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Re: Study of Proposed Retiree Health Benefits for OSS & DSA Active Members: RHRA Single Sum at Retirement with 288 additional hours for Tier 2 employees with 20 or more years of service, \$1,000/\$500 Monthly Benefits for Retirees under age 65 and their dependents, and credit for prior service for time with city police departments

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 Organization of Sheriff's Sergeants (OSS) and Deputy Sheriffs Association (DSA) active members. The high-level benefit structure is similar to what was studied for scenario 2 in our letter dated August 5, 2022, with the following changes.

RHRA Benefits Based on Sick Leave Balances at the Transition Date

- For this study, Tier 2 employees receive 288 additional hours of sick leave balance if they have 20 or more years of service upon retirement. These members are OSS actives with the \$400 per eight hours plan, and DSA actives hired after July 1, 2011.

Monthly Benefits for Retirees under age 65 and their dependents

- Surviving spouse benefits are 50% of \$1,000 or \$500, depending upon the members service. For this study, if the surviving spouse has a dependent, the benefits payable would be increased to 80%.

Prior years of service with Half Moon Bay, Millbrae and San Carlos PD service included.

- For this study, prior years of service with Half Moon Bay, Millbrae, and San Carlos PD were counted toward total years of service with the County. This change increased the service by a total of 78 years for 9 OSS members, and by a total of 200 years for 17 DSA members. The average service increased from 15.3 years to 16.5 years for OSS members, and from 8.1 years to 8.6 years for DSA members. See Appendix A for a distribution of counts by age and service for active OSS and DSA members.

The results shown in this letter summarize estimated impact 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 OSS and DSA active employees only. They do not include current retirees. Additionally, the calculations are "closed group" calculations, meaning that they do not reflect any impact of future hires.

Executive Summary

As requested by the County, we have studied proposed retiree health benefit changes for current OSS and DSA 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 for the proposed benefits. These results are compared to the same measure for the current benefits program. The 'cost neutral' employee contribution rate would be 2.80% for OSS and DSA on a combined basis. This employee contribution rate is determined such that the change in the actuarial present value of benefits is equal to the actuarial present value of employee contributions.

Summary of Retiree Health Benefits Studied

RHRA Benefits Based on Sick Leave Balances at the Transition Date

Under the proposal, eligible members would receive a lump sum contribution to their Retiree Health Reimbursement Accounts (RHRA) at retirement. The County would contribute this lump sum upon retirement if, and only if, the person meets the eligibility requirements to receive a pension benefit through SamCERA and has satisfied the years of service requirements noted below.

The lump sum amount for the RHRA would be based on the lump sum amount equal to a fixed dollar multiplier of either \$400 or \$675 per eight hours of sick leave balance as of the transition date for employees with less than 15 years of service at retirement, or 50% of the member's sick leave balance as of the transition date multiplied by the base hourly pay rate at retirement for members with 15 or more years of service at retirement.

We assume that employees will not use the 192 hours of banked Old Sick Leave nor use any additional hours of old sick leave.

Tier 2 employees receive 288 additional hours if they have 20 or more years of service upon retirement. These members are OSS actives who currently have the \$400 per eight hours plan, and DSA actives hired after July 1, 2011. Note that for those with 20 or more years of service at retirement, the RHRA benefit is based on the base hourly pay rate. Therefore, with this change, people with 20 or more years of service at retirement, the same base hourly pay rate, and the same sick leave balance, will have a larger RHRA benefit when in the \$400 group than for similarly situated people in the \$675 group.

Monthly Benefits for Retirees under age 65 and their dependents

This explicit benefit for retirees would be capped as follows for retirees and dependents under 65. The benefits would also be based on years of service at retirement according to the following table:

Years of Service at Retirement	Monthly Benefit
20+	\$1,000.00
15-20	\$500.00
Less than 15	\$0

There would be no explicit monthly benefit paid to retirees with less than 15 years of service.

For retirees not enrolled in County benefit plans, the County would deposit the monthly benefit amount listed in the table into the retiree's RHRA.

The benefits would be based on the retiree's age, with this benefit payable while the retiree is under age 65 (pre-Medicare). The spouse's age will not influence the amount of the County's maximum payment.

These benefit amounts would not change after 2022. They will not increase with the anticipated increases in the premiums.

The benefits in the table above would be paid as long as the retiree is alive and under age 65. After the retiree has died, the benefits payable to a surviving spouse would be 50% of the amounts in the table paid until the retiree would have turned 65. If the surviving spouse has a dependent, the benefits payable would be 80% of the amounts in the table paid until the retiree would have turned 65.

Implicit Rate Subsidy Prior to Age 65

The County contracts with Kaiser and Blue Shield Health Plans to provide health coverage to its actives and pre-Medicare (prior to age 65) retirees. These insurers charge the same premium for actives and retirees without Medicare. Therefore, the County is paying a higher rate for active employees than they otherwise would if the retirees were in a separate plan. This creates an "implicit" subsidy of retiree premiums. GASB requires including the value of this subsidy in the TOL. It is our understanding that, under the proposal, employees will continue to access the subsidized premiums.

Under the current benefits program, everyone under age 65 with a sick leave balance entitled to SamCERA pension benefits is entitled to an explicit subsidy until sick leave is exhausted. In the actuarial valuation, we assume that 95% would elect medical coverage until sick leave is exhausted. Under the proposal studied in this letter, we assume the same 95% medical election rate for retirees with 15 or more years of service at retirement.

It is our understanding that members with less than 15 years of service would remain eligible to retain health coverage by paying the same premiums charged for actives and retirees without Medicare. This group would have an implicit rate subsidy, and we assume that 60% of people in this group would elect coverage.

For the actuarial valuation, we assumed that 40% of retirees would lapse health insurance coverage under the County plans when their sick leave balances have been exhausted. Under the proposal studied in this letter, pre-65 benefits would no longer be tied to sick leave balances. For that reason, we assume that retirees would maintain coverage throughout retirement.

These assumptions represent our best estimate of behavioral changes that would result from the proposed changes.

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 1 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 OSS and DSA active members and does not include any amount for future hires.

Figure 1: Actuarial Present Value of Benefits

	RHRA Benefit (A)	Pre-65 Benefit (B)	Medicare Part B Reimbursements (C)	Total Explicit (D)	Implicit Rate Subsidy (E)	Total (PVB) (F) = (D)+(E)
Current Plan	N/A	N/A	N/A	\$10,770,000	+ \$35,860,000	= \$46,630,000
Proposed Plan	\$7,690,000	+ \$15,710,000	+ N/A	= \$23,400,000	+ \$38,590,000	= \$61,990,000

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Employee Contributions and “Cost Neutrality”

It is our understanding that there is a goal for any benefit changes to be “cost neutral.” One method to achieve this goal is to find the employee contribution rate such that the actuarial present value of employee contributions is equal to the change in the actuarial present value of benefits.

Figure 2 shows the actuarial present value of employee contributions based on projected contributions for all active OSS and DSA employees as of June 30, 2021 for the rest of their careers, discounted at 5.75%, which is the investment rate of return assumption used for the June 30, 2021 actuarial valuation. We have shown the cost neutral contribution rates calculated for OSS and DSA independently, and the cost neutral contribution rates calculated on a combined basis. Figure 2 also shows the average per member increase in the PVB.

Figure 2: Cost neutral employee contribution rate

	Change in PVB from Current Plan (A)	Cost Neutral Employee Contribution Rate (B)	Active Member Count (C)	Average Increase in PVB (D) = (A) / (C)
Proposed Plan				
OSS	\$4,200,000	7.30%	64	\$65,625
DSA	11,160,000	2.30%	429	26,014
OSS & DSA Combined	\$15,360,000	2.80%	493	\$31,156

The cost neutral calculation is based on our understanding that there would be no refunds of member contributions upon termination of employment.

If OSS and DSA members paid the same contribution, the cost neutral employee contribution would be 2.80% of pay. However, if the employee contributions were to differ by bargaining group, the cost neutral employee contribution would be higher for OSS (7.30%) and lower for DSA (2.30%). As shown in Figure 2, column (D), the average present value of benefits for OSS members would increase more than the average present value of benefits for DSA members.

The PVB of the proposed benefits in this letter is greater than the PVB of the benefits proposed in Scenario 2 of the August 5 letter. There are several reasons for this.

- The addition of 288 sick leave hours for Tier 2 members with 20 or more years of service upon retirement increased the RHRA.
- The measured liability for all benefits increased for members with prior years of service with Half Moon Bay, Millbrae and San Carlos PD. These members are more likely to be eligible for benefits earlier. They are also more likely to reach the 15 or 20 years of service upon retirement, making them eligible for the larger service-based benefits as a result of the increase in their service.
- The increase in the pre-65 surviving spouse benefit for those with eligible dependents resulted in a small increase in measured liabilities.

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 OSS and DSA bargaining units. As of June 30, 2021, there were 64 OSS active members and 429 DSA 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.

Prior years of service with Half Moon Bay, Millbrae and San Carlos PD are counted toward total years of service with the County. For OSS, this data was provided on June 16, 2022 and June 22, 2022. For DSA, this data was provided on August 18, 2022.

In the actuarial valuation, we assumed that 40% of retirees would lapse coverage when sick leave balances were exhausted. Under the proposed benefits studied in this letter, benefits would no longer be tied to sick leave at retirement. For this reason, the proposed benefits reflect no assumed coverage lapse.

There are people who will be eligible for SamCERA pension benefits who will not be entitled to the proposed pre-65 benefit based on Kaiser premiums due to the 15 years of service requirement. It is our understanding that people in that category will remain eligible to retain health coverage by paying the same premiums charged for actives and retirees without Medicare. We assume that 60% of these members will self-pay the premiums for County coverage in retirement.

Regarding the proposed pre-65 benefit based on Kaiser premiums, we assume that the full \$1,000 (or lower for those with less than 20 years of service at retirement) would be used by members, regardless of the member's elected tier of coverage. We assume that this amount will remain unchanged in future years and will not increase with future medical trend.

We assume that 25% of surviving spouses have an eligible dependent, and are eligible for 80% of the deceased members pre-65 benefit.

For the actuarial valuation, we assumed that 55% of married OSS and DSA members will elect spousal coverage. To the extent that proposed benefits prior to age 65 are higher than current benefits, we would expect more retirees to elect spousal coverage.

Under the proposed changes, the pre-65 benefits will be greater for those with 20 or more years of service compared to the current benefits program studied for the actuarial valuation. As such, more of the spouses' benefits would be covered for members with 20 or more years of service at retirement. For that reason, we assume that 75% of these retirees will elect to cover their spouses for pre-65 benefits.

For those with less than 20 years of service at retirement, we maintained the 55% assumption from the actuarial valuation. Note that this assumption only affects the implicit rate subsidy for spouses.

Caveats

In preparing this letter, we relied, without audit, on information (some oral and some in writing) 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 an 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 OSS and DSA participants. The calculations in this letter have been made on a basis consistent with our understanding of the Plan's current and proposed benefits. The calculations herein are based on our understanding that there would be no refunds of member contributions upon termination of employment. 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.

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- (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 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.

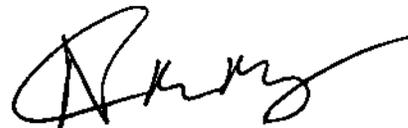
We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Please let us know if you would like to discuss this further.

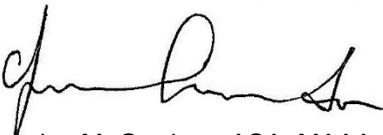
Sincerely,



Daniel Wade, FSA, EA, MAAA
Principal and Consulting Actuary



Arthur Rains-McNally, FSA, EA, MAAA
Principal and Consulting Actuary



Jessica M. Gardner, ASA, MAAA
Consulting Actuary

Appendix A: OSS & DSA Active Member Distribution**OSS Active Members**

(As of July 1, 2021)

Years of Service (including recognition of time worked for contract cities)

Age	0 to 5	5 to 10	10 to 15	15 to 20	20 & Up	Total
Under 25	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0
30 to 34	0	0	1	0	0	1
35 to 39	0	2	4	3	0	9
40 to 44	0	3	5	6	1	15
45 to 49	1	2	1	7	6	17
50 to 54	1	2	0	5	9	17
55 to 59	0	1	0	0	3	4
60 to 64	0	0	1	0	0	1
65 to 69	0	0	0	0	0	0
70 & Up	0	0	0	0	0	0
Total	2	10	12	21	19	64

DSA Active Members

(As of July 1, 2021)

Years of Service (including recognition of time worked for contract cities)

Age	0 to 5	5 to 10	10 to 15	15 to 20	20 & Up	Total
Under 25	12	0	0	0	0	12
25 to 29	62	15	0	0	0	77
30 to 34	43	46	6	0	0	95
35 to 39	21	24	9	5	0	59
40 to 44	17	7	9	4	6	43
45 to 49	7	8	8	19	19	61
50 to 54	8	7	4	9	10	38
55 to 59	8	6	3	2	6	25
60 to 64	1	2	3	2	6	14
65 to 69	0	2	2	1	0	5
70 & Up	0	0	0	0	0	0
Total	179	117	44	42	47	429

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