

May 4, 2004

12. Impact of Service Purchase Subsidy on SDCERS

Just prior to higher service purchase rates going into effect in November, there was a deluge of requests from members (roughly 3,000) for cost information. Not all requests will result in purchase. It would not be unreasonable to guess that half of the current requests will result in purchase.

As of June 30, 2003, there were 2,339 members who purchased service since program inception.

The one year for which we have excellent information as to both liabilities and related contract purchase amounts is the year ending June 30, 2003.

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|----------------------------|---------------------|
| Total Purchasers: | 812 |
| Average Age | 49.1 years |
| Average Service Purchased: | 4.2 years |
| New City Liability | \$46,000,959 |
| Member Contract Value | <u>\$33,300,955</u> |
| Actuarial Loss | <u>\$12,700,004</u> |

This means the average actuarial loss per year of service purchased was roughly \$3,725.

If there are 1,500 members who have purchased service since June 30, 2003 or are in the pipeline, our guesstimate is that the added actuarial loss will be in the \$22-\$25 million range. The impact of this will not entirely be reflected in the June 30, 2004 valuation since staff indicates that request processing will continue for the balance of the calendar year.

We look forward to answering your questions.

Sincerely,



Rick Roeder, EA, FSA, MAAA