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VIA EMAIL AND USPS

October 3, 2007

Ms. Julie Wyne
Interim CEO/General Counsel
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, California 92701-3101

Re: Follow-up Questions from County - Past Service Liabilities for the 3% at 50 Benefit Improvement for Law Enforcement

Dear Julie:

In our letter to the System dated September 6, 2007, we estimated the liability impact of the past service portion (i.e., pre June 28, 2002) of the 3% at 50 Law Enforcement benefit improvement granted in 2002. The total actuarial accrued liability (AAL) impact, measured based on the October 1, 2007 date requested by OCERS, amounts to about \$187 million.

You have provided us with a copy of the County's September 20, 2007 letter in which they requested some additional information to the extent that it is readily available. Our answers together with the County's questions are as follows:

1. What would the Annual Required Contributions (ARC), expressed in dollars and percent of payroll, be for the October 1, 2007 AAL of \$187 million?

An ARC would be required for the past service portion of the 3% at 50 Law Enforcement benefit improvement to the extent that the liability is remaining unfunded as of October 1, 2007.

As we stated in our September 6, 2007 letter, the \$187 million figure did not account for any benefit payments that had been made to the affected retired Law Enforcement members between June 28, 2002 and October 1, 2007, nor did it take into account the contributions made by the County towards OCERS' unfunded actuarial accrued liability (UAAL). The County's actual ARC contributions for the past service portion of the Law Enforcement improvement can only be accurately determined once the above factors have been researched and analyzed.



In order to give the County a sense of the size for the ARC, we have estimated that each \$10 million in UAAL would require a contribution rate of about 0.41% of Law Enforcement payroll, or about \$0.61 million in contributions per year over the next 29 years, based on the payroll and assumptions adopted by OCERS for the December 31, 2005 valuation¹. This means that, for example, the ARC associated with the AAL of \$187 million would be about 7.7% of pay, or \$11.4 million.

2. How much would the liability for benefits (pre 3% at 50 past service benefit improvement) be reduced if later retirements were anticipated? How would this impact the ARC in Question #1?

As part of our September 6, 2007 calculation, we measured the liability of the \$187 million by reflecting the expected retirement age behavior of the Law Enforcement members after the 3% at 50 improvement. We have not calculated the value of the past service benefit improvement using the retirement age behavior before the 3% at 50 improvement. That calculation would require additional analysis of the pre 3% at 50 retirement behavior, including the retirement age assumptions used by the System's prior actuary in predicting retirement prior to the benefit improvement, as well as valuation runs under those alternative assumptions.

3. Does the first bullet on page 2 of Segal's September 6th letter imply that the \$187 million would be higher (or lower) if benefit payments since 2002 were taken into account? How would this impact the ARC in question #1?

Including the benefit payments since 2002 would have produced an AAL higher than the \$187 million that we provided in our September 6th letter. However, including the contributions already made by the County since 2002 to the UAAL would produce an AAL balance lower than \$187 million.

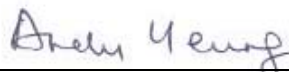
We have not performed the calculations required to determine the exact impact of the higher benefit payments or contributions.

Please let us know if you need any additional information.

Sincerely,



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



Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary

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¹ For illustrative purposes, we have utilized the results from the December 31, 2005 actuarial valuation because the liability of \$187 million was estimated as of October 1, 2007 and during the 2007/2008 fiscal year, the December 31, 2005 valuation was used to determine the contribution rate requirements.