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Via Email

June 27, 2023

Ms. Julie Wyne
Chief Executive Officer
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-1069

**Re: Sonoma County Employees' Retirement Association (SCERA)
Disclosure under Government Code Section 31515.5 in compliance with
Section 23026 – WCE – 2023/2024 Fiscal Year**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of changes in elements of pay and their potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026.

The results presented in this letter are based on changes in elements of pay that were proposed as of the issuance of this letter. Any additional changes that may be proposed for the 2023/2024 Fiscal Year would result in a revised cost impact to be provided at that time.

The contribution impact in this letter is based on the December 31, 2021 Actuarial Valuation,¹ including the participant data and actuarial assumptions on which that valuation was based. In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2021, including the annual wage growth assumption of 3.00% for all General County and Safety County members, with the exception of the salary increases for employees covered under Western Council of Engineers (WCE) described herein.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed.

Background

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes for approximately 48 General County members (full-time equivalent) covered under WCE. All of the changes in salaries and benefits that we have reviewed in this Disclosure were provided by the County and are outlined in Exhibit 1 attached.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial

¹ We note that the results approved by the Board in the December 31, 2021 Actuarial Valuation will be used to set contribution rates for the 2023/2024 Fiscal Year.

impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

Results

After reviewing the salary increases for employees covered under WCE as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2021 Actuarial Valuation would not be sufficient to cover the costs of the salary increases for the 2023/2024 Fiscal Year for the General County membership group.

The salary increases under Items 1 through 3, as described herein, would increase the General County total employer and employee normal cost by approximately \$62,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 45% of the total normal cost,² resulting in an increase to the employer's normal cost contribution by roughly \$34,000. Additionally, the salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$846,000, which translates to an increase in the amortization payment by approximately \$60,000 in the first year, for a total employer contribution increase of about \$94,000.

Analysis

Exhibit 1 (attached) outlines the changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2021 include a 3.00% annual wage growth assumption³ that is applied to project all future salary amounts for pension purposes.

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 3 is expected to be approximately \$541,159. This is equivalent to \$11,274 each over the total 48 General WCE positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the changes, if we take the average salary increase stated above of \$11,274 and divide it by the average General WCE member salary of \$148,707 (as provided by the County), we estimate an average increase in salary of 7.58% as a result of the changes. This increase is greater than our 3.00% wage increase assumption by 4.58%. Please refer to the Results section of this letter for the contribution impact from these salary changes.

² The 45% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under WCE.

³ For the purposes of developing employer and employee contribution rate requirements, 3.00% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

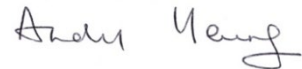
Non-Pensionable Elements of Pay

There were no non-pensionable elements of pay that were communicated to us by the County at this time. Any non-pensionable elements of pay that are agreed upon would not have any impact to the level of benefits and would not increase the employer cost of the plan.

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary

OH/hy

Enclosure

Summary of Elements of Pay – WCE

		Pensionable Elements of Pay	
Item			Estimated Amount Fiscal Year 2023/2024⁴
1	5.00% Cost-of-Living Adjustment Effective: 7/25/2023	General:	\$351,169
2	Equity & Living Wage Adjustment Effective: 7/11/2023	General:	\$166,391
3	4.00% Cost-of-Living Adjustment Effective: 6/11/2024	General:	\$23,599
		Non-Pensionable Elements of Pay	
None			

⁴ The estimated costs during Fiscal Year 2023/2024 for Items 1 through 3 were provided directly by the County.



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Section 23026 – WCE – 2024/2025 Fiscal Year**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of changes in elements of pay and their potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026.

The results presented in this letter are based on changes in elements of pay that were proposed as of the issuance of this letter. Any additional changes that may be proposed for the 2024/2025 Fiscal Year would result in a revised cost impact to be provided at that time.

The contribution impact in this letter is based on the December 31, 2022 Actuarial Valuation,¹ including the participant data and actuarial assumptions on which that valuation was based. In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2022, including the annual wage growth assumption of 3.00% for all General County and Safety County members, with the exception of the salary increases for employees covered under Western Council of Engineers (WCE) described herein.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed.

Background

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes for approximately 48 General County members (full-time equivalent) covered under WCE. All of the changes in salaries and benefits that we have reviewed in this Disclosure were provided by the County and are outlined in Exhibit 1 attached.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial

¹ We note that the results approved by the Board in the December 31, 2022 Actuarial Valuation will be used to set contribution rates for the 2024/2025 Fiscal Year.

impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

Results

After reviewing the salary increases for employees covered under WCE as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2022 Actuarial Valuation would not be sufficient to cover the costs of the salary increases for the 2024/2025 Fiscal Year for the General County membership group when measured as of December 31, 2022.

The salary increases under Items 1 through 3, as described herein, would increase the General County total employer and employee normal cost by approximately \$17,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 46% of the total normal cost,² resulting in an increase to the employer's normal cost contribution by roughly \$10,000. Additionally, the salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$230,000, which translates to an increase in the amortization payment by approximately \$16,000 in the first year, for a total employer contribution increase of about \$26,000.

Analysis

Exhibit 1 (attached) outlines the changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2022 include a 3.00% annual wage growth assumption³ that is applied to project all future salary amounts for pension purposes.

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 3 is expected to be approximately \$321,772. This is equivalent to \$6,704 each over the total 48 General WCE positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the changes, if we take the average salary increase stated above of \$6,704 and divide it by the average General WCE member salary of \$159,782 (as provided by the County), we estimate an average increase in salary of 4.20% as a result of the changes. This increase is greater than our 3.00% wage increase assumption by 1.20%. Please refer to the Results section of this letter for the contribution impact from these salary changes.

² The 46% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under WCE.

³ For the purposes of developing employer and employee contribution rate requirements, 3.00% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

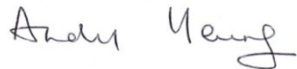
Non-Pensionable Elements of Pay

There were no non-pensionable elements of pay that were communicated to us by the County at this time. Any non-pensionable elements of pay that are agreed upon would not have any impact to the level of benefits and would not increase the employer cost of the plan.

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary

OH/hy
Enclosure

Summary of Elements of Pay – WCE

Pensionable Elements of Pay			
Item		Estimated Amount Fiscal Year 2024/2025⁴	
1	5.00% Cost-of-Living Adjustment Effective: 7/25/2023	General:	\$14,047
2	4.00% Cost-of-Living Adjustment Effective: 6/11/2024	General:	\$283,183
3	4.00% Cost-of-Living Adjustment Effective: 6/10/2025	General:	\$24,542
Non-Pensionable Elements of Pay			
None			

⁴ The estimated costs during Fiscal Year 2024/2025 for Items 1 through 3 were provided directly by the County.



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Dear Julie:

As requested, we are providing this letter with our analysis of the impact of changes in elements of pay and their potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026.

The results presented in this letter are based on changes in elements of pay that were proposed as of the issuance of this letter. Any additional changes that may be proposed for the 2025/2026 Fiscal Year would result in a revised cost impact to be provided at that time.

The contribution impact in this letter is based on the December 31, 2022 Actuarial Valuation, including the participant data and actuarial assumptions on which that valuation was based. Although the December 31, 2022 Actuarial Valuation is not going to be used to set the contribution rates for the 2025/2026 Fiscal Year,¹ it is the most recent Actuarial Valuation available at the time this request was sent to Segal, and we have therefore used that valuation to illustrate the potential cost impact of the salary increases. The results in this letter may be subject to change depending on the assumptions, methods, demographic profile and results of the December 31, 2023 Actuarial Valuation.

In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2022, including the annual wage growth assumption of 3.00% for all General County and Safety County members, with the exception of the salary increases for employees covered under Western Council of Engineers (WCE) described herein. We have also assumed that there will be no changes in the assumptions, methods and the demographic profile between the December 31, 2022 valuation and the December 31, 2023 valuation.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed.

¹ Contribution rates for the 2025/2026 Fiscal Year will be set using the December 31, 2023 valuation.

Background

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes for approximately 48 General County members (full-time equivalent) covered under WCE. All of the changes in salaries and benefits that we have reviewed in this Disclosure were provided by the County and are outlined in Exhibit 1 attached.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

Results

After reviewing the salary increases for employees covered under WCE as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2022 Actuarial Valuation would not be sufficient to cover the costs of the salary increases for the 2025/2026 Fiscal Year for the General County membership group when measured as of December 31, 2022.

The salary increases under Item 1, as described herein, would increase the General County total employer and employee normal cost by approximately \$10,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 46% of the total normal cost,² resulting in an increase to the employer's normal cost contribution by roughly \$5,000. Additionally, the salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$138,000, which translates to an increase in the amortization payment by approximately \$10,000 in the first year, for a total employer contribution increase of about \$15,000.

Analysis

Exhibit 1 (attached) outlines the changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2022 include a 3.00% annual wage growth assumption³ that is applied to project all future salary amounts for pension purposes.

² The 46% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under WCE.

³ For the purposes of developing employer and employee contribution rate requirements, 3.00% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

In Exhibit 1, the total increase in General County pensionable elements of pay for Item 1 is expected to be approximately \$294,510. This is equivalent to \$6,136 each over the total 48 General WCE positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the changes, if we take the average salary increase stated above of \$6,136 and divide it by the average General WCE member salary of \$166,173 (as provided by the County), we estimate an average increase in salary of 3.69% as a result of the changes. This increase is greater than our 3.00% wage increase assumption by 0.69%. Please refer to the Results section of this letter for the contribution impact from these salary changes.

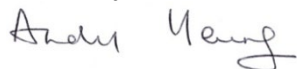
Non-Pensionable Elements of Pay

There were no non-pensionable elements of pay that were communicated to us by the County at this time. Any non-pensionable elements of pay that are agreed upon would not have any impact to the level of benefits and would not increase the employer cost of the plan.

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary

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Enclosure

Summary of Elements of Pay – WCE

Pensionable Elements of Pay

Item		Estimated Amount Fiscal Year 2025/2026 ⁴
1	4.00% Cost-of-Living Adjustment Effective: 6/10/2025	General: \$294,510

Non-Pensionable Elements of Pay

None		
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⁴ The estimated cost during Fiscal Year 2025/2026 for Item 1 was provided directly by the County.