



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

Tel +1 206 624 7940

milliman.com

April 15, 2022

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 CNA

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 CNA. This MOU will provide increases in compensation and vacation accruals and will provide an additional annual holiday. 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 financial impact of the changes is estimated to be:

- an increase in the Unfunded Actuarial Accrued Liability (UAAL) of \$9.4 million, which is equivalent to a decrease of 0.17% in the Funded Ratio when rounded to nearest 0.01%,
- an increase of approximately 0.16% of pay in employer UAAL rates, and
- increases in future employer and member contribution dollars as a result of higher pensionable salaries.

Note that this is the impact on SamCERA funding only, and does not reflect the cost to the County of providing the lump-sum payments or any cashouts elected by employees.

This work product was prepared solely for SamCERA for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

Because SamCERA is a cost sharing plan, any changes in employer normal cost and UAAL amortization rate will be shared by all employers with employees in plans that include affected members. All CNA members are General members.

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 Reform Act of 2013 (PEPRA) and this payment would not be includable in pensionable compensation for those employees.

Since this is a one-time lump sum payment that will not increase future years’ 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 a partial offset to increases in the Actuarial Accrued Liability (AAL) due to the higher pension benefits. We estimate that additional employer contributions are \$34,000 and additional employee contributions are \$41,000 in fiscal year 2021 to 2022 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 \$28,000, summarized as follows.

Estimated Financial Impact for SamCERA of CNA Lump-Sum Payments	
Increase in Actuarial Accrued Liability (AAL):	\$ 103,000
Less Additional Employer Contributions in current fiscal year:	(34,000)
Less Additional Member Contributions in current fiscal year:	<u>(41,000)</u>
Increase in Unfunded Actuarial Accrued Liability (UAAL):	\$ 28,000

As mentioned above, because SamCERA is a cost sharing plan, any changes in employer normal cost and UAAL amortization rate will be shared by all employers with employees in plans that include affected members. All CNA members are General members. Over the longer term, we estimate if all County non-Plan 7 active employees received this increase that, in aggregate, the employer normal cost rate for General members would be 0.01% of pay higher and the UAAL rate would be 0.02% of pay higher for 15 years. Note that the employer normal cost rate increase does not apply to payroll of members in General 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 schedule of general wage increases under consideration is as follows:

- 8.5% upon ratification
- 3.0% effective December 25, 2022
- 4.0% effective December 24, 2023
- 4.0% effective December 29, 2024

The annual actuarial valuation of SamCERA includes assumptions for future general wage, and merit and longevity, increases. The general wage increase assumption is 3.0% in the June 30, 2021 actuarial 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 – additional annual holiday

Our understanding is that all employees will receive one additional day of annual holiday.

This change does not increase the pension benefits of affected employees because it does not impact salary or benefit service. As such we believe it does not have a financial impact on the funded status of SamCERA that requires a notice under Section 31515.5.

Summary of changes – administration accruals

Our understanding is that all eligible legacy (i.e. non Plan 7) CNA employees will receive an option to elect a cashout of up to 130 hours per year of administration time. It is further our understanding that this will have the effect of increasing pensionable income of employees who

elect this option by 6.25%, since it will effectively increase pensionable hours by 130 over the assumed annual 2,080 hours by full time employees.

We estimate that the increase in UAAL as a result of this provision is approximately \$9.4 million. We also estimate that this provision will have an impact on the annual employer and employee costs through increased employer normal cost and UAAL contributions and increased employee contributions. While the employer normal cost rate and member contribution rate for legacy CNA employees will not change as a result of this provision, the annual normal cost and member contribution dollars will each increase by 6.25%, reflecting the higher pensionable salary of eligible employees. We summarize these estimated additional costs in the following table:

Estimated Financial Impact for SamCERA of CNA optional cashouts	
Increase in Actuarial Accrued Liability (AAL):	\$ 9,360,000
Change in Funded Ratio:	-0.17%
Increase in Employer Contributions in current fiscal year:	
Normal Cost contributions:	\$ 176,000
UAAL contributions:	\$ 812,000
Total:	\$ 988,000
Increase in General member UAAL contribution rate (as a percentage of pay):	0.16%
Increase in Member Contributions in current fiscal year:	\$ 215,000

As mentioned above, because SamCERA is a cost sharing plan, any changes in employer normal cost and UAAL amortization rate will be shared by all employers with employees in plans that include affected members. All CNA members are General members. Over the longer term, we estimate if all County non-Plan 7 active employees received this increase that, in aggregate, the employer normal cost rate for General members would be unchanged and the UAAL rate would be approximately 1.8% of pay higher for 15 years. Additionally, the funded ratio for SamCERA would be approximately 2.2% lower if all County non-Plan 7 active employees received the increase.

Data, methods, and assumptions

These estimates are based on the results of the June 30, 2021 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 CNA to include:

- a one-time lump sum payment of \$2,000 payable in the fiscal year beginning July 1, 2021 and

- an increase of 6.25% in pensionable compensation to reflect cashout of 130 hours of administration time per year to each eligible employee.

Except as noted elsewhere in this letter all other data, methods and assumptions are the same as described in the June 30, 2021 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, 2021 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.

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 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.

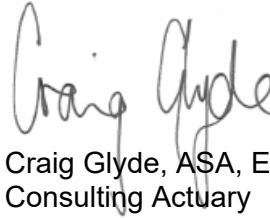
Sincerely,



Nick Collier, ASA, EA, MAAA
Consulting Actuary

NC/CG/nlo

cc: Gladys Smith
Lisa Okada



Craig Glyde, ASA, EA, MAAA
Consulting Actuary