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TO: **CONTRACTING PUBLIC AGENCIES**

SUBJECT: **NEW OPTIONAL BENEFIT - 59 SURVIVOR, INDEXED LEVEL**

Due to legislation effective January 1, 2000, the following optional contract provision is available to public agencies:

Section 21574.5 Indexed Level 1959 Survivor Benefit

Please be aware that, although we are sending this Circular Letter to all contracting agencies, this level of the 1959 Survivor benefit is available **only** to groups of employees not covered by Social Security.

As is the case with the Third and Fourth Levels, assets and liabilities are pooled. The benefit amounts are $500, $1,000 and $1,500 for one, two and three eligible survivors respectively. These amounts will increase by 2% each year. The increased benefit amounts compounded by 2% annually are applicable to both current and future beneficiaries.

The Third Level of the 1959 Survivor benefit will close to new contract amendment as of December 31, 2000, if the current technical corrections legislation is passed as expected. The Fourth Level will close when the Indexed Level single benefit amount surpasses the Level Four single benefit amount ($950). This is not projected to occur for another 25 to 30 years. Until that time, agencies currently in Level Four may not contract for the Indexed Level, since that would result in a decrease in benefits.

There will be a window period from now until June 30, 2003, during which employers who contract for the Indexed Level 1959 Survivor benefit will not be charged a contribution rate for the cost of increased benefits. They will, however, still be responsible for any existing Unfunded Actuarial Liability at their **current** level. This means that those amending from Level Three will be required to pay off the remainder of the amount owed under the 5-year amortization payment schedule, if any, established at the time they amended their contract for Level Three. Those amending from Levels One or Two must pay the Unfunded Liability that exists at that level. Any employer may choose to pay their Unfunded Liability in a single lump sum or to amortize it. The optional amortization period is 5 years for Levels One and Two, and the remaining period under the amortization schedule for Level Three. In all cases the existing assets and amortization payments will be deposited into the Indexed Level pool.

For an employer that amends its plan to the Indexed Level effective by June 30, 2001, the contribution rates for both the 1959 Survivor program and the retirement program will be based on an actuarial value of assets set equal to 95% of market value. If the 95% of market value of assets has already been implemented due to a prior plan amendment, however, no additional change in assets will be made. In addition, an employer may move up more than one plan (i.e. safety and miscellaneous) to the Indexed Level and the two plans may share 59 Survivor assets for purposes of determining the Unfunded Liability.

All employers contracting for the Indexed Level 1959 Survivor (whether paying off a prior level Unfunded Liability or not) will become part of the Indexed Level pool immediately and will share in the pool's surplus in order to offset the Normal Cost at the Indexed Level. We have run estimates of the costs under the Indexed Level using very conservative assumptions and under four different scenarios. By conservative assumptions, we mean the assumptions that would result in higher costs than would be expected under normal circumstances. The four scenarios are as follows:

1. If only agencies who answered our questionnaire saying that they would move up to the Indexed Level actually do so,
2. If agencies in the first scenario and agencies who have an Unfunded Liability at Level One, Two or Three move up,
3. If agencies in the first scenario plus a random selection of agencies at Level One, Two and Three move up and
4. If all agencies at Level One, Two and Three move up.

In all cases, the Normal Cost was completely offset for more than 10 years, resulting in an employer cost of $0 during that time. Please note that, although we are projecting employer costs to be $0 for at least 10 years, there could be a cost if the number of active deaths is higher than expected and/or if investment returns are less than the assumed rate of 8.25%.

Employers who contract for the Indexed Level 1959 Survivor benefit after the close of the three-year window period will be required to pay the Unfunded Liability and 5 years of Normal Cost, both at the Indexed Level.

In all cases assets will be moved into the Indexed Level Pool based on the particular agency's assets for Levels One and Two. For Level Three, the assets will be taken from that pool and moved to the Indexed Level pool in accordance with a formula based on number of members, length of time in the pool and Actuarial Liability at the Third Level.

As discussed above, the employer cost for the Indexed Level 1959 Survivor Benefit is the Unfunded Actuarial Liability, if any, at the current level. A valuation is required to determine that Unfunded Actuarial Liability.

The Member Cost is currently $2 per member per month. Once the total cost at the Indexed Level exceeds $4 per member per month, the employee will pay for half of the total cost (but never less than $2). The employee cost is not expected to exceed $2 for at least 10 years.

We hope you find this information helpful. If you are interested in requesting an amendment valuation for this benefit, please send a written request to your contact in the Contracts Section. Questions regarding this information should be directed to the Actuarial and Employer Services Division at the above listed number.

Ron Seeling, Chief Actuary
Actuarial and Employer Services Division