

EXHIBIT B



Actuarial Office
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December 13, 2010

Employer Number: 0464
 New Rate Plan Name: CITY OF LOMPOC SAFETY FIRE SECOND TIER PLAN

Re: New Second Tier Plan for Pooled Plans (Section 20475: Different Level of Benefits Provided for New Employees)

Dear Requestor:

Enclosed is the June 30, 2009 Section 2 Risk Pool actuarial valuation report applicable to your new second tier plan.

In the tables below, we show your 2010-2011 and 2011-2012 employer contribution rates before and after opening a second tier.

Of the five rate components, the first three are specific to the pool to which the plan belongs and the last two are specific to your agency. However, the Phase out of Normal Cost Difference will be 0% beginning with rates established for 2011-2012, so it has no impact from that time on.

The Side Fund will continue to be paid off by the first tier plan since all the past service on which it is based belongs to those current members who will continue in the first tier. The scheduled dollar amounts payable will continue as before. However, because newly hired members will be covered by the second tier, the number of members and payroll in the first tier will (after several years) gradually decline. The Amortization of Side Fund rate component is the dollars needed to pay off the side fund divided by the payroll. So as long as the Side Fund remains, **the first tier rate will increase as its payroll decreases**. The first tier side fund is scheduled to be paid off after 28 years from June 30, 2011.

Therefore, in determining the employer contributions savings, Amortization of Side Fund should be excluded. For your agency, the ultimate annual employer savings equals the difference between the pool-specific rates times the second tier payroll. For 2010-2011 the percentage savings is $(15.707\% + 2.470\% + 1.786\%) - (13.340\% + 2.252\% + 1.768\%) = 2.603\%$. **The annual dollar savings is then 2.603% times the second tier fiscal year payroll.**

As of June 30, 2008	Existing Plan	New First Tier Plan	New Second Tier Plan
	3% @ 50	3% @ 50 for continuing members	3% @ 55 for newly hired members
2010-2011 Employer Contribution Rate:			
Risk Pool's Net Employer Normal Cost	15.707%	15.707%	13.340%
Risk Pool's Payment on Amortization Bases	2.470%	2.470%	2.252%
Surcharges for Class 1 Benefits	1.786%	1.786%	1.768%
Phase out of Normal Cost Difference	0.000%	0.000%	0.000%
Amortization of Side Fund	5.407%	5.407%	0.000%
Total Employer Contribution Rate	25.370%	25.370%	17.360%
2010-2011 Employee Contribution Rate	9.000%	9.000%	9.000%

For 2011-2012 the percentage savings is $(17.164\%+5.927\%+1.709\%) - (15.725\%+4.583\%+1.754\%) = 2.738\%$.
The annual dollar savings is then 2.738% times the second tier fiscal year payroll.

As of June 30, 2009	Existing Plan	New First Tier Plan	New Second Tier Plan
	3% @ 50 Safety plan	3% @ 50 for continuing fire members	3% @ 55 for newly hired fire members
2011-2012 Employer Contribution Rate:			
Risk Pool's Net Employer Normal Cost	17.164%	17.164%	15.725%
Risk Pool's Payment on Amortization Bases	5.927%	5.927%	4.583%
Surcharges for Class 1 Benefits	1.709%	1.709%	1.754%
Phase out of Normal Cost Difference	0.000%	0.000%	0.000%
Amortization of Side Fund	5.373%	6.372%	0.000%
Total Employer Contribution Rate	30.173%	31.172%	22.062%
2011-2012 Employee Contribution Rate	9.000%	9.000%	9.000%

To initiate an amendment to the contract, please complete the attached election form and mail or FAX (916) 795-3005 the form with a letter to the Contracts Maintenance Unit, indicating your wish to contract for Section 20475 (Different Level of Benefits) and identifying the group(s) to which the benefit reduction applies.

In sections 20463 (b) and (c), the California Public Employees' Retirement Law requires the governing body of a public agency within five days of receipt of the contract amendment cost analysis, to provide each employee organization with a copy of the analysis. If this cost analysis was requested by an employee organization, the employee organization is also required within five days of receipt of the analysis, to provide a copy of the analysis to the public agency.

If you have questions, please call (888) CalPERS (225-7377).



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