



1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940

milliman.com

January 22, 2025

Scott Hood
Chief Executive Officer
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

**Re: Analysis of Memorandum of Understanding (MOU) for
Organization of Sheriff's Lieutenants**

Dear Scott:

We understand that the San Mateo County Board of Supervisors will consider a Memorandum of Understanding (MOU) for employees of San Mateo County with benefits negotiated under collective bargaining agreements with the Organization of Sheriff's Lieutenants (Lieutenants) that will result in certain salary and benefit changes for these employees. We have been asked to provide an analysis of the financial impact of these changes, specifically with regards to their financial impact on the funding status of SamCERA.

California Government Code Section 31515.5 requires a notice be provided of the estimated financial impact that proposed benefit or salary increases have on the funding status of the County's retirement system, administered by SamCERA. This letter is intended to satisfy that requirement.

The primary financial impacts of the changes (if all changes are adopted) are estimated to be:

- an increase in the Unfunded Actuarial Accrued Liability (UAAL) of \$1,177,000, and
- an increase in the annual employer contribution rate of 0.18% of Safety member payroll (0.02% of total payroll); see explanatory note on SamCERA funding method.

Note that this is the impact on SamCERA funding only and does not reflect any other cost to the County of implementing the MOU. The funded ratio, rounded to the nearest 0.01%, is estimated to be lower by 0.01% because of these changes.

SamCERA Funding Method

The Statutory Contribution Rate is comprised of a contribution for the on-going costs of the plan (the employer Normal Cost rate) and a contribution to pay off the UAAL over time. Under SamCERA's funding method, the UAAL payment is the greater of 1) the UAAL rate under a 15-year layered amortization before reflecting any Supplemental Contribution Accounts (SCAs); and 2) the UAAL contribution rate that was effective for the Fiscal Year Beginning July 1, 2023 before reflecting any SCAs.

Because the 2023 UAAL contribution rate (which is not affected by subsequent changes) is greater than the 15-year layered amortization rate for General and Safety plans, including the proposed changes discussed in this letter, the proposed changes would not be expected to impact the UAAL contribution rate in the short term. Nonetheless, the proposed changes would ultimately increase the required contributions needed. To show this estimated impacted, we have amortized the increase in the UAAL over a 15-year period. Note that the increase in the employer Normal Cost rate will be reflected in the Statutory Contribution Rate.

Implication of a cost sharing plan

Because SamCERA is a cost sharing plan, any changes in employer Normal Cost and UAAL amortization rates will be shared by all employers with employees in plans that include affected members.

Summary of changes – general wage increases

Our understanding is that the general wage increases under consideration includes an increase of 5.0% of pay effective in January 2025, followed by a 5.0% increase on October 12, 2025, and a 4.0% to 5.0% increase on October 11, 2026 dependent on subsequent legislation.

The annual actuarial valuation of SamCERA includes assumptions for future general wage, and merit and longevity, increases. The general wage increase assumption is 3.25% in the June 30, 2024 valuation of SamCERA.

These proposed wage increases are expected to result in increased pension benefits for all active Lieutenants. Further, since these wage increases are larger than those expected by the assumptions included in the actuarial valuation, expected future pension benefits for those members are projected to be larger than currently anticipated which will result in an increase in the Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL), and a decrease in the funded ratio of SamCERA (87.6% as of June 30, 2024). The proposed wage increases are also expected to result in higher employer Normal Cost rates for all plans that include affected members, because the annual future benefit accrual of Lieutenants is higher due to having higher projected benefits. (Normal Cost is the portion of the actuarial present value of benefits that is allocated to a valuation year by the Actuarial Cost Method.)

Based on the census data used in the June 30, 2024 actuarial valuation, all Lieutenants are represented in Safety Plan 4 and Safety Plan 5. The employer Normal Cost rate of each of the plans is expected to be higher due to these changes. In aggregate for all Safety plans, we estimate that the employer Normal Cost rate will increase by 0.05% of Safety member payroll, which is also equivalent to an increase of 0.01% of pay for all member classes.

The additional UAAL because of these higher wage increases, when recognized over 15 years through the UAAL amortization method, results in an increase in the UAAL contribution rate. The UAAL contribution rate is calculated separately by member class. We estimate the increase in the UAAL contribution rate for Safety members is 0.10% of Safety member payroll, which is also equivalent to all members is 0.01% of pay for all member classes.

The member contribution rate for all classes and plans is estimated to remain unchanged as a result of this change.

The financial impact of these changes is summarized in the following table:

Estimated Financial Impact of Annual Salary Increases - Lieutenants		
Increase in Actuarial Accrued Liability (AAL):	\$	913,000
Decrease in SamCERA Funded Ratio:		0.01%
Employer Contribution Increases (Safety members; all plans)	Increase as a Percentage of Pay	Estimated Dollar Increase (2025 - 2026)
Employer Normal Cost Rate:	0.05%	\$ 41,000
Unfunded Actuarial Accrued Liability (UAAL) Rate ⁽¹⁾ :	0.10%	\$ 82,000
Total Safety Rate:	0.15%	\$ 123,000

1. Please see note regarding SamCERA funding method and its impact on contribution rates on page 1.

Note that this analysis assumes a 4% general wage growth increase in 2026, which may increase to 5% dependent on future legislation. A higher increase will result in additional costs than shown in this analysis.

Summary of changes – increase administrative comp time

Our understanding is that eligible Lieutenants will receive an increase in administrative comp time from 5 hours per pay period to 6 hours per pay period. Lieutenants will be eligible to receive an annual cash-out of unused comp time up to a maximum of 156 hours, which is an increase of 26 hours compared to the current benefit. Due to timing, it is our understanding that this provision will first be effective in the fiscal year beginning July 1, 2026. For the fiscal year beginning July 1, 2025 eligible Lieutenants will receive a lump sum of \$3,145 that will be included in pensionable pay on December 26, 2025 in lieu of this change.

This additional cash-out potential is expected to result in increased pension benefits because pensionable compensation is expected to be higher due to larger cash-outs of administrative comp time. This will result in an increase in the AAL and the UAAL. However, the funded ratio, rounded to the nearest 0.01%, is estimated to be unchanged.

The employer Normal Cost rate is unchanged, when rounded to the nearest 0.01% of pay. Note however, that although this contribution rate is unchanged when rounded, there is an increase in the dollar cost due to this change, since additional benefits are being earned.

The additional UAAL, when recognized over 15 years through the UAAL amortization method, results in an increase in the UAAL contribution rate. The UAAL contribution rate is calculated

separately by member class. We estimate the increase in the UAAL contribution rate for Safety members is 0.03% of Safety member payroll, which when rounded to the nearest 0.01% is equivalent to no change in the aggregate UAAL contribution for all members.

The member contribution rate for all classes and plans is estimated to remain unchanged as a result of this change.

The financial impact of these changes is summarized in the following table:

Estimated Financial Impact of Admin Comp Time Increases - Lieutenants		
Increase in Actuarial Accrued Liability (AAL):		\$ 264,000
Decrease in SamCERA Funded Ratio:		0.00%
Employer Contribution Increases (Safety members; all plans)	Increase as a Percentage of Pay	Estimated Dollar Increase (2025 - 2026)
Employer Normal Cost Rate:	0.00%	\$ 7,000
Unfunded Actuarial Accrued Liability (UAAL) Rate ⁽¹⁾ :	0.03%	\$ 25,000
Total Safety Rate:	0.03%	\$ 32,000

1. Please see note regarding SamCERA funding method and its impact on contribution rates on page 1.

Summary of other changes

Our understanding is that eligible members will continue to receive three days of Winter Recess for each year of the MOU. We also understand that Cesar Chavez day will be added as a paid holiday, and eligible Lieutenants will receive two floating wellness days per year.

These proposed changes do not increase the pension benefits of affected employees, because they do not impact wages or benefit service. As such, we believe they do not have a financial impact on the funded status of SamCERA that require a notice under Section 31515.5.

Data, methods, and assumptions

These estimates are based on the results of the June 30, 2024 actuarial valuation. Except as noted elsewhere in this letter, all data, methods and assumptions used in this analysis are the same as those used in that actuarial valuation. We have assumed that these changes would not affect future member behavior. All statements of reliance and limitations on use described in that report also apply to this work product.

For the analysis of the general wage growth increase we adjusted the valuation general wage growth assumption to include larger increases in fiscal years beginning in 2024 through 2026. A summary of the valuation assumptions and those used in this analysis are included in the table below.

General Wage Increase Assumptions		
Year	Valuation Assumption	With Negotiated Increases
2024	3.25%	5.00%
2025	3.25%	5.00%
2026	3.25%	4.00%
>2026	3.25%	3.25%

Assumptions for salary merit and longevity increases are the same in the valuation and in this analysis.

For the impact of increased administrative comp time, we assumed this provision would be effective in the fiscal year beginning July 1, 2025 and increased wages of members in Legacy plans that use a 3-year average in the calculation of Final Average Compensation by 0.8333% to reflect the inclusion of an additional 26 hours of wages in pensionable compensation in 2 years (out of 3 years) of Final Average Compensation. This assumes that the member's Final Average Compensation is based on their final 3 years of employment, and that the cash-out of administrative comp time in the final year is not pensionable.

Certification

The actuarial computations presented in this letter are for the specific purpose described in this letter. Determinations for other purposes may be significantly different from the results contained in this letter. Accordingly, additional determinations may be needed for other purposes. These computations are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs will vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions. Please refer to the June 30, 2024 actuarial valuation for a description of the main factors that could cause variance in the results contained in this letter.

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 retirement system, 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.

These 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.

Milliman's work is prepared solely for the internal business use of SamCERA and San Mateo County. 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.

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, investment or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this cost projection 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 Standard 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 have any questions.

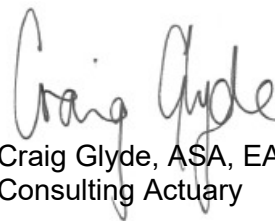
Sincerely,



Nick Collier, ASA, EA, MAAA
Consulting Actuary

NC/CG/va

cc: Lisa Okada
Gladys Smith



Craig Glyde, ASA, EA, MAAA
Consulting Actuary