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May 7, 2025

Lisa Okada
Deputy Director of Human Resources
San Mateo County

Re: Study of Proposed Retiree Health Plan Change for Forensic Autopsy Technicians and Community Services Officers

Dear Lisa:

As requested, we have estimated the impact to San Mateo County (the County) for benefit changes to the Postemployment Benefits Other than Pension (OPEB) Plan for Forensic Autopsy Technicians and Community Services Officers. Currently, these are members of the American Federation of State, County, and Municipal Employees (AFSCME) group. Per your request, in this study, we model these members with benefits based on the benefit provisions of the Law Enforcement Unit (Non-Safety Classifications) (LEU) bargaining unit.

The results shown in this letter summarize the estimated impact to the County of moving these employees into the LEU bargaining unit. We are not advocating either for or against these changes.

The calculations in this letter apply only to twelve active members identified by email on April 17, 2025 and are based on member information used in the June 30, 2024 actuarial valuation. These twelve members are AFSCME members in the 2024 actuarial valuation, with hire dates before February 18, 2024. Other Forensic Autopsy Technicians and Community Service Officers are expected to maintain their current benefits. No analysis of changes for other members was done.

Additionally, consistent with GASB 75, the TOL calculations are “closed group” calculations, meaning that the results do not reflect the impact of future hires.

Executive Summary

As requested by the County, we have studied the proposed retiree health benefit changes for the identified current Forensic Autopsy Technicians and Community Service Officers employees. It is our understanding that these benefit changes do not impact current retirees. No analysis of changes for future hires was done.

In this letter, we calculate the actuarial present value of benefits, the Total OPEB Liability, the Service Cost, and the change in the County’s Actuarially Determined Contribution for the proposed benefits. These results are compared to the same measures from the most recent actuarial valuation as of June 30, 2024.

We also calculate the actuarial present value of employee contributions and certain County benefit obligations, including monthly HRA contributions while actively employed and lump sum benefits at retirement, under the AFSCME and LEU benefit structures.

Summary of Retiree Health Benefits Studied

Benefits for AFSCME members and LEU members are different depending on whether members were hired before or after the respective effective date. The AFSCME effective date is June 12, 2022. The LEU effective date is February 18, 2024.

For AFSCME members and LEU members hired after the respective effective date, the County will contribute \$50 per month to the RHRA or PORAC Retiree Medical Trust for each full-time employee, prorated for part time employees. For employees with less than five years of service, there is not a monthly contribution. There is a \$3,000 contribution upon attaining five years of service. These contributions do not result in an OPEB liability under GASB 75.

Twelve active members were identified by email on April 17, 2025. These were AFSCME members in the 2024 actuarial valuation. The costs of moving from AFSCME benefits to LEU benefits are valued in this letter.

Of these twelve members, five were hired between June 12, 2022 and February 18, 2024. In this letter, these five members are valued with the LEU benefits described below instead of the AFSCME monthly HRA contributions, because they have hire dates before the LEU effective date but after the AFSCME effective date. Seven members have hire dates before both effective dates. Differences under the two benefit structures for these seven are described below.

There are four components to the retiree health benefits for AFSCME and LEU members hired prior to the respective effective date.

1. Lump sum benefits at retirement based on sick leave balances at the effective date.
2. Pre-65 explicit medical benefits.
3. Medicare-eligible monthly contributions payable for 10 years.
4. Implicit rate subsidy prior to age 65.

The implicit rate subsidy also applies to AFSCME and LEU members hired after the respective effective date, as members are eligible to elect to receive health, dental, and/or vision benefits upon retirement, regardless of hire date. For retirees not yet enrolled in Medicare, the total premiums (paid by County and retiree combined) for benefits will be the same as the total premiums (County and employee's share) for active members.

AFSCME employees hired before the effective date contribute 0.70% of pay. LEU employees hired before the effective date contribute 0.85% of pay.

Lump Sum Benefits at Retirement Based on Sick Leave Balances at the Effective Date

These benefits apply to members hired before the respective effective date.

These benefits do not result in an OPEB liability under GASB 75 and are not included in the calculation of the TOL. This is consistent with GASB Summary of Statement No. 101, and based on the July 22, 2022 response from a GASB representative to a technical inquiry submitted July 21, 2022.

The County contributes a lump sum at retirement to the retiree's PORAC Retiree Medical Trust or Retiree Health Reimbursement Account.

Old Sick Leave is defined as sick leave accrued before the respective effective date and unused as of retirement. 192 hours are removed from the employee's sick leave bank and held in reserve for the employee to use.

For AFSCME members with 15 or more years of service at retirement, the lump sum amount is 50% of the member's Old Sick Leave balance (plus 50% of any remaining unused hours from the 192 hours of old sick leave left in the employee's sick leave bank) multiplied by the hourly pay rate at retirement.

For AFSCME members with less than 15 years of service at retirement, the lump sum amount equals a fixed dollar multiplier per eight hours of Old Sick Leave balance as of the effective date:

For members hired by the County before January 1, 2011: \$440.00 per eight hours.

For members hired by the County on or after January 1, 2011: \$400.00 per eight hours.

For LEU members with 10 or more years of service at retirement, the lump sum amount is 50% of the member's Old Sick Leave balance (plus 50% of any remaining unused hours from the 192 hours of old sick leave left in the employee's sick leave bank) multiplied by the hourly pay rate at retirement.

For LEU employees with less than 10 years of service at retirement, the lump sum amount equals a fixed dollar multiplier per eight hours of Old Sick Leave balance as of the effective date:

For members hired by the County before July 10, 2011: \$440.00 per eight hours.

For members hired by the County on or after July 10, 2011: \$400.00 per eight hours.

Pre-65 Explicit Medical Benefits

These benefits apply to members hired before the respective effective date.

For retirees not enrolled in County benefit plans, the County deposits the monthly benefit amount listed in the table below into the retiree's RHRA or the Trust. For retirees enrolled in County benefit plans, the County deposits (into the retiree's RHRA or the Trust) any excess of the monthly benefit amount listed in the table after premiums are paid.

The benefits are based on the retiree's age, with this benefit payable while the retiree is under age 65 (pre-Medicare). The spouse's age will not influence the amount of the County's maximum payment.

These benefit amounts would not increase.

The benefits in the table below are paid as long as the retiree is alive and under age 65. After the retiree has died, the benefits payable to a surviving spouse would be 50% of the amounts in the table, paid until the retiree would have turned 65.

The benefits are based on years of service at retirement according to the following table. Note that the monthly benefit is identical for those who retire with between 15 and 25 years of service.

Years of Service	AFSCME Monthly Benefit	LEU Monthly Benefit
Less than 10	\$0.00	\$0.00
10-15	\$0.00	\$500.00
15-20	\$891.95	\$891.95
20-25	\$1,189.27	\$1,189.27
25 or more	\$1,189.27	\$1,300.00

Medicare-Eligible Monthly Contributions Payable for 10 Years

These benefits apply to members hired before the respective effective date. There are no post-65 benefits paid for those with less than 15 years of service at retirement.

Members with 15 or more years of service at retirement receive Medicare-eligible monthly contributions payable for 10 years. After the retiree turns age 65 and becomes eligible for Medicare, the benefits are based on the standard Medicare Part B premium. The standard Medicare Part B premium is \$174.70 in 2024. The County's monthly contribution is \$166.22 per person in 2024.

In contrast to the pre-65 benefits, the post-65 benefits are expected to grow over time, with benefits based on the standard Medicare Part B premiums for the prior year for individuals. The County's contributions will be adjusted each year in accordance with adjustments made by the Centers for Medicare and Medicaid services, not to exceed an annual adjustment of 5.8% between 2024 and 2026, and not to exceed an annual adjustment of 5.0% in 2027 and beyond. The County's contribution per person will not decline from one year to the next.

The County's monthly contribution is based on the retiree's age. This benefit is payable while the retiree is age 65 and older. For married retirees, the post-65 benefit amount is double the single premium contribution. The spouse's age will not influence the amount of the County's maximum post-65 payment.

After the member dies, surviving spouses receive the contributions for one person until the benefit would have expired for the retiree.

Implicit Rate Subsidy Prior to Age 65

These benefits apply to members regardless of hire date.

The County contracts with Kaiser and Aetna Plans to provide health coverage to its actives and pre-Medicare (prior to age 65) retirees. These insurers charge the same premium for actives and retirees without Medicare. Therefore, the County is paying a higher rate for active employees than they otherwise would if the retirees were in a separate plan. This creates an "implicit" subsidy of retiree premiums. GASB requires including the value of this subsidy in the TOL.

Assumptions Relating to Coverage on County Plans

In the actuarial valuation, we assume that 95% of AFSCME and LEU retirees with monthly benefits (hired before the respective effective dates and retired with sufficient service) elect medical coverage. We assume that 47.5% (50% of 95%) of AFSCME and LEU retirees without monthly benefits (hired after the respective effective dates or retired without sufficient service) elect medical coverage.

This work product was prepared solely for San Mateo County for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

We assume that 47.5% (50% of 95%) of AFSCME and LEU retirees hired before the respective effective dates elect dental and vision coverage. We assume that 4.75% (10% of 50% of 95%) of AFSCME and LEU retirees hired after the respective effective date elect dental and vision coverage.

For AFSCME and LEU members who are hired before the respective effective dates, we assume varied rates at which retirees will elect to cover their spouses for pre-65 medical benefits:

90% of married members with 20 or more years of service at retirement are assumed to elect spousal coverage at retirement for pre-65 medical benefits.

75% of married members with 15-19 years of service at retirement are assumed to elect spousal coverage at retirement for pre-65 medical benefits.

55% of all other married members with less than 15 years of service are assumed to elect spousal coverage at retirement for pre-65 medical benefits.

For AFSCME and LEU members, we assume that 95% of married members who are eligible for the Medicare-eligible monthly contributions elect medical benefits for their spouses in addition to their own, regardless of their service at retirement.

For AFSCME and LEU members hired after the respective effective dates, 55% are assumed to elect spousal medical coverage at retirement. All married retirees who elect dental and/or vision coverage are assumed to elect spousal dental and/or vision coverage.

Although we are maintaining these assumptions for this letter, moving from AFSCME benefits to LEU benefits means that the twelve members studied have different assumptions apply to them than in the valuation. In particular, the 5 members hired after the AFSCME effective date but before the LEU effective date have significant increases to election and spouse coverage assumptions as they are now eligible for explicit monthly benefits in retirement.

These assumptions represent our best estimate of behavioral changes that would result from the proposed changes.

Actuarial Present Value of Benefits, Total OPEB Liability, and Service Cost

The broadest measure of the obligation for current members is the actuarial present value of benefits (PVB). This is the present value of all projected benefits discounted at the investment rate of return assumption and includes benefits allocated to both past and future service for all current members.

The Total OPEB Liability (TOL) represents the value of benefits allocated to past service for current members under the actuarial cost method. The Net OPEB Liability is the TOL minus the assets, and that is the amount shown on the balance sheet for the County's financial reporting. It also serves as a funding target for the County's established funding policy.

The Service Cost represents the value of benefits earned during the year on an on-going basis. This is the portion of the present value of projected benefit payments allocated to the current year of service by the actuarial cost method. It is a component of the expense calculation for financial reporting.

Figures 1-3 show these measures as of June 30, 2024, as though the benefit changes had taken effect as of the June 30, 2024 actuarial valuation. The following charts are for the twelve identified members and do not include any amounts for future hires.

Lump sum benefits at retirement do not result in an OPEB Liability under GASB 74/75, so they are not included in the calculation of the TOL or the Service Cost.

County monthly HRA contributions for active members and employee contributions are not included in the PVB, TOL, or Service Cost. These contributions are discussed later in the letter.

Figure 1: Actuarial Present Value of Benefits

	Lump Sum at Retirement (A)		Pre-65 Medical Benefit (B)		Medicare-Eligible Contributions (C)		Total Explicit Benefits (D)=(A)+(B)+(C)		Implicit Rate Subsidy (E)		Total PVB (F)=(D)+(E)
AFSCME Benefits	\$44,000	+	\$135,000	+	\$107,000	=	\$286,000	+	\$466,000	=	\$752,000
LEU Benefits	51,000	+	173,000	+	142,000	=	366,000	+	543,000	=	909,000
Increase	7,000	+	38,000	+	35,000	=	80,000	+	77,000	=	157,000

The PVB in the 2024 actuarial valuation for all members covered by the County's retiree medical program was \$675,604,000.

About 80% of the increase to the PVB in this study is attributable to the five members hired between the AFSCME and LEU effective dates.

Figure 2: Total OPEB Liability

	Lump Sum at Retirement (A)		Pre-65 Medical Benefit (B)		Medicare-Eligible Contributions (C)		Total Explicit Benefits (D)=(B)+(C)		Implicit Rate Subsidy (E)		TOL (F)=(D)+(E)
AFSCME Benefits	N/A		\$97,000	+	\$64,000	=	\$161,000	+	\$272,000	=	\$433,000
LEU Benefits	N/A		110,000	+	68,000	=	178,000	+	284,000	=	462,000
Increase	N/A		13,000	+	4,000	=	17,000	+	12,000	=	29,000

The TOL in the 2024 actuarial valuation for all members was \$509,172,000.

About 40% of the increase to the TOL is attributable to the five members hired between the AFSCME and LEU effective dates. Because the TOL is the portion of the PVB attributable to past service, the TOL is relatively smaller for members with less service. The five members hired between the effective dates have less service compared to the seven members hired before both effective dates.

Figure 3: Service Cost

	Lump Sum at Retirement (A)	Pre-65 Medical Benefit (B)		Medicare-Eligible Contributions (C)		Total Explicit Benefits (D)=(B)+(C)		Implicit Rate Subsidy (E)		Total Service Cost (F)=(D)+(E)
AFSCME Benefits	N/A	\$3,000	+	\$4,000	=	\$7,000	+	\$17,000	=	\$24,000
LEU Benefits	N/A	6,000	+	6,000	=	12,000	+	22,000	=	34,000
Increase	N/A	3,000	+	2,000	=	5,000	+	5,000	=	10,000

The Service Cost in the 2024 actuarial valuation for all members was \$17,822,000.

Actuarially Determined Contribution

The actuarially determined contribution (ADC) is equal to the Service Cost plus an amount to amortize the Net OPEB Liability (NOL). The ADC for the County for the 2025-2026 fiscal year is \$28,270,000. This is based upon the June 30, 2024 valuation, rolled forward to June 30, 2025, assuming no actuarial gains or losses. There is a one-year lag between the actuarial valuation date and the beginning of the period for the ADC.

The change in the 2025-2026 fiscal year ADC due to the proposed member benefit changes using a 14-year amortization is an increase of \$13,000, for a new ADC of \$28,283,000. The increase to the ADC results from a higher Service Cost and TOL under the LEU benefits. This result values the member benefit changes as though they had taken effect as of the June 30, 2024 actuarial valuation.

The current funding policy of the County is to contribute cash to the trust based upon the ADC, minus the estimated implicit rate subsidy. The change studied in this letter would increase the total cash contribution from \$15,566,000 to 15,579,000.

Other Costs and County Obligations

Although employee contributions and County monthly HRA contributions do not result in an OPEB liability under GASB 75 and are not included in the calculation of the PVB, TOL, Service Cost, or ADC, they are part of the AFSCME and LEU benefit structures and changes in these pieces affect overall costs of moving from the AFSCME benefit structure to the LEU benefit structure.

AFSCME employees hired before the effective date contribute 0.70% of pay. LEU employees hired before the effective date contribute 0.85% of pay.

All twelve members studied in this letter will contribute 0.85% of pay under the LEU benefits. Under the AFSCME benefits, the seven members hired before the AFSCME effective date contribute 0.70% of pay and the five members hired after the AFSCME effective date do not contribute.

- The estimated present value of the 0.70% employee contributions (for the seven members) as of June 30, 2024, based on salary growth assumptions and probabilities of remaining actively employed, is about \$42,000.
- The estimated present value of the 0.85% employee contributions (for the twelve members) as of June 30, 2024, based on salary growth assumptions and probabilities of remaining actively employed, is about \$89,000.

For AFSCME or LEU members hired after the respective effective date, the County will contribute \$50 per month to the RHRA or PORAC Retiree Medical Trust for each full-time employee, prorated for part time employees. For employees with less than five years of service, there is not a monthly contribution. There is a \$3,000 contribution upon attaining five years of service.

All twelve members studied in this letter will not receive the \$50 monthly HRA contributions under the LEU benefits. Under the AFSCME benefits, the five members hired after the AFSCME effective date would receive \$50 monthly contributions.

- The estimated present value of the \$50 monthly HRA contributions (for the five members) as of June 30, 2024 under the AFSCME benefit structure is about \$28,000.
- There are no monthly HRA contributions for the twelve members under the LEU benefit structure.

The net effect of moving from the AFSCME benefits to the LEU benefits due to the employee and HRA contributions is an expected decrease to County costs of about \$75,000 (\$89,000 plus \$28,000 minus \$42,000) on a present value basis. The relevant number, discussed in the results earlier in this letter, to compare to this decrease in costs would be the PVB increase of \$157,000.

Data, Assumptions, and Methods

All data, assumptions, and methodology for our calculations match our June 30, 2024 actuarial valuation report dated September 5, 2024 with the following exceptions.

Members Valued: The calculations in this letter apply only to twelve active members identified by email on April 17, 2025 and are based on member information used in the June 30, 2024 actuarial valuation. These twelve members are AFSCME members in the 2024 actuarial valuation, with hire dates before February 18, 2024. The twelve members are valued in this letter as LEU members.

Please see Appendix C of the June 30, 2024 actuarial valuation report for a summary of the Membership Data.

For these twelve members, new sick leave hour balances as of February 18, 2024 were added to the Old Sick Leave balances used in the 2024 actuarial valuation, based on a May 5, 2025 email from the County. New sick leave hours as of February 18, 2024 were provided by the County in an email on April 29, 2025. For three members, new sick leave balances as of the June 1, 2024 census date used for the actuarial valuation data were lower than the new sick leave balances as of February 18, 2024. For these members, new sick leave balances from the census data for the actuarial valuation (instead of as of February 18, 2024) were added to the Old Sick Leave balances.

Old Sick Leave is used in the calculation of lump sum benefits at retirement. For LEU, Old Sick Leave is defined as sick leave accrued before February 18, 2024 and unused as of retirement. For AFSCME, Old Sick Leave is defined as sick leave accrued before June 12, 2022 and unused as of retirement.

Benefit provisions and assumptions for AFSCME and LEU are unchanged from those used in the 2024 actuarial valuation. However, as the twelve studied members are treated as moving from AFSCME to LEU in this letter, the benefit provisions and assumptions that apply to these twelve members are different than those that applied to the twelve members in the actuarial valuation. These differences are described in the Summary of Retiree Health Benefits Studied section in this letter.

These assumptions represent our best estimate of behavioral changes that would result from the proposed changes.

Caveats

In preparing this letter, we relied, without audit, on information (some oral and some in writing) supplied by the County's staff and labor representatives. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The study results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different, and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the County have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the County and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the County. Further, in our opinion, the actuarial assumptions in the aggregate are reasonable and are related to the experience of the Plan and to reasonable expectations and represent our best estimate of anticipated experience under the Plan.

Milliman has developed certain models to estimate the values included in this letter. The intent of the models was to estimate retiree medical annual trends and costs by age and gender. In addition, the valuation results and projections for future results were developed using models employing standard actuarial techniques. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice.

This analysis is only an estimate of the County's liability as of a single date, and a projection of expected costs based on the County's membership and liability as of the valuation date. It can neither predict the County's future condition nor guarantee future financial soundness. Actuarial calculations do not affect the ultimate cost of benefits, only the timing of contributions. While the study is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable, and results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Future actuarial measurements may differ significantly from the current measurements presented in this letter due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The County has the final decision regarding the appropriateness of the assumptions.

Actuarial computations presented in this letter are for purposes of determining changes to liabilities due to proposed benefit changes for certain active Lieutenant participants. The calculations in this letter have been made on a basis consistent with our understanding of the Plan's current and proposed benefits. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this letter. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the County for a specific and limited purpose. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- (a) The County may provide a copy of Milliman's work, in its entirety, to the Fund's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Fund.
- (b) The County may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third-party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

Specifically, we have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this letter is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices, which are consistent with the principles prescribed by the Actuarial Standards Board and the *Code of Professional Conduct and Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* published by the American Academy of Actuaries.

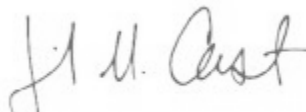
We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Please let us know if you would like to discuss this further.

Sincerely,

A handwritten signature in cursive script that reads 'Daniel Wade'.

Daniel Wade, FSA, EA, MAAA
Principal and Consulting Actuary

A handwritten signature in cursive script that reads 'J. M. Castelhana'.

Jennifer M. Castelhana, FSA, EA, MAAA
Principal and Consulting Actuary