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November 12, 2021

Lisa Okada
HR Benefits Director
San Mateo County

Re: Study of Proposed Retiree Health Benefits for AFSCME Active Members

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 AFSCME active members (including LVNs) as written in the November 3, 2021 County of San Mateo Proposal to AFSCME Re: Retiree Health.

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 are for current AFSCME active employees only. They do not include current retirees. Additionally, consistent with GASB 75, the TOL calculations are "closed group" calculations, meaning that they do not reflect the impact of future hires.

Executive Summary

As requested by the County, we have studied proposed retiree health benefit changes for current AFSCME employees. It is our understanding that these benefit changes do not impact current retirees. The proposed changes for future hires would not result in an OPEB liability under GASB 75. No analysis of changes for future hires was done.

In this report, we calculate the actuarial present value of benefits, the Total OPEB Liability, and the Service Cost for the proposed benefits under two different sets of retirement assumptions. These results are compared to the same measures for the current benefits program.

The 'cost neutral' employee contribution rate based on the retirement assumptions from the actuarial valuation is 0.55% of pay. Under the alternative set of retirement assumptions studied, the 'cost neutral' employee contribution rate is 0.70% of pay. This employee contribution rate is determined such that the change in the actuarial present value of benefits is equal to the actuarial present value of employee contributions. Note that increased retirement rates both increase the projected benefit payments and decrease the actuarial present value of employee contributions for a given employee contribution rate. The proposed retiree health benefit changes would also increase the County's Actuarially Determined Contribution (ADC) by $0.75 million in the first year using the current retirement assumptions or $0.90 million using the alternative retirement assumptions.

After the results, we show the expected number of retirements over the next 10 years under both our valuation retirement assumptions and the alternative set of retirement assumptions.

November 3, 2021 Proposal Studies

We reviewed the proposed changes in the County of San Mateo Proposal to AFSCME re: Retiree Health dated November 3, 2021.

1. Frozen Old Sick Leave For Current Employees Hired By The County Before The Transition Date and Who Retire From the County After the Transition Date

   We based our valuation on sick leave balances and a transition date of July 1, 2021.

   We assume that employees will not use the 192 hours of banked Old Sick Leave nor use any additional hours of old sick leave.

2. Retiree Health Benefit For Current Employees Hired Before The Transition Date Who Retire From The County At The Time Of Separation

   The results as described in this section of the proposal are below.

3. Create Retiree Health Reimbursement Account

   New hires will receive $50.00 per month into an RHSA.

   This benefit is not considered OPEB under GASB 75. Therefore, there will be no impact to the Total OPEB Liability (TOL).

4. New Sick Leave

   This item will be handled separately by the County.

5. Additional Employee Deposits into RHRA

   Under this benefit change, it is our understanding that there will be no changes in the amount paid by the County. GASB 75 has not been applied to this benefit. The proposed changes will have no impact to the TOL.

Summary of Retiree Health Benefits Studied

There are four components to the retiree health benefits for current employees hired before the transition date who retire from the County at the time of separation.

1. RHSA Benefits Based on Sick Leave Balances at the Transition Date.
2. Monthly Benefits Based on 85% of the 2021 Kaiser HMO Premium for Two-party Coverage for Retirees under age 65 and their dependents ($1,189.27 for members with 20 or more years of service at retirement and $891.95 for members with 15-20 years of service at retirement).
3. Implicit rate subsidy prior to age 65.
4. Medicare Part B premium reimbursements payable for 10 years.

The proposal also includes employee contributions of 0.70% of pay.

RHSA Benefits Based on Sick Leave Balances at the Transition Date

Under the proposal, each member with 15 or more years of service at retirement would receive a lump sum at retirement. The lump sum amount would be based on 50% of the member's sick leave balance as of the transition date multiplied by the hourly pay rate at retirement. This lump sum would be deposited into the employee's ICMA Vantage Care account upon retirement if, and only if, the person meets the eligibility requirements to receive a pension benefit through SamCERA and has 15 or more years of service.

For employees with less than 15 years of service at the time of retirement, the lump sum amount would be based on $440.00 per eight hours for employees hired by the County before January 1, 2011, or $400.00 per eight hours for employees hired by the County on or after January 1, 2011.

Monthly Benefits Based on 85% of the 2021 Kaiser HMO Premium for Two-party Coverage for Retirees under age 65 and their dependents

Health benefits would be capped at 85% of the 2021 premium for Kaiser HMO two-party coverage for retirees and dependents under 65. The benefits would also be based on years of service at retirement according to the following table:

Years of Service at Retirement	Monthly Benefit
20+	$1,189.27 (= 85% of Two-party Kaiser premium)
15-20	$891.95 (75% of $1,189.27)
Less than 15	$0

There would be no monthly benefit paid for those with less than 15 years of service.

The benefits would be 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.

<u>These benefit amounts would not change after 2021</u>. They will not increase with the anticipated increases in the Kaiser premiums.

The benefits in the table above would be 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.

Implicit Rate Subsidy Prior to Age 65

The County contracts with Kaiser and Blue Shield Health 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, employees will continue to access the subsidized premiums.

Under the current benefits program, everyone under age 65 with a sick leave balance entitled to SamCERA pension benefits is entitled to an explicit subsidy until sick leave is exhausted. In the actuarial valuation, we assume that 95% elect coverage until sick leave is exhausted.

It is our understanding that members with less than 15 years of service will remain eligible to retain health coverage by paying the same premiums charged for actives and retirees without Medicare. This group will have an implicit rate subsidy, and we assume that 60% of people in this group will elect coverage.

For the actuarial valuation, we assumed that 40% of retirees would lapse health insurance coverage under the County plans when their sick leave balances have been exhausted. Under the proposal studied in this letter, pre-65 benefits would no longer be tied to sick leave balances. For that reason, we assume that retirees would maintain coverage throughout retirement.

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

Medicare Part B Reimbursements Payable for 10 Years

After the retiree turns age 65 and becomes eligible for Medicare, the proposed benefit amounts would be based on the standard Medicare Part B premiums. Those monthly premiums are $148.50 in 2021 per person.

In contrast to the pre-65 benefits, the <u>post-65 benefits are expected to grow over time</u>, with benefits based on the standard Medicare Part B premiums for individuals. The County's reimbursement 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 2022 and 2026, and not to exceed an annual adjustment of 5.0% in 2027 and beyond.

For married retirees, the benefit amount would be double the single premiums. As with the pre-65 benefits, the County's payments would be based on the retiree's age, with this benefit payable while the retiree is age 65 and older. The spouse's age will not influence the amount of the County's maximum payment.

After the member dies, a surviving spouse would receive the reimbursements for one person.

The benefits would be payable for 10 years. For someone retiring prior to age 65, this benefit would first be payable at age 65 and continue for 10 years. For those retiring after age 65, the benefits would be payable for 10 years after retirement.

Retirement Rate Sensitivity

Actual experience may differ from expected assumptions. To understand the County's possible risk exposure to retirement rates, we examined the proposed benefits under different retirement assumptions. The benefits under the proposed plan may incentivize more retirements when members become eligible for the $1,289.27 level of benefits once the member reaches 20 years of service while being eligible for SamCERA pension benefits. Costs to the County would increase as a result of this change in behavior.

Under Baseline assumptions, retirement rates are unchanged from our June 30, 2021 actuarial valuation report dated September 14, 2021.

To illustrate the potential impact of an acceleration in retirements due to the changes in benefits, we adjusted the assumptions for retirement rates. For the "Retirement Increase" assumptions, we increased the retirement rates by 50% for the first year a member has 20 or more years of service while being eligible for pension benefits under SamCERA. For example, if the retirement rate for the valuation was 5% for a given age, we increased the rate to 7.5% (50% more than 5%). For years after the first year that the member meets both 20 years of service and the age requirements for SamCERA benefits, the retirement rates revert to the valuation rates. Note that for people with more than 20 years of service at the transition date who meet the age requirements for SamCERA benefits, we applied a 50% increase for the first year after the transition. The results will help give the County a sense of the possible range in costs related to retirement behavior.

Medicare Part B Premium Reimbursement Cap

The County's reimbursement 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 2022 and 2026, and not to exceed an annual adjustment of 5.0% in 2027 and beyond.

Medicare Part B premiums are assumed to increase with the following capped Part B trend.

Trend from Year Ending			Part B Trend	Capped Part B Trend
2021	to	2022	5.90%	5.80%
2022	to	2023	5.80%	5.80%
2023	to	2024	6.00%	5.80%
2024	to	2025	5.90%	5.80%
2025	to	2026	5.80%	5.80%
2026	to	2027	5.80%	5.00%
2027	to	2028	5.70%	5.00%
2028	to	2029	5.70%	5.00%
2029	to	2030	5.50%	5.00%
2030	to	2031	5.30%	5.00%
2040	to	2041	4.30%	4.30%
2050	to	2051	4.10%	4.10%
2060	to	2061	4.10%	4.10%
2070	to	2071	4.10%	4.10%
2074	+		4.10%	4.10%

Actuarial Present Value of Benefits

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 following chart is for all current AFSCME active members (including LVN) and does not include any amount for future hires.

(Numbers are in millions of $)

	RHSA Benefit (A)	Pre-65 Benefit based on Kaiser Premium (B)	Medicare Part B Reimbursements (C)	Total Explicit (D) = (A)+(B)+(C)	Implicit Rate Subsidy (E)	Total (PVB) (F) = (D)+(E)
Current Plan	N/A	N/A	N/A	$57.5	$52.7	$110.2
Proposed Plan						
Valuation Assumptions for Retirement Rates	$9.8	$28.2	$23.1	$61.1	$57.5	$118.6
Increased Retirement Rates	$9.9	$29.3	$23.1	$62.3	$58.9	$121.2

The PVB for members with less than 15 years of service at retirement is $1.3M under the RHSA Benefit and $3.7M as part of the implicit rate subsidy amounts reflected in the proposed plans in the chart above. These members are not entitled to any other benefits upon retirement.

Total OPEB Liability

The Total OPEB Liability (TOL) represents the value of benefits allocated to past service for the current AFSCME active members under the actuarial cost method. The Net OPEB Liability (NOL) 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 table below shows the TOL as of June 30, 2021, as though the benefit changes had taken effect as of the June 30, 2021 actuarial valuation. All amounts are in millions of dollars.

(Numbers are in millions of $)

	RHSA Benefit (A)	Pre-65 Benefit based on Kaiser Premium (B)	Medicare Part B Reimbursements (C)	Total Explicit (D) = (A)+(B)+(C)	Implicit Rate Subsidy (E)	Total (PVB) (F) = (D)+(E)
Current Plan	N/A	N/A	N/A	$44.5	$30.7	$75.2
Proposed Plan						
Valuation Assumptions for Retirement Rates	$7.2	$19.3	$14.9	$41.4	$34.0	$75.4
Increased Retirement Rates	$7.2	$20.2	$14.9	$42.3	$35.1	$77.4

The TOL for members with less than 15 years of service at retirement is $0.5M under the RHSA Benefit and $0.9M as part of the implicit rate subsidy amounts reflected in the proposed plans in the chart above. These members are not entitled to any other benefits upon retirement.

Service Cost

The service cost (SC) 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.

The table below shows the amounts attributable to sick leave benefits for 2021-2022, as though the proposed benefit changes had taken effect as of the June 30, 2021 valuation. All amounts are in millions of dollars.

(Numbers are in millions of $)

	RHSA Benefit (A)	Pre-65 Benefit based on Kaiser Premium (B)	Medicare Part B Reimbursements (C)	Total Explicit (D) = (A)+(B)+(C)	Implicit Rate Subsidy (E)	Total (SC) (F) = (D)+(E)
Current Plan	N/A	N/A	N/A	$1.57	$2.17	$3.74
Proposed Plan						
Valuation Assumptions for Retirement Rates	$0.39	$0.95	$0.81	$2.15	$2.29	$4.44
Increased Retirement Rates	$0.39	$0.97	$0.81	$2.17	$2.33	$4.50

The SC for members with less than 15 years of service at retirement is $0.16M under the RHSA Benefit and $0.35M as part of the implicit rate subsidy amounts reflected in the proposed plans in the chart above. These members are not entitled to any other benefits upon retirement.

Employee Contributions and "Cost Neutrality"

Under the proposed benefit changes, employees hired before the transition date would contribute 0.70% of pay.

It is our understanding that there is a goal for any benefit changes to be "cost neutral." As there were not employee contributions in the past, one method to achieve this goal is to find the employee contribution rate such that the actuarial present value of employee contributions is equal to the change in the actuarial present value of benefits.

The actuarial present value of employee contributions is based on projected contributions for all active employees as of June 30, 2021 for the rest of their careers, discounted at 5.75% based on the investment rate of return assumption used for the June 30, 2021 actuarial valuation.

	Change in PVB from Current Plan in millions of $ (A)	Cost Neutral Employee Contribution Rate (B)
Proposed Plan		
Valuation Assumptions for Retirement Rates	$8.4	0.55%
Increased Retirement Rates	$11.0	0.70%

Expected Retirements

As of June 30, 2021, there were 1,691 AFSCME active members (including 22 LVNs). The following chart shows how many we expect to retire over the next 10 years under both the valuation assumptions and the alternative assumptions considered in this study.

The increased retirement rate accelerates retirements in the first year over the baseline, 72.3 up from 56.7. Over the next 10 years the number of retirements is expected to increase to 507.8 from 501.1.

	Expected Number of Retirements Each Year		Expected Cumulative Number of Retirements	
Year (Beginning 7/1)	Baseline	Increased Retirement	Baseline	Increased Retirement
2021	56.7	72.3	56.7	72.3
2022	54.1	51.1	110.7	123.4
2023	52.3	50.8	163.0	174.2
2024	51.7	50.4	214.8	224.5
2025	50.3	50.3	265.1	274.8
2026	49.0	48.8	314.2	323.6
2027	49.4	49.7	363.6	373.3
2028	48.8	47.7	412.4	421.0
2029	44.4	43.1	456.8	464.1
2030	44.3	43.7	501.1	507.8

Data, Assumptions, and Methods

All data, assumptions, and methodology for our calculations match our June 30, 2021 actuarial valuation report dated September 14, 2021 with the following exceptions:

Members Valued: The proposed changes only impact active employees in the AFSCME bargaining unit. As of June 30, 2021, there were 1,691 AFSCME active members (including 22 LVNs) covered under the San Mateo County OPEB Plan. Please see Appendix C of our June 30, 2021 actuarial valuation report for a summary of the Membership Data. Hourly pay data was provided by the County on October 4. For 1% of the members, hourly pay data was not available and $50 was used for them.

In the actuarial valuation, we assumed that 40% of retirees would lapse coverage when sick leave balances were exhausted. Under the scenarios studied in this letter, benefits are no longer tied to sick leave at retirement. For this reason, the proposed benefits reflect no assumed coverage lapse.

There are people who will be eligible for SamCERA pension benefits who will not be entitled to the proposed pre-65 benefit based on Kaiser premiums due to the 15 (or 10, depending upon the scenario) years of service requirement. It is our understanding that people in that category will remain eligible to retain health coverage by paying the same premiums charged for actives and retirees without Medicare. We assume that 60% of these members will self-pay the premiums for County coverage in retirement.

Regarding the proposed pre-65 benefit based on Kaiser premiums, we assume that the full $1,189.27 (or lower for those with under 20 years of service at retirement) would be used by members, regardless of the member’s elected tier of coverage. We assume that this amount will remain unchanged in future years and will not increase with future medical trend.

We assume that 95% of married members who are eligible for Medicare Part B reimbursements elect benefits for their spouses in addition to their own.

For the actuarial valuation, we assumed that 55% of married AFSCME members will elect spousal coverage. The proposed benefits prior to age 65 would be higher than the current benefit in most situations and therefore, the County would be paying for more of the cost of spouse coverage. Under the proposed changes, the benefits will be greater for those with more years of service at retirement. As such, more of the spouses’ benefits will be covered for members with more years of service. For that reason, we assume varied rates at which retirees will elect to cover their spouses for pre-65 benefits:

95% of married members with 20 or more years of service at retirement are assumed to elect spousal coverage at retirement for pre-65 benefits.

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

Retirement rates: Under Baseline assumptions, retirement rates are unchanged from our June 30, 2021 actuarial valuation report dated September 14, 2021. Under Retirement Increase assumptions, we increased the retirement rates by 50% for the first year a member has 20 or more years of service while being eligible for pension benefits under SamCERA.

Medicare Part B Health Cost Trend: The County's reimbursement 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 2022 and 2026, and not to exceed an annual adjustment of 5.0% in 2027 and beyond.

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 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 active participants. The calculations in this report 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,

Daniel Wade

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