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Gladys Smith
Assistant Executive Officer
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Re: Financial analysis of Section 31641.03 - Safety Members

Dear Gladys:

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. Government Code Section 7507 requires the local agency to secure the services of an actuary to provide a statement of the actuarial impact upon future annual costs, including normal cost and any additional accrued liability, before authorizing changes in public retirement plans or other postemployment benefits.

We understand that San Mateo County is considering adding Government Code Section 31641.03 to the benefits provided to certain County Safety employees. The County requested that we prepare a financial analysis of the impact on SamCERA funding and cost of adding this benefit. Section 31641.03 reads as follows:

> *In any county the board of supervisors may provide by ordinance that members specified in the ordinance shall be credited, for up to 100 percent of sick leave accumulated as of the date of their retirement, and that sick leave credit shall be in addition to service credit. The additional cost to the retirement system shall be borne by the county or district. This section shall not apply to members who are employed by a district unless the governing body of the district provides by resolution for its application to such members.*

The purpose of this letter to estimate the potential financial impact of this provision, if adopted, on SamCERA's funded status, the County's Statutory Contribution Rate (SCR), and on Safety member contribution rates. It is our understanding that this benefit may be provided in lieu of benefits currently provided to County employees separate from the retirement benefits provided through SamCERA. The comparison of the costs or savings of the two benefits is outside the scope of this assignment.

Our letter dated April 9, 2021 discussed this analysis for all County employees. This letter provides additional information specific to County Safety employees.

The costs presented in this letter are estimates, and the actual results will ultimately vary due to a number of factors. Please see the section of this letter titled "Risk Discussion" for additional details.

Summary of Results – OSS Members only

It is our understanding that upon adoption of Section 31641.03 by the Board of Supervisors, this benefit provision will be for the prospective service only of employees with retirement benefits bargained by the Organization of Sheriff's Sergeants (OSS). These employees will earn 3.7 hours of sick leave per pay period (maximum of 96.2 hours per year). Upon retirement, any accrued and unused sick leave up to a maximum of 960 hours shall be included as an addition to service credit otherwise earned for retirement benefits if this provision is adopted.

The following table provides an estimate of the cost of these benefits for employees of the OSS bargaining group. The contribution rate impact is shown as a percentage of OSS Safety employee's payroll.

Estimated Annual Contribution Rate Impact (OSS Members)
(as a Percent of Pensionable Salary)
960-Hour Maximum Accrual

	Plan 2	Plan 4	Plan 5	Plan 7 (PEPRA)	Total
Estimated First Year Increase					
Increase in Statutory Contribution Rate	0.83%	0.82%	0.80%	0.38%	0.82%
Increase in Contribution Dollars	$ 11,164	$ 66,732	$ 14,216	$ -	$ 92,111
Estimated Ultimate Increase *					
Increase in Statutory Contribution Rate	N/A	N/A	N/A	0.24%	0.24%
Estimated Member Rate Increase	N/A	N/A	N/A	0.24%	0.24%

** The ultimate increase is equal to the estimated increase in the normal cost rate for PEPRA plans. Over time it is expected that all active employees will be members of PEPRA plans. Under SamCERA's funding policy, the increase in the UAAL due to the sick leave credit will be fully amortized after 15 years, so the increase in the statutory contribution rate will be entirely due to the normal cost rate increase.*

We estimate that under this scenario the Unfunded Actuarial Accrued Liability (UAAL) of SamCERA will increase by approximately $300,000. This is equivalent to a decrease in the aggregate SamCERA funded ratio of approximately 0.006%.

After 15 years, the increase in the County's Statutory Contribution Rate (SCR) is estimated to decrease by 0.14% of payroll as the additional layer of UAAL becomes fully amortized, and over time as more members participate in PEPRA plans relative to legacy plans, the County's SCR is projected to trend towards that of the PEPRA plans. Note that as of June 30, 2020 there were no OSS employees earning benefits in Plan 7.

For legacy plans (all plans except Plan 7), this additional cost will be borne entirely by the County. However, for PEPRA plans (Plan 7), under Section 7522.30 employees must pay at least 50% of the normal costs and, as such, the additional cost will be shared between the County and County employees.

Calculation of increase in contribution rates

We suggest that the contribution rates for the sick leave provision be determined for individual Safety plans assuming that all employees of the respective plans receive the benefit. In the scenario described in this letter where a subset of employees receives the benefit, these calculated contribution rates will be applied only to that subset of employees. If additional subsets of Safety employees subsequently receive these benefits, the same contribution rates may then be applied to those employees also.

The following table provides an estimate of the cost of these benefit provisions assuming that ***all*** Safety employees receive them. The contribution rate impact is shown as a percentage of payroll for all Safety employees.

Estimated Annual Contribution Rate Impact (all Safety Members)
(as a Percent of Pensionable Salary)
960-Hour Maximum Accrual

	Plan 2	Plan 4	Plan 5	Plan 7 (PEPRA)	Total
Estimated First Year County Increase					
Increase in County Normal Cost Rate	0.69%	0.68%	0.66%	0.24%	0.52%
Increase in UAAL Contribution Rate	0.14%	0.14%	0.14%	0.14%	0.14%
Total Increase in County Statutory Contribution	0.83%	0.82%	0.80%	0.38%	0.66%
Estimated Ultimate County Increase *					
Total Increase in County Statutory Contribution	N/A	N/A	N/A	0.24%	0.24%
Estimated Member Rate Increase					
Increase in Member Contribution Rate	N/A	N/A	N/A	0.24%	0.24%

** The ultimate County increase is equal to the estimated increase in the normal cost rate for PEPRA plans. Over time it is expected that all active employees will be members of PEPRA plans. Under SamCERA's funding policy, the increase in the UAAL due to the sick leave credit will be fully amortized after 15 years, so the increase in the statutory contribution rate will be entirely due to the normal cost rate increase.*

We estimate that if this benefit is provided to all Safety employees the Unfunded Actuarial Accrued Liability (UAAL) of SamCERA will increase by approximately $1 million. This is equivalent to a decrease in the aggregate SamCERA funded ratio of approximately 0.02%.

The estimated contribution rate increases discussed in this letter includes a component to fund this benefit (called the normal cost) and a component to amortize the increase in UAAL as a result of this change. Under SamCERA's funding policy, the UAAL component will be amortized over 15 years. After 15 years this component will be fully amortized and the estimated employer contribution rate will be for normal cost only. Note that members do not contribute towards UAAL amortization so there is no change to their contribution rate after 15 years.

Note that the estimated total increase in the County SCR in the first year is different than shown for OSS employees, even though the estimated increases for individual plans is the same. This is due to differences in the allocation of OSS employees between plans compared to the overall Safety employee population.

Description of methods and assumptions

These calculations assume that sick leave is accumulated over 20 years. That is, a member is expected to accrue, and to not use, on average 48 hours of sick leave per year of service. The average service credit of recently retired members is approximately 20 years. The actual cost of this benefit will depend on many factors, including the rate at which sick leave is accrued and used, and the member's service at retirement.

Over time, as more members participate in PEPRA plans relative to legacy plans and as the increase in the UAAL becomes fully amortized, the County's SCR is projected to trend towards that of the PEPRA plans.

The current retirement benefits provided by SamCERA include a "cap" on the amount of a member's retirement benefit equal to Final Average Compensation (FAC) for all Safety plans. For these calculations we have assumed that additional service credit as a result of this benefit change will not allow the retirement benefit to exceed the FAC at retirement.

Risk discussion

This financial analysis is based on one set of reasonable assumptions. Although we believe these assumptions provide a reasonable estimate of future financial costs, it is almost certain that future experience will differ from the assumptions to some extent. It is therefore important to consider the potential impacts of these likely differences when making decisions that may affect the future financial health of the Plan, or of the Plan's members.

There are a number of factors that could cause costs and funded status impacts for this benefit to differ from what is shown in this report. To the extent actual experience for these factors varies from the assumptions, this will likely cause either increases or decreases in the plan's future funding level and SCR. The factors that can have the most significant impact on SamCERA's valuation results are:

- Member behavior

  To the extent that member's usage of their accrued sick leave is different than assumed, the amount of sick leave to be included in service credit may differ significantly from presented in this report. Smaller amounts of accrued sick leave will generally result in lower costs, and higher amounts of accrued sick leave will generally result in higher costs.

Specifically, these estimates assume that sick leave accumulations and usage are the same for all eligible employees. If actual experience differs such that, for example, employees with higher than average salaries accumulate larger sick leave accruals at retirement than other employees (due to lower usage), the cost of the sick leave benefit would be higher as a percentage of salaries than shown above. Conversely, if usage is lower for employees with lower than average salaries, the cost of the sick leave benefit would be lower as a percentage of salaries than shown above.

- Investment returns

  To the extent that actual investment returns differ from the assumed investment return, the Plan's future assets, SCR, and funded status may differ significantly from those presented in this valuation. For example, if the investment return assumption were lowered, the cost of the sick leave benefit would increase in approximately the same proportion as the value of the base service retirement benefit.

- Longevity and other demographic risks

  The liabilities reported in the actuarial valuation have been calculated by assuming that members will follow specific patterns of demographic experience (e.g. mortality, retirement, termination, disability). To the extent that actual demographics are different than are assumed to occur, future liabilities, SCRs, and funded status may differ from that presented in this valuation.

- Compensation increases

  Individual member retirement benefits are linked to that member's compensation. As such, assumptions need to be made as to a member's future compensation increases. If compensation increases are higher than assumed, for example to reflect the additional cost for PEPRA members, this could result in larger retirement benefits, liabilities, SCRs, and a lower funded status.

Ultimately, the actual cost of this benefit will depend on the experience of SamCERA, including the number of years of service credit that individual employees have earned at retirement. An analysis of the financial impact of these risks was beyond the scope of this assignment. If desired, additional analysis can be performed to quantify the potential impact on projected SCR and member contribution rates of some or all of these risks.

Certification

Except as noted elsewhere in this letter, all data, methods, assumptions, and plan provisions are consistent with those described in the June 30, 2020 actuarial valuation. All calculations, estimates and projections included in this analysis are based on that valuation. 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.

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.

We have not explored any legal issues with respect to the proposed plan change. We are not attorneys and cannot give legal on such issues. The consultants who worked on this assignment are retirement 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 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,

Nick Collier, ASA, EA, MAAA
Consulting Actuary

Craig Glyde, ASA, EA, MAAA
Consulting Actuary

NC/CG/nlo

cc: Scott Hood
Lisa Okada