Milliman

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

Tel +1 206 624 7940

milliman.com

June 6, 2024

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

Re: Analysis of Salary Increases - June 11, 2024 Board Agenda

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 certain contractual items for the Chief Executive Officer and the County Attorney, including the following:

- Increases in vacation accruals,
- Increases to deferred compensation contributions, and
- Salary increases.

The purpose of this letter is to provide information to assist the Board of Supervisors to satisfy the notice requirement regarding items included in the Board Agenda on June 11, 2024. The contractual items being considered could impact the funded status of SamCERA if:

1. it increases the pension benefits of affected SamCERA members as a result of increased salary (or compensation) and/or benefit service, and
2. any additional pension benefits earned are not accompanied by corresponding employer and member contributions being deposited to SamCERA.

Note that in the actuarial funding valuation we do not reflect the Internal Revenue Code (IRC) Section 401(a)(17) compensation limits or the Section 415 maximum benefit limits and have not reflected them in this analysis. These limits are reflected in a member's benefit calculation at retirement. For Legacy Plan members, compensation earned in excess of the Section 401(a)(17) limits ($345,000 in 2024 and indexed for future years) is not pensionable. Therefore, to the extent any affected Legacy member's compensation increase results in compensation greater than the Section 401(a)(17) limit, the excess amount will not result in an increase in pension benefits. However, in the funding valuation any change in compensation for Legacy Plan members (regardless of the limit) will cause an increase in the Actuarial Accrued Liability

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.

(AAL) until the member retires and the retirement benefit is calculated. For members of Plan 7, pensionable compensation is limited under Section 7522.10 of the Government Code ($146,042 in 2024 and indexed for future years for General Plan 7 members), and this limitation is applied in the funding valuation.

Estimated Financial Impact

Based on information provided by San Mateo County we have projected the impact of these contractual items on SamCERA as of the most recent valuation date that a valuation report has been adopted by the SamCERA Board of Retirement (June 30, 2023). These items include salary increases for the affected members. The table below summarizes the results of our analysis if this salary increase had been reflected in the June 30, 2023 valuation.

Department / Budget Unit	Count	Increase in BiWeekly Salary	Increase in Actuarial Accrued Liability
Chief Executive's Office	1	$ 678	$ -
County Attorney's Office	1	$ 864	$ 179,000
Total	**2**	**$ 1,542**	**$ 179,000**

As shown above, we estimate that the increase in the June 30, 2023 Actuarial Accrued Liability (AAL) due to this salary increase is approximately $179,000. While the Unfunded Actuarial Accrued Liability (UAAL) of SamCERA will be higher by this amount, the funded ratio, rounded to the nearest one basis point, will be unchanged.

The County contributes to SamCERA based on a percentage of its payroll. Therefore, an increase in salaries above the valuation assumption will result in an increase in the contributions (both by the County and by the affected General members) made to SamCERA, as compared to the contributions projected in the valuation. It should be noted that SamCERA is a cost-sharing retirement system, so the estimated increase in the future AAL will be borne by all SamCERA employers, not just the County.

Data, methods, and assumptions

These estimates are based on the results of the June 30, 2023 actuarial valuation for the members identified and provided to us by San Mateo County. For this analysis we used the biweekly salaries (with allowances) for these members as provided by San Mateo County and adjusted the valuation results by the same relative proportion as the increase in biweekly salaries.

The actuarial valuation includes assumptions for average annual salary increases of continuing members. The salary increases described in this letter are assumed to be in addition to the

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.

actuarially assumed annual salary increases used in the valuation. The valuation assumptions are detailed in Appendix A of the June 30, 2023 actuarial valuation.

For members of Plan 7, pensionable compensation is limited under Section 7522.10 of the Government Code. This limitation has been applied to these calculations where applicable.

Certification

Except as noted elsewhere in this letter, all data, methods, assumptions, and plan provisions are consistent with those described in the June 30, 2023 actuarial valuation. We have assumed that these salary increases 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 which are consistent with

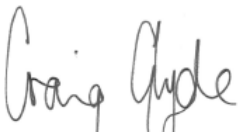
This work product was prepared solely for SamCERA for the purposes described herein and may not be appropriate to use for other purposes.
Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.
Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

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 have any questions.

Sincerely,

Nick Collier, ASA, EA, MAAA
Consulting Actuary



Craig Glyde, ASA, EA, MAAA
Consulting Actuary

NC/CG/va

cc: Gladys Smith
Lisa Okada
Lisa Yapching

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.