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June 3, 2025

Scott Hood
Chief Executive Officer
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Re: Analysis of proposed bargaining change

Dear Scott:

We understand that San Mateo County is considering a "side letter" with the Deputy Sheriff's Association LEU (LEU) to move Forensic Autopsy Technicians (3) and Community Services Officers (18) from the American Federation of State, County and Municipal Employees (AFSCME) bargaining group to the LEU bargaining group. We have been asked to provide an analysis of the financial impact of these changes, specifically with regards to their financial impact on the funding status of SamCERA.

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

Our letter dated November 27, 2024 discussed the primary financial impacts of certain benefit and salary changes for the AFSCME bargaining group. As such, any additional financial impacts of this side letter on the funding of SamCERA are relative to those included in that analysis and discussed in that letter.

SamCERA Funding Method

The Statutory Contribution Rate is comprised of a contribution for the on-going costs of the plan (the employer Normal Cost rate) and a contribution to pay off the Unfunded Actuarial Accrued Liability (UAAL) over time. Under SamCERA's funding method, the UAAL payment is the greater of 1) the UAAL rate under a 15-year layered amortization before reflecting any Supplemental Contribution Accounts (SCAs); and 2) the UAAL contribution rate that was effective for the Fiscal Year Beginning July 1, 2023 before reflecting any SCAs.

Because the 2023 UAAL contribution rate (which is not affected by subsequent changes) is greater than the 15-year layered amortization rate, including the proposed changes discussed in this letter, the proposed changes would not be expected to impact the UAAL contribution rate in the short term. Nonetheless, the proposed changes would ultimately increase the required contributions needed. To show this estimated impacted, we have amortized the increase in the

UAAL over a 15-year period. Note that any increase in the employer Normal Cost rate will be reflected in the Statutory Contribution Rate.

Implication of a cost sharing plan

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. Similarly, any changes in PEPRA member contribution rates will affect all PEPRA members in the affected member class.

Summary of changes – general wage increases

Our understanding is that the general wage increases for these employees under LEU will differ slightly compared to those included in the AFSCME analysis. Specifically, the general wage increase in the fiscal year beginning July 1, 2025 is 4% under LEU, compared to 5% under the AFSCME bargaining analysis.

These proposed changes are expected to result in decreased pension benefits for all affected employees relative to those included in the AFSCME analysis. Since these wage increases are smaller than those expected by the assumptions included in the AFSCME analysis, expected future pension benefits for those members are projected to be smaller which will result in a decrease in the Actuarial Accrued Liability (AAL) and the UAAL.

Based on the census data used in the June 30, 2024 actuarial valuation, these members all participate in the General plans. The employer Normal Cost rate of each of the General plans is expected to be unchanged, when rounded to the nearest 0.01% of payroll, due to these changes relative to the AFSCME analysis. (Normal Cost is the portion of the actuarial present value of benefits that is allocated to a valuation year by the Actuarial Cost Method.)

The smaller UAAL because of these changes, when recognized over 15 years through the UAAL amortization method, results in no change in the UAAL contribution rate, when rounded to the nearest 0.01% of payroll.

The member contribution rate for all Plan 7 member (PEPRA members) is estimated to remain unchanged due to these changes. Active PEPRA members pay one-half of their plan's Total Normal Cost rate.

The estimated financial impact of these changes, relative to the AFSCME analysis is summarized in the following table:

Estimated Financial Impact of Annual Salary Increases relative to AFSCME Analysis			
Decrease in Actuarial Accrued Liability (AAL):		$	(15,000)
Increase in SamCERA Funded Ratio:			0.00%
Employer Contribution Increases (General members; all plans)	**Increase as a Percentage of Pay**	**Estimated Dollar Increase (2025 - 2026)**	
Employer Normal Cost Rate:	0.00%	$	(1,000)
Unfunded Actuarial Accrued Liability (UAAL) Rate[1]:	0.00%	$	(1,000)
Total General Rate:	0.00%	$	(2,000)
PEPRA Member Rate Increases			
All General Members:	0.00%		
All Safety Members:	0.00%		
All Probation Members:	0.00%		

1. Please see note regarding SamCERA funding method and its impact on contribution rates on page 1.

Summary of changes – wage equity increases

Our understanding is that in addition to the general wage increases described above, that affected Community Services Officers will receive wage equity increases of 2.9% to align their compensation with market rates. Equity increases were not included under the AFSCME analysis.

These proposed equity increases are expected to result in increased pension benefits for the affected employees. These increases will result in an increase in the Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL), and no change in the Funded Ratio of SamCERA (87.6% as of June 30, 2024), when rounded to the nearest 0.01%.

Based on the census data provided for this analysis, affected employees eligible for the equity increases are all General members. The employer Normal Cost rate of the General plans is expected to be unchanged due to these changes when rounded to the nearest 0.01% of payroll. The additional UAAL because of these higher wage increases, when recognized over 15-years through the UAAL amortization method and rounded to the nearest 0.01% of payroll, results in no change in the UAAL contribution rate. The UAAL contribution rate is calculated separately by member class.

The member contribution rate for all Plan 7 members (PEPRA members) is estimated to remain unchanged.

The financial impact of these changes is summarized in the following table:

Estimated Financial Impact of Equity Increases relative to AFSCME Analysis		
Increase in Actuarial Accrued Liability (AAL):		$ 76,000
Decrease in SamCERA Funded Ratio:		0.00%
Employer Contribution Increases (General members; all plans)	**Increase as a Percentage of Pay**	**Estimated Dollar Increase (2025 - 2026)**
Employer Normal Cost Rate:	0.00%	$ 6,000
Unfunded Actuarial Accrued Liability (UAAL) Rate[1]:	0.00%	$ 7,000
Total General Rate:	0.00%	$ 13,000
PEPRA Member Rate Increases		
All General Members:	0.00%	
All Safety Members:	0.00%	
All Probation Members:	0.00%	

1. *Please see note regarding SamCERA funding method and its impact on contribution rates on page 1.*

Summary of other changes

Other proposed changes do not increase the pension benefits of affected employees, because they do not impact wages 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, 2024 actuarial valuation and our analysis of the Memorandum of Understanding (MOU) for AFSCME employees dated November 27, 2024. Except as noted elsewhere in this letter, all data, methods and assumptions used in this analysis are the same as those used in the 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.

For the analysis of the general wage growth increase we adjusted the valuation general wage growth assumption to include larger increases in 2024 through 2026. A summary of the valuation assumptions and those used in this analysis are included in the table below.

General Wage Increase Assumptions

Year	Valuation Assumption	With Negotiated Increases (AFSCME)	With Negotiated Increases (LEU)
2024	3.25%	5.00%	5.00%
2025	3.25%	5.00%	4.00%
2026	3.25%	4.00%	4.00%
>2026	3.25%	3.25%	3.25%

Assumptions for salary merit and longevity increases are the same in the valuation and in this analysis.

Of the 21 members provided for this analysis only 12 were included in the June 30, 2024 valuation, as the other 9 members did not join SamCERA until after that date. New members after June 30, 2024 will not impact the funded status of SamCERA as of that date, however, emerging costs will be higher for these new members under the negotiated LEU agreement than would be expected the current actuarial assumptions. We have not analyzed this impact as it is our understanding that is beyond the scope of this analysis and California Government Code Section 31515.5.

Certification

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. Please refer to the June 30, 2024 actuarial valuation for a description of the main factors that could cause variance in the results contained in this letter.

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.

These 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.

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 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, which are consistent with the principles prescribed by the Actuarial Standards Board and the *Code of Professional Conduct* and *Qualification Standard 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 have any questions.

Sincerely,

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Consulting Actuary

Craig Glyde, ASA, EA, MAAA
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NC/CG/va

cc: Michelle Kuka
Lisa Okada
Gladys Smith