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

Tel +1 206 624 7940

milliman.com

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Lisa Okada
HR Benefits Director
San Mateo County

Re: Study of Proposed Executive Contract Increase

Dear Lisa:

As requested, we have estimated costs to San Mateo County (the County) for benefit changes to the Postemployment Benefits Other than Pension (OPEB) Plan for an active Management member.

The results shown in this letter summarize estimated costs to the County of adopting these OPEB plan revisions. We are not advocating either for or against these changes.

The calculations in this letter apply only to the member identified. No analysis of changes for other members or future hires was done.

Results

As requested by the County, we have studied the proposed retiree health benefit change for the identified Management employee.

In this letter, we display the actuarial present value of benefits and the Total OPEB Liability for the proposed benefits, provided in the table below. These results are compared to the same measures for the current benefits program.

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.

The Total OPEB Liability (TOL) represents the value of benefits allocated to past service for the current member under the actuarial cost method.

Liability Measure	Liability before Proposed Increase	Liability after Proposed Increase	Proposed Increase
Present Value of Benefits	$121,000	$159,000	$38,000
Total OPEB Liability	$80,000	$106,000	$26,000

The actuarially determined contribution (ADC) is the amount required to fund the benefits in compliance with the County’s funding policy. The increase in the ADC for a plan change is equal to the increase in the Service Cost plus an amount to amortize the increase in the TOL. This is based upon the June 30, 2023 valuation, rolled forward to June 30, 2024, 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 increase in the ADC for FYE 2025 due to the proposed benefit change is calculated to be $5,200.

Summary of Retiree Health Benefits Studied

There are two fundamental components to the proposed (and current) retiree health benefits for the identified Management member. Except as specified below, we based our calculation on information and assumptions used in the June 30, 2023 Actuarial Valuation, including the sick leave balance and a calculation date of June 30, 2023.

1. Explicit health benefits.
2. Implicit rate subsidy.

Explicit Health Benefits

Upon retirement under the current benefit structure, Management members hired January 1, 2011 or later are able to convert eight (8) hours of unused sick leave per month into health benefits for the retiree and family but limited to $400 per month. The retiree can choose a higher level for the County portion but will need to convert more sick leave hours each month for those higher payments.

As long as the member has unused sick leave, dental and vision benefits are paid in full and do not count against the $400 maximum.

Medicare Part B premiums for retirees and spouses over age 65 are assumed to average $297.41 per person per month for 2023. These premiums are reimbursed as long as there is unused sick leave, and these reimbursements do not count against the $400 maximum.

Retirees who exhaust their sick leave will be credited with additional sick leave hours based on the years of service they have:

Credited Sick Leave Hours

Years of Service	Hours
10-15	96
15-20	192
20 or more	288

The $400 maximum does not increase annually.

The proposed benefit changes increase the $400 maximum to an $800 maximum for the identified member.

Implicit Rate Subsidy Prior to Age 65

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. It is our understanding that, under the proposal, the identified employee will continue to access the subsidized premiums.

Data, Assumptions, and Methods

All data, assumptions, and methodology for our calculations match our June 30, 2023 actuarial valuation report dated August 31, 2023 with the following exceptions. These assumptions represent our best estimate of behavioral changes that would result from the proposed changes.

> Member Valued: The proposed changes only impact the single active Management employee identified in Appendix A, which includes relevant data used in this calculation. Appendix A includes Personally Identifiable Information and will be provided separately via secure email.
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> For the actuarial valuation, we assumed that 55% of married Management members will elect spousal medical coverage. Under the proposed changes, the maximum for monthly health benefits for sick leave conversion is increased from $400 to $800. Because of the increase to the monthly maximum, we assume that 95% of married Management members with this benefit increase will elect spousal medical coverage.
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> Monthly two-party rates for those with Medicare are below $800 and are projected to remain so for the near future. As a result, we expect that the member would be more likely to elect medical spouse coverage.

Commentary

While the proposed maximum of $800 is double the current maximum of $400, the total liability measures above increase by approximately 32%. This is because many components of the benefits do not double.

- The implicit subsidy for the retiree is unaffected by the change in benefits. The implicit subsidy benefits for covered spouses also do not change, however, the likelihood of covering a spouse is assumed to increase which increases the total liability.
- Dental and vision benefits do not count against the $400/$800 monthly maximum. Because there is no additional cost to retirees for covering spouses for the dental and vision benefits, we continue our assumption that all married retirees cover their spouses.
- The Medicare Part B premiums for the retiree is unaffected by the change in benefits. The Medicare Part B premiums for covered spouses also do not change, however, the likelihood of covering a spouse is assumed to increase which increases the total liability.
- The maximum is limited to the premium. Because the post-65 premiums are projected to be less than $800 monthly, doubling the maximum does not double the explicit post-65 benefits.

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 the identified Management member. 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:

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(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,

Daniel Wade

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

Arthur Rains-McNally, FSA, EA, MAAA
Principal and Consulting Actuary

Jessica M. Gardner, ASA, MAAA
Associate Actuary