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June 2, 2022

Lisa Okada
HR Benefits Director
San Mateo County

Re: Study of Proposed Retiree Health Benefits for UAPD Active Members: Methodology Card #1

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 UAPD active members as written in the Labor-Management Committee Retiree Health Methodology Card for Recommended Solutions #1 Supplemental Sick Leave Hours.

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 UAPD 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 UAPD employees. It is our understanding that these benefit changes do not impact current retirees. No analysis of changes for future hires was done.

In this letter, we calculate the actuarial present value of benefits, the Total OPEB Liability, and the Service Cost for the proposed benefits. These results are compared to the same measures for the current benefits program.

The proposed retiree health benefit changes would increase the County’s Actuarially Determined Contribution (ADC) by $20,000 to $27,000, depending on the amortization method, in the first year.

Summary of Retiree Health Benefits Studied: Methodology Card #1

Per your request, we have evaluated the change in liabilities due to Methodology Card #1 if adopted with a June 30, 2021 transition date. Members who are actively employed as of the transition date would be reimbursed up to 240 hours per leave of absence for any leave that can be documented upon retirement.

To value the proposed reimbursement scenario, we made two adjustments to the calculations for the June 30, 2021 actuarial valuation. First, we used the data provided by the County to increase the sick leave balances of individual members to account for prior leaves of absence that would become eligible for reimbursement under the studied scenario. We included leaves of absence taken from January 1, 2015 through May 9, 2022. It is our understanding that the County does not have records for leaves taken prior to 2015 and we have not reflected any pre-2015 hours in our calculations. Figure 1 shows the change to the sick leave balances as of June 30, 2021.

Figure 1: Sick leave balances as of June 30, 2021

	Total Hours (A)	Average Hours per Active Member (B)
Current Plan	36,294	321
Methodology Card #1	41,232	365

Second, we decreased the assumption for future sick leave utilization to account for future leaves of absence that would be eligible for reimbursement under the studied scenario. We used this data to estimate the average sick leave hours that would be eligible for reimbursement per active employee per year.

For the June 30, 2021 actuarial valuation, UAPD employees were assumed to use 70% of their sick leave hours earned annually. These used hours were not assumed to be eligible for reimbursement for the June 30, 2021 actuarial valuation.

For Methodology Card #1, up to 240 sick leave hours per qualified leave would be eligible to be reimbursed. Therefore, it is anticipated that the aggregate amount of sick leave hours utilized would decrease. In our analysis of Methodology Card #1, we assume that, after reimbursement, UAPD employees would use 60% of their sick leave hours earned annually (a decrease from the 70% assumption used in the actuarial valuation).

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.

Figure 2 shows the PVB as of June 30, 2021, as though the benefit changes had taken effect as of the June 30, 2021 actuarial valuation. The following chart is for all current UAPD active members and does not include any amount for future hires. All amounts are in thousands of dollars.

Figure 2: Actuarial Present Value of Benefits

(Numbers are in thousands of $)

	Explicit Benefits (A)	Implicit Rate Subsidy (B)	Total (PVB) (C) = (A)+(B)
Current Plan	$1,190	$3,000	$4,190
Methodology Card #1	$1,380	$3,100	$4,480

Total OPEB Liability

The Total OPEB Liability (TOL) represents the value of benefits allocated to past service for the current UAPD 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.

Figure 3 shows the TOL as of June 30, 2021, as though the benefit changes had taken effect as of the June 30, 2021 Actuarial Valuation. The following chart is for all current UAPD active members and does not include any amount for future hires. All amounts are in thousands of dollars.

Figure 3: Total OPEB Liability

(Numbers are in thousands of $)	Explicit Benefits (A)	Implicit Rate Subsidy (B)	Total (TOL) (C) = (A)+(B)
Current Plan	$760	$1,600	$2,360
Methodology Card #1	$870	$1,650	$2,520

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.

Figure 4 shows the SC attributable to sick leave benefits for 2021-2022, as though the proposed benefit changes had taken effect as of the June 30, 2021 Actuarial Valuation. The following chart is for all current UAPD active members and does not include any amount for future hires. All amounts are in thousands of dollars.

Figure 4: Service Cost

(Numbers are in thousands of $)	Explicit Benefits (A)	Implicit Rate Subsidy (B)	Total (SC) (C) = (A)+(B)
Current Plan	$51	$144	$195
Methodology Card #1	$60	$148	$208

Actuarially Determined Contribution

The actuarially determined contribution (ADC) is equal to the Service Cost plus an amount to amortize the Net OPEB Liability (NOL). The ADC for the County for the 2022-2023 fiscal year is $14,967,597. This is based upon the June 30, 2021 valuation, rolled forward to June 30, 2022, assuming no actuarial gains or losses. There is a one-year lag between the actuarial valuation date and the beginning of the period for the ADC. It is our understanding that the County plans to continue to contribute to the trust based on the service cost plus an amortization of the NOL.

The funding policy is to recognize a portion of the negative NOL as an offset to the Service Cost. When the market value of assets exceeds the TOL, the negative NOL is amortized over a 30-year period. When the TOL exceeds the market value of assets, future gains and losses will be amortized in 14-year layers.

Figure 5 shows the change in the ADC for the 2022-2023 fiscal year using a 14-year amortization or a 30-year amortization, and the effect of the benefit changes. These results value the benefit change as though it had taken effect as of the June 30, 2021 Actuarial Valuation. All amounts are in thousands of dollars.

Figure 5: Change in Actuarially Determined Contribution

(Numbers are in thousands of $)	July 1, 2022 to June 30, 2023
Change in Actuarially Determined Contribution	
Change in ADC using a 14-year amortization	27
Change in ADC using a 30-year amortization	20

Data, Assumptions, and Methods

All data, assumptions, and methodology for our calculations match the June 30, 2021 Actuarial Valuation report dated September 14, 2021 with the following exceptions. These assumptions represent our best estimate of behavioral changes that would result from the proposed changes.

Members Valued: The proposed changes only impact active employees in the UAPD bargaining unit. As of June 30, 2021, there were 113 UAPD active members 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, 2021.

For this study, we received data files from the County with sick leave hours used while on medical Leaves of Absence from January 1, 2015 through May 9, 2022.

We used the data provided by the County to increase the sick leave balances of individual members as of June 30, 2021 to account for prior leaves of absence that would become eligible for reimbursement under the studied scenario. (See Figure 1.) We included leaves of absence taken from January 1, 2015 through May 9, 2022. It is our understanding that the County does not have records for leaves taken prior to 2015 and we have not reflected pre-2015 hours in our calculations.

For the June 30, 2021 actuarial valuation, UAPD employees are assumed to use 70% of their sick leave hours earned annually. These hours are not assumed to be eligible for reimbursement. For the proposed benefits, we decreased the assumption for future sick leave utilization to account for future leaves of absence that would be eligible for reimbursement under the studied scenario. For Methodology Card #1, up to 240 sick leave hours per qualified leave would be eligible to be reimbursed. Under these proposed benefits UAPD employees are assumed to use 60% of their sick leave hours earned annually. These hours are not assumed to be eligible for reimbursement.

Caveats

In preparing this letter, we relied, without audit, on information (oral and written) 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 UAPD participants. The calculations in this letter 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 retirement 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,

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