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December 5, 2023

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
Deputy Sheriff's Association LEU (Non-Safety)

Dear Scott:

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

We understand that the San Mateo County Board of Supervisors will consider a Memorandum of Understanding (MOU) with regard to employees of San Mateo County with benefits negotiated under collective bargaining agreements with the Deputy Sheriff's Association LEU (LEU). We have been asked to provide an opinion on whether these changes will have a financial impact on the funding status of SamCERA that require notice under Section 31515.5 and provide this letter to address that question.

The changes being considered could impact the funded status of SamCERA if:

1. they increase the pension benefits of affected SamCERA members as a result of increased salary and/or benefit service, and
2. any additional pension benefits earned are not accompanied by corresponding employer and member contributions being deposited to SamCERA.

The changes are estimated to have no financial impact on the Unfunded Actuarial Accrued Liability (UAAL). Note that this is the impact on SamCERA funding only and does not reflect any other cost to the County of providing these compensation features. The funded ratio, rounded to the nearest 0.01%, is also expected to be unchanged.

Summary of changes – one-time lump sum

Our understanding is that all eligible employees will receive a one-time lump sum payment of \$2,000, which will be prorated for part-time employees.

This payment is expected to increase pension benefits for all eligible employees because it will increase their pensionable compensation. Members first hired on or after January 1, 2013 are generally members of Plan 7 under the provisions of the California Public Employees' Pension

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Reform Act of 2013 (PEPRA) and this payment would not be includable in pensionable compensation for those employees. Note that 22 of the 38 active members with benefits negotiated under LEU participate in General Plan 7.

Since this is a one-time lump sum payment that will not increase future year's compensation, we expect it will have a relatively small impact on the funded status of SamCERA. Active employees who retire within a short timeframe after the lump sum is paid may benefit by a higher Final Average Compensation, however for employees several years from retirement we expect their Final Average Compensation will likely be based on compensation that does not include the impact of the lump sum payment.

We expect that employer and employee contributions will be deposited to SamCERA based on the lump sum payment. This will provide an offset to increases in the Actuarial Accrued Liability (AAL) due to the higher pension benefits. We estimate that the value of additional employer contributions is \$4,000 and the value of additional employee contributions is \$4,000 in fiscal year 2023 to 2024 if the lump sum is paid in that fiscal year.

We estimate that the increase in the UAAL (after the offset for the additional contributions) due to the one-time lump sum payment is approximately \$0, summarized as follows.

Estimated Financial Impact for SamCERA of LEU Lump-Sum Payments	
Increase in Actuarial Accrued Liability (AAL):	\$ 8,000
Less Additional Employer Contributions in current fiscal year:	(4,000)
Less Additional Member Contributions in current fiscal year:	<u>(4,000)</u>
Increase in Unfunded Actuarial Accrued Liability (UAAL):	\$ -

The funded ratio of SamCERA, rounded to the nearest one basis point, is expected to be unchanged.

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. LEU members participate in the General plans. Over the longer term, we estimate that if all County non-Plan 7 active employees received this increase that, in aggregate, the employer normal cost rate for General members would be 0.04% of pay higher and the UAAL rate for General employers would be 0.01% of pay higher for 15 years. Note that the employer normal cost rate increase will not apply to payroll of members in Plan 7. Additionally, the funded ratio for SamCERA would be 0.01% lower if all County non-Plan 7 active employees received the increase.

Summary of changes – general wage increases

Our understanding is that the general wage increases under consideration includes an increase of 3.0% of pay effective upon Board approval, which is assumed in December 2023, followed by a 3.0% increase in December 2024 and a 4.0% increase in December 2025 and a 4.0% increase in December 2026.

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, 2023 valuation of SamCERA.

In the actuarial valuation it is anticipated that annual general wage increases will not exactly match those expected by the assumptions, and in some years will be lower and other years will be higher than expected by the assumptions. In years when the general wage increase is greater than expected by the assumptions an actuarial loss (decrease in funded status) occurs, and in years when the increase is less than expected by the assumptions an actuarial gain (increase in funded status) occurs. However, over the long term, the assumption is expected to be roughly consistent with average annual general wage increases.

Although short-term increases or decreases in funded status may occur due to the annual deviation between actual and expected general wage increases, we believe this is within the normal operation of SamCERA and it is reasonable to conclude no impact on the funded status of SamCERA due to these increases.

We believe that wage increases for reasons other than general wage increases, or merit and longevity increases should be considered under Section 31515.5 because there is no assumption included in the valuation for other increases.

Summary of changes – three days of Winter Recess

Our understanding is that eligible members will receive three days of Winter Recess in December in years 2023 to 2026.

These changes do not increase the pension benefits of affected employees because they do not impact salary 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, 2023 actuarial valuation. For this analysis we adjusted the valuation results for all active non-Plan 7 employees with benefits negotiated under a collective bargaining agreement with LEU to include a one-time lump sum payment of \$2,000 payable in the fiscal year beginning July 1, 2023.

Except as noted elsewhere in this letter all other data, methods and assumptions are the same as described in the June 30, 2023 actuarial valuation.

Certification

Except as noted elsewhere in this letter, all data, methods, assumptions, and plan provisions are consistent with those described in the June 30, 2023 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.

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.

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.

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The consultants who worked on this assignment are retirement actuaries. Milliman's advice is not intended to be a substitute for qualified legal 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. I am a member 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,

A handwritten signature in black ink that reads "Nick Collier".

Nick Collier, ASA, EA, MAAA
Consulting Actuary

NC/CG/va

cc: Gladys Smith
Lisa Okada

A handwritten signature in black ink that reads "Craig Glyde".

Craig Glyde, ASA, EA, MAAA
Consulting Actuary