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**Re: Analysis of Memorandum of Understanding (MOU) for the
Deputy Sheriff's Association**

Dear Paul:

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 Deputy Sheriff's Association (DSA) that will result in certain 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.

Note that this letter is a revision of our letter on the same subject dated February 4, 2026 to reflect revised terms of the MOU.

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 \$7,704,000,
- an increase in the annual employer contribution rate of 0.16% of total member payroll; see explanatory note on SamCERA funding method, and
- a decrease in the PEPRA Safety member contribution rate of 0.03% of pay.

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 decrease by 0.09% as a result of these wage increases and other 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, 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 impact we have amortized the increase in the UAAL over a 15-year period. Note that any 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. Similarly, any changes in PEPRAs member contribution rates will affect all PEPRAs members in the affected member class.

Summary of changes – general wage increases

Our understanding is that the general wage increases under consideration includes an increase of 8.0% of pay effective on January 18, 2026, followed by a 3.0% increase on January 3, 2027, and a 3.0% to 4.0% increase on January 2, 2028 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, 2025 valuation of SamCERA.

These proposed wage increases are expected to result in increased pension benefits for all active DSA members. 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 (89.3% as of June 30, 2025 prior to any changes). The proposed wage increases are also expected to result in higher employer Normal Cost rates for all plans that include affected members except for Safety Plan C, because the annual future benefit accruals of affected members are 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.) Note that the estimated decrease in the Safety Plan 7 employer Normal Cost rates is very small and related to the interaction with the PEPRAs compensation limit as discussed later with the member contribution rates.

Based on the census data used in the June 30, 2025 actuarial valuation, active DSA members participate in the General and Safety plans. The employer Normal Cost of each of the plans is expected to be higher due to these changes (with the exception of Safety Plan 7 as previously noted), although the Normal Cost rate may not increase when rounded to the nearest 0.01% of

pay. In aggregate for all plans, we estimate that the employer Normal Cost rate will increase by 0.06% of total member payroll.

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 aggregate UAAL contribution rate is equivalent to an increase of 0.07% of pay for all member classes.

The member contribution rate for all Safety members of Plan 7 (PEPRA members) is estimated to decrease by 0.03% due to these changes. Active PEPRA members pay one-half of their plan's Total Normal Cost rate. This is due to the impact of the PEPRA compensation limit which results in the present value of benefits increasing less than the present value of future pensionable salaries and therefore the percentage of salaries needed to fund the increase in benefits is lower than previously.

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

Estimated Financial Impact of Annual Salary Increases - DSA		
Increase in Actuarial Accrued Liability (AAL):		\$ 6,033,000
Decrease in SamCERA Funded Ratio:		0.07%
	Increase as a Percentage of Pay	Estimated Dollar Increase (2026- 2027)
Employer Contribution Increases (all plans)		
Employer Normal Cost Rate:	0.06%	\$ 461,000
Unfunded Actuarial Accrued Liability (UAAL) Rate ⁽¹⁾ :	0.07%	\$ 538,000
Total Employer Contribution Rate:	0.13%	\$ 999,000
PEPRA Member Rate Increases		
All General Members:	0.00%	
All Safety Members:	-0.03%	
All Probation Members:	0.00%	

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

Note that this analysis assumes a 3% general wage growth increase in 2028, which may increase to 4% dependent on future legislation. A higher increase will result in costs that are higher than shown in this analysis.

Summary of changes – longevity increases

Our understanding is that the schedule of longevity pay under consideration includes a revision to provide a one-time increase of 0.5% of pay to all DSA members who have eight (8) or more years of County service and an additional 0.75% of pay to all DSA members who have twelve (12) or more years of County service.

These increases are expected to result in increased pension benefits for all affected and eligible active DSA members because their pensionable compensation is higher. This will result in an increase in the AAL and the UAAL, and a decrease in the Funded Ratio of SamCERA (89.3% as of June 30, 2025). Due to the size of these wage increases and the size of the affected group as a portion of all active members, the employer Normal Cost rate and UAAL contribution rate are slightly increased in aggregate, and PEPRA member contribution rates are unchanged, when rounded to the nearest 0.01% of pay.

The following table summarizes the increase in the UAAL and employer normal cost as a result of providing these one-time increases in pay as of June 30, 2025.

Estimated Financial Impact of Longevity Increases - DSA		
Increase in Actuarial Accrued Liability (AAL):		\$ 1,550,000
Decrease in SamCERA Funded Ratio:		0.02%
	Increase as a Percentage of Pay	Estimated Dollar Increase (2026 - 2027)
Employer Contribution Increases (all plans)		
Employer Normal Cost Rate:	0.01%	\$ 77,000
Unfunded Actuarial Accrued Liability (UAAL) Rate ⁽¹⁾ :	0.02%	\$ 154,000
Total Employer Contribution Rate:	0.03%	\$ 231,000
PEPRA Member Rate Increases		
All General Members:	0.00%	
All Safety Members:	0.00%	
All Probation Members:	0.00%	

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

Summary of changes – increase bilingual pay allowance

Our understanding is that eligible DSA members will receive an increase in their bilingual pay allowance from \$70 per pay period to \$90 per pay period.

These increases are expected to result in increased pension benefits for all affected and eligible active DSA members because their pensionable compensation is higher. This will result in an increase in the AAL and the UAAL, and a decrease in the Funded Ratio of SamCERA (89.3% as of June 30, 2025 prior to any changes). Due to the size of these wage increases and the size of the affected group as a portion of all active members, the employer Normal Cost rate and PEPRA member contribution rates are unchanged, when rounded to the nearest 0.01% of pay. Note however, that although these contribution rates are unchanged when rounded, there is an increase in the dollar cost due to this change, since additional benefits are being earned.

The additional UAAL because of these higher salaries, when recognized over 15-years through the UAAL amortization method, results in no increase in the UAAL contribution rate, which is equivalent to an increase of 0.00% of pay for all member classes.

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

Estimated Financial Impact of Bilingual Allowance Increases - DSA		
Increase in Actuarial Accrued Liability (AAL):		\$ 121,000
Decrease in SamCERA Funded Ratio:		0.00%
	Increase as a Percentage of Pay	Estimated Dollar Increase (2026 - 2027)
Employer Contribution Increases (all plans)		
Employer Normal Cost Rate:	0.00%	\$ -
Unfunded Actuarial Accrued Liability (UAAL) Rate ⁽¹⁾ :	0.00%	\$ -
Total Employer Contribution Rate:	0.00%	\$ -
PEPRA Member Rate Increases		
All General Members:	0.00%	
All Safety Members:	0.00%	
All Probation Members:	0.00%	

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

Summary of changes - one-time lump sum to DSA Inspectors

Our understanding is that eligible DSA Inspectors will receive a one-time lump sum of \$750 effective March 29, 2026 as compensation for the cost of purchasing equipment.

It is our understanding that this one-time lump sum will not be pensionable for any members who participate in the PEPPRA plans, but that it will be pensionable for any members who participate in legacy plans. However, based on the relatively young ages of legacy members and the number affected (8) we do not anticipate a financial impact on the Funded Ratio nor on employer or member contributions rates (when rounded to the nearest 0.01% of pay). Further, any increase in AAL will be offset by additional employer and member contributions collected on the lump sum amount so that any financial impact on the UAAL will be minimal and not material.

Summary of other changes

Our understanding is that Cesar Chavez day will be added as a paid holiday, and eligible DSA employees 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, 2025 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 in 2025 through 2027. 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
2025	3.25%	8.00%
2026	3.25%	3.00%
2027	3.25%	3.00%
>2028	3.25%	3.25%

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

For the analysis of the longevity increase, we increased the 2025 annual salary of all DSA members with 12 or more years of vesting service by 1.25%, and by 0.50% for all DSA members with 8 or more but less than 12 years of vesting service.

For the analysis of the bilingual allowance, we increased the 2025 annual salary of all 484 DSA members by \$124 (\$20 times 26 pay periods times 115 members with the allowance divided by 484 total DSA members).

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, 2025 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.

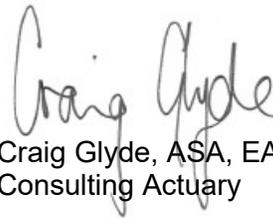
Sincerely,



Nick Collier, ASA, EA, MAAA
Consulting Actuary

NC/CG/va

cc: Michelle Kuka
Lisa Okada
Gladys Smith



Craig Glyde, ASA, EA, MAAA
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