even before considering the \$500 million in investment losses the pension fund has suffered in the past year.

That likely will cause more layoffs and public service cuts as the county copes with a looming \$34 million deficit in next year's budget, said County Chief Executive Officer Rick Robinson.

County supervisors warned Watson and the retirement board that nonmandated benefits to retirees will have to end. The retirement system pays retirees benefits, including a health cost stipend, that are not required by law. The extra benefits cost the retirement association about \$8 million a year.

The issue potentially pits current county employees, who face furloughs and layoffs, against retired employees, who could lose the extra stipends that many depend on to make ends meet.

The \$15 million to \$17 million is a verbal estimate by an actuarial firm that audited the pension plan's past payout assumptions and found them flawed. A more accurate number will be available in April, when a report by the retirement association's new actuarial firm will be made public.

The higher contribution costs stem from what the audit called flawed assumptions made in the past about what the county will owe to future retirees. The assumptions deal with when employees retire, how they will opt to take their pension benefits, when they will get salary raises, how long they will live, and what the inflation rate and rate of return will be on the pension fund.

The county's contribution to the pension fund would increase by 70 percent to 90 percent if the estimates are accurate, Watson said.

The \$500 million loss in the slumping stock market is not as big a problem, Watson said. The loss is about a third of what the fund totaled two years ago. The loss is softened by averaging the gains and losses over five years, Watson said. A rebound in the market in the next few years could alleviate that problem, he said.

"We need to be careful not to get too involved in the moment. Things can turn around," he said.

"The money is real for the county," said Supervisor Vito Chiesa. "We do one-year and three-year modeling. We have to be in the now," he said. "The potential for it to get worse is there, and I'm not sure there is a Plan B. It's so much money."

### **Some benefits cost jobs**

County officials made clear that nonmandated benefits are hard to justify in light of the pension fund problems and the looming county budget deficit.

"We absolutely want to pay our retirees the vested benefits," Robinson said. "The question is how far beyond that we, as partners, can go at a time when real people with real families will lose their jobs."

Watson said the nonmandated benefits are paid out of retirement fund earnings above the targeted 8.16 percent rate of return. Some of the "excess earnings" are also shared with Stanislaus County and other employers in the pension system, Watson said. In addition to Stanislaus County, the retirement association covers seven smaller governmental agencies, including the city of Ceres and superior court employees.

County Board Chairman Jim DeMartini, who is also a member of the retirement board, grilled Watson on a variety of topics but kept returning to the nonmandated benefits.

With the flawed actuarial assumptions problem and the \$500 million investment loss, DeMartini said, "I would expect the retirement board would realize it is unwise to continue giving away \$8 million a year in unfunded benefits."

Supervisor Jeff Grover urged Watson and the retirement board not to view the situation as adversarial. The county is in a difficult financial position, he said.

"The county fully intends to stand by everything it is legally required to do. We intend to cut out those things we are not legally obligated to do," he said. "This is a very finite goose laying a golden egg."

<http://www.modbee.com/local/story/660263.html>

## Stanislaus may suspend retirees' 'ad hoc' benefits

By Ken Carlson

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last updated: April 08, 2009 11:46:37 PM

To try to stem rising public employee pension costs, **Stanislaus County's chief executive officer asked a retirement board Wednesday to postpone paying some benefits to retirees, including a health care subsidy and cost-of-living increases.**

County CEO Rick Robinson said the "ad hoc" benefits, which never were part of labor agreements, need to be reconsidered as the Stanislaus County Employees' Retirement Association deals with the ailing system that funds pension benefits for county retirees and employees from Ceres and five special districts.

The county may have to contribute an additional \$22.7 million in the 2009-10 budget year, which starts July 1, to shore up the retirement system, a cost that would worsen a county budget deficit and lead to layoffs and "unprecedented" public service cuts, Robinson said.

The retirement system is able to issue pension checks for the foreseeable future, but the possible loss of ad-hoc benefits concerned many of the retirees attending the StanCERA meeting at the Salida Library. About 250 people filled the seats in the community room and dozens more stood outside.

The retirement board took no action on Robinson's requests or any other options for dealing with the pension fund. The discussion will continue at a special meeting April 24 and final decisions could be made at the board's regular meeting April 28.

**Retirement board members asked their legal and actuarial consultants about taking legal action against a firm they claim misadvised them in setting employer contributions in the past. The consultants said litigation was possible or a complaint could be filed with regulators for possible disciplinary action. It remained unclear what the board will do.**

The ad-hoc benefits are funded by reserves that make up 20 percent of the retirement system's assets.

**County officials are concerned that those reserves have not been part of the calculations that determine how much the county must put into the retirement system to fund regular benefits** for 2,700 retirees and surviving beneficiaries.

Robinson asked StanCERA to incorporate the reserves in setting the contribution rate, which could lower how much the county has to pay. With the county facing another sizable increase in the 2010-11 budget year, he also asked the board to commission an analysis of how the stock market decline and other investment losses this year will affect the contribution rate.

### **System 'eaten by two tigers'**

StanCERA, like other public employee retirement systems across the country, is suffering from severe losses in its investment portfolio. But actuaries said Wednesday the system is being "eaten by two tigers," the second being the **faulty assumptions** made by the **board's previous actuarial firm, Buck Consultants**.

**According to the new actuaries, Buck Consultants overstated the number of employees who will cash out benefits when they reach retirement eligibility. Veteran employees are much less likely to opt for lump sum payments today or seek employment elsewhere.**

**The previous firm also improperly calculated retirement rates, the experts said.**

**Because of the faulty assumptions, StanCERA didn't collect enough employer contributions in previous years and has to increase the rates.**

The retirement board will consider options to soften the blow to the county, such as amortizing the unfunded liabilities for a longer period of time.

Actuary Bob McCrory said the ad-hoc benefits frequently are an issue for retirement systems. In Stanislaus County, the benefits are funded when investment earnings exceed 8.16 percent, but excess earnings are not anticipated in the next few years.

Retirees speaking at the meeting were concerned the issue was pitting county employees against those who are retired.

Joe Martin, a retired Juvenile Hall group supervisor, is among the 2,500 people who receive the health care subsidy. The \$370 a month goes toward buying health insurance for himself and his wife. "We're not unwilling to compromise because of the county budget, but they need to treat everyone fairly," said Martin, 62.

<http://www.modbee.com/opinion/story/661493.html> Posted on Fri, Apr. 10, 2009

## County retirees, look at big picture

*last updated: April 09, 2009 10:34:35 PM*

**The Modesto Bee**

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**We've known since December that serious long-term funding problems loom for the Stanislaus County Employee Retirement Association because of bad assumptions by its former actuarial firm. (YPM note - Buck Consulting)**

Now an analysis by the association's new actuarial firm shows that the problem will be more acute and more prolonged than expected.

And because of the way that retirement account is funded, most of the pain will fall not on the association but on taxpayers, because county government, the largest employer participating in the retirement fund, is forced to increase its contribution to make up for shortfalls.

If no changes are made in retirement association practices, the county's cost for next year could rise by \$22.7 million. That's an alarming number when the county already is looking at having to lay off employees and make other cuts because of a \$17 million decline in revenue. And the county's costs will grow for several more years and remain high.

Representatives from EFI Actuaries, the new firm, provided some complicated explanations at a public meeting Wednesday, but also some blunt assessments.

**"You've been eaten by two tigers,"** Bob McCrory told the retirement board. One tiger is the investment losses being felt by individuals and retirement funds across the country; the full impact of those losses is yet to be known. **The other tiger is the bad actuarial forecasting. McCrory suggested that the assumptions were so flawed that his firm would join the county in filing a complaint with the professional standards board.**

While probably justified, neither a complaint nor a civil lawsuit will solve the problem, which is that the retirement fund is only about 82 percent funded, compared with a comfortable 96 percent two years ago. (Below 80 percent is considered troublesome.)

The retirement board is expected to start making crucial decisions within weeks. The first two should be:

- As we said previously, to **discontinue providing ad hoc (nonpromised) benefits, which totaled \$8 million last year. While some retirees have grown to depend on the health care supplement in particular, the board cannot jeopardize the vested benefits of future retirees by paying out extras today.**

- To revise the association's practices so that it counts the money set aside for ad hoc benefits as part of the assets on which the county's contribution is based. This will have the effect of reducing the county's contribution.

It is imperative that the county and the retirement board work together in this painful situation. McCrory put it succinctly: "As bad as this is, it would be worse if you start turning on each other."

The five elected county supervisors and the nine appointed retirement board members share at least two overriding goals: to protect the vested (promised) benefits due current and future retirees, and to **have a county that efficiently provides law enforcement and other essential services.** Achieving those goals in these very tough times must guide the retirement board in its decisions.

Posted on Thu, Apr. 30, 2009

## Board remembers all its constituents

*last updated: April 29, 2009 07:42:33 PM*

# The Modesto Bee

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The board of the Stanislaus County Employees Retirement Association took bold steps Tuesday that will ease — but not eliminate — the major budget cuts that county government has to make for 2009-10.

We commend the retirement board members for difficult decisions that weren't popular with many retirees. The board recognized that its constituents include current county workers, too, and those workers face unpaid furloughs and other cutbacks. In our view, Tuesday's actions had the effect of spreading the budget pain among retirees and current employees.

At Tuesday's special meeting, the retirement board voted:

- To **shift \$50 million from the so-called excess earnings reserve into the vested reserve, where it counts toward the financial solvency of the retirement fund.**
- To provide an additional \$10 million to offset the huge increase in retirement costs the county faced next year.
- To **amortize costs over 30 years** rather than 20, which has the effect of lowering the county's immediate obligation.
- To **suspend the extra cost- of-living adjustment** that was due to go to the oldest retirees in 2009, saving about half a million dollars.
- To **alert retirees that the fund might suspend or reduce the ad hoc (nonpromised) health benefit for 2010.** The health benefit has totaled between \$7 million and \$8 million in recent years.

These actions are a good start, but they come nowhere near solving all of the long-term challenges facing the pension fund. **These corrections only address the shortages resulting from bad actuarial forecasts. Next year, the retirement board will be dealing with the huge investment losses,** currently amounting to \$400 million. The board still needs to:

- Confirm the suspension of health benefits for 2010 and consider whether health benefits of up to \$370 per month per retiree should be paid in future years. **Our position remains that the retirement association should not pay out unvested/unpromised benefits when it is not fully funded to meet its vested obligations.**
- **Revisit its optimistic expectation that investments will earn 8.16 percent a year. For the 10 years ending June 2008, the average return was 5.4 percent.**

Leaders in county government have their own issues to confront. One is the practice of basing retirement benefits on an employee's final year of pay, which can be inflated — or "spiked" — by unused vacation or sick leave. Further, should the county continue to offer generous pensions starting at ages 50 or 55 when people are living much longer than they once did?

Tuesday's decisions were significant, but some of the hardest choices lie ahead. We're pleased that the retirement board members show, by their comments and most of their votes, that they are focused on the core mission: to make sure that the association has money to pay vested (or promised) benefits to retirees today and in the future.

<http://www.modbee.com/opinion/v-print/story/772727.html>

## Pension fund can't afford to pay extras

*last updated: July 07, 2009 02:18:11 AM*

**The Modesto Bee**

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In April, directors of the Stanislaus County Employees Retirement Association made some bold but necessary changes in accounting practices to avoid putting a \$22 million additional burden on the county for pension costs in 2009-10.

The retirement board also suspended the extra cost-of-living adjustment for the oldest retirees. That decision affected about 260 people and saved the fund about half a million dollars for 2009.

At that time, the board also alerted all of the 2,500-plus retirees and surviving beneficiaries that they could lose all or part of their nonpromised **health benefit** for 2010.

Wednesday, this issue comes to a head. The retirement board will decide whether to reduce or suspend the health benefit for next year. Retirees are expected to turn out en masse to object.

We understand their concern. No one wants to see their income reduced. But the **retirement fund has paid out more than \$80 million in these extras since 1981, using an "excess earnings" formula that due to an accounting gimmick grew even in the years when there were no excess earnings.**

The health benefit amounts to up to \$370 a month per person, with no requirement it be spent on health care.

Retirement administrator Tom Watson offers an alternative of reducing benefits for 2010, but recommends suspending them because the fund's investments have taken such a hit.

The **Retired Employees of Stanislaus County has retained an attorney to fight** the loss in benefits, suggesting the retirement board is favoring current employees over retirees.

**The retirement board has a responsibility to consider all its constituents -- active county employees and retirees. It should not pay out unpromised benefits when it is not fully funded to meet its promised benefits.**

## Retirees challenge StanCERA over \$60M reserve shift

By Ken Carlson  
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**The Modesto Bee**

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*last updated: December 24, 2009 05:08:25 AM*

A retiree group has filed a lawsuit challenging the Stanislaus County retirement board's decisions in April to shift \$60 million in reserves to ease the county's pension obligations for 2009-10.

Three members of Retired Employees of Stanislaus County brought the suit in Superior Court against the Stanislaus County Employees' Retirement System. An initial court date is set for April 12 before Judge William Mayhew.

StanCERA, at the county's urging, transferred \$10 million from nonvested benefit reserves to help offset a \$22.7 million increase in the county's annual contribution to the pension system. It also transferred \$50 million of the supplemental benefit reserves into StanCERA's main fund, from which monthly pension payments to retirees are drawn.

StanCERA administers retirement benefits for employees of the county, Ceres, the Superior Court and certain special districts.

County officials said the \$22.7 million burden would have forced them to lay off workers and cut public services. Officials stressed that the reserves are for nonguaranteed benefits, such as a medical stipend and supplemental cost-of-living increases, which never were part of negotiated labor contracts. The medical stipend was worth up to \$370, depending upon a retiree's length of service.

**According to the plaintiffs, StanCERA shirked its responsibility to manage the pension system on behalf of its retired and active members.**

**"I believe these decisions were for the benefit of the county,"** said Dennis Nasrawi, a retired county employee and member of Retired Employees of Stanislaus County. Nasrawi, RESCO President Michael O'Neal and Rhonda Biese-meier are listed as the plaintiffs.

County budget could be impacted

Local retirees were upset when the StanCERA board suspended a supplemental cost-of-living increase for older members and the health care stipend for 2010.

RESCO has a membership of slightly more than 2,000 local government retirees in Stanislaus County and is part of a coalition of retired county employees in California.

StanCERA Administrator Tom Watson said Wednesday he was not authorized to comment on pending litigation. The Reed Smith law firm of San Francisco, which is representing StanCERA in the case, also declined to comment.

County officials will watch the case because of its potential impact on the county budget.

"We believe that StanCERA has the authority to make the decisions that were made," County Counsel Jack Doering said. "On the face of the complaint, for now, they are not asking to put the funds back. They are not asking for anything to be undone."

The **county counsel's office withdrew as StanCERA's legal counsel in October.**

RESCO's complaint specifically asks the court for general and special damages and an injunction to prevent StanCERA from approving similar transfers in the future. **"We are asking that the funds be put back in nonvaluation reserves,"** Nasrawi said.

Faulty assumptions made

StanCERA manages a \$1 billion investment fund to pay retirement benefits to about 2,800 retired members and ensure it can meet pension obligations for existing employees when they retire. **When there are excess earnings on investments, StanCERA has placed funds in "nonvaluation reserves" to fund the supplemental benefits.**

This year, the county was expected to pump more money into the main pension fund because **StanCERA's previous actuaries had made faulty assumptions about retirement patterns.** Some StanCERA board members said the transfers were needed to safeguard vested pension benefits for existing government workers.

**County retirees in Southern California lost a similar case heard in 2005 in Ventura County Superior Court.** In that case, the court ruled that the Ventura County retirement system did not violate the California Constitution by using supplemental benefit reserves "to reduce or completely offset" Ventura County's contributions to the pension fund between 1998 and 2004.

**RESCO also is suing StanCERA's previous actuaries, Buck Consultants,** in the U.S. District Court in Fresno. That lawsuit charges that the firm's faulty projections about the number of employees who will draw benefits from StanCERA resulted in a shortfall of employer contributions to the fund in recent years.

RESCO says **Buck should be held responsible for the interest that StanCERA would have gained from the contributions.** A Buck representative was unavailable Wednesday.