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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 SMC Council of Engineers (SMCCE)

Dear Scott:

We understand that the San Mateo County Board of Supervisors will consider a Memorandum of Understanding (MOU) for employees of San Mateo County with benefits negotiated under collective bargaining agreements with the SMC Council of Engineers (SMCCE) that will result in certain benefit changes for these employees. 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. This letter is intended to satisfy that requirement.

The primary financial impacts of the changes (if all changes are adopted) are estimated to be:

- an increase in the Unfunded Actuarial Accrued Liability (UAAL) of $200,000,
- no change in the annual employer contribution rate, and
- no change in the PEPRA General member contribution rate of 0.00% of payroll.

Note that this is the impact on SamCERA funding only and does not reflect any other cost to the County of implementing the MOU. The funded ratio, rounded to the nearest 0.01%, is not expected to change as a result of these wage increases and other changes.

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 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 under consideration includes an increase of 5.0% of pay effective on February 16, 2025, followed by a 5.0% increase on February 15, 2026, and a 4.0% to 5.0% increase on February 14, 2027 dependent on subsequent legislation.

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, 2024 valuation of SamCERA.

These proposed wage increases are expected to result in increased pension benefits for all active SMCCE members. Further, since these wage increases are larger than those expected by the assumptions included in the actuarial valuation, expected future pension benefits for those members are projected to be larger than currently anticipated which will result in an increase in the Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL). However, the SMCCE member group is small enough that there are no expected impacts (rounded to the nearest 0.01%) to the Funded Ratio of SamCERA (87.6% as of June 30, 2024) or the Normal Cost rates for all plans that include the affected members. (Normal Cost is the portion of the actuarial present value of benefits that is allocated to a valuation year by the Actuarial Cost Method.)

Based on the census data used in the June 30, 2024 actuarial valuation, all active SMCCE members participate in the General plans. The employer Normal Cost rate of each of the General plans is not expected to change due to the higher wage increases.

The additional UAAL because of these higher wage increases, when recognized over 15-years through the UAAL amortization method, results in no change in the UAAL contribution rate.

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

Estimated Financial Impact of Annual Salary Increases - SMCCE		
Increase in Actuarial Accrued Liability (AAL):		$ 199,000
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%	$ 5,000
Unfunded Actuarial Accrued Liability (UAAL) Rate[1]:	0.00%	$ -
Total General Rate:	0.00%	$ 5,000
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.*

Note that this analysis assumes a 4% general wage growth increase in 2026, which may increase to 5% dependent on future legislation. A higher increase will result in costs that are higher than shown in this analysis.

Summary of changes – increase bilingual pay allowance

Our understanding is that eligible SMCCE members will receive an increase in their bilingual pay allowance from $70 per pay period to $90 per pay period.

Only one SMCCE member is currently receiving their bilingual pay allowance so the impact on the Plan is very small and results in no change to the Funded Ratio or contribution rates.

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

Estimated Financial Impact of Bilingual Allowance Increases - SMCCE		
Increase in Actuarial Accrued Liability (AAL):		$ 1,000
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%	$ -
Unfunded Actuarial Accrued Liability (UAAL) Rate(1):	0.00%	$ -
Total General Rate:	0.00%	$ -
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

Our understanding is that eligible members will continue to receive three days of Winter Recess for each year of the MOU. We also understand that Cesar Chavez day will be added as a paid holiday, and eligible SMCCE employees will receive two floating wellness days per year.

These 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. Except as noted elsewhere in this letter, all data, methods and assumptions used in this analysis are the same as those used in that 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
2024	3.25%	5.00%
2025	3.25%	5.00%
2026	3.25%	4.00%
>2026	3.25%	3.25%

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

For the analysis of the bilingual allowance, we increased the 2024 annual salary of eligible employees by $520 ($20 times 26 pay periods).

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,

Nick Collier, ASA, EA, MAAA
Consulting Actuary

Craig Glyde, ASA, EA, MAAA
Consulting Actuary

NC/CG/va

cc: Lisa Okada
Gladys Smith