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VIA E-MAIL

March 5, 2019

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 – SCPA – 2018/2019 Fiscal Year – REVISED

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of several proposed 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. We previously issued a letter dated September 12, 2018 on the analysis of several proposed salary changes (referred to as Items 1, 3 and 4 – 7 in Exhibit 1 attached). The result of that analysis concluded that the assumptions applied in the December 31, 2016 Valuation were sufficient to cover the cost of those proposed changes and there would be some savings to the County. This letter supersedes the information previously provided in our letter dated September 12, 2018 letter to include an additional salary change (referred to as Item 2 in Exhibit 1) proposed for the 2018/2019 Fiscal Year.

The contribution impact in this letter is based on the December 31, 2016 Actuarial Valuation, 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, 2016, including the annual wage growth assumption of 3.5% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Sonoma County Prosecutors' Association (SCPA) described herein.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed. In particular, the contribution impact presented within this letter would be mitigated to some extent if other County members do not receive the full 3.5% salary increase anticipated by the wage growth assumption. Furthermore, due to the one-time nature of some of the proposed increases, the contribution impact may be offset in future actuarial valuations.

Background

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for 49 General County members covered under SCPA. We issued our initial Disclosure letter for SCPA on September 12, 2018. Subsequent to the issuance of that letter, a further change in salary has been proposed for the 2018/2019 Fiscal Year. All of the proposed changes in salaries and benefits that we have reviewed in this revised 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 proposed salary increases for employees covered under SCPA as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2016 Valuation to develop the employer costs for the 2018/2019 Fiscal Year for the General County membership group, are not sufficient to cover the costs of the proposed salary increases for this group.

The proposed salary increases under Item 1 and Item 2, as described herein, would increase the General County total employer and employee normal cost by approximately $900 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 43% of the total normal cost[1], resulting in an increase to the employer's normal cost contribution by roughly $500. Additionally, the proposed salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by $11,000, which translates to an increase in the amortization payment by approximately $800 in the first year, for a total employer contribution increase of about $1,300.

The proposed paid parental leave under Item 3 would increase the General County total employee and employer normal cost contributions by approximately $2,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 43% of the total normal cost, resulting in an increase to the employer's normal cost contribution by roughly $1,000. Combined with the contribution increase of about $1,300 calculated above results in a total employer contribution increase of about $2,300.

We understand Item 1 in Exhibit 1 to be a one-time lump sum payment. Due to the one-time nature of this proposed change, the above costs associated with Item 1 may be offset to some extent in future actuarial valuations should the employees' salary revert back to the lower salary

[1] The 43% 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 SCPA.

amounts. However, if some Plan A members subsequently retire from SCERA with these salary increases included in their final average salary determination, then SCERA may not realize the potential cost reduction for those members.

ANALYSIS

Exhibit 1 (attached) outlines the proposed 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, 2016 includes a 3.50% annual wage growth assumption that is applied to project all future salary amounts for pension purposes.

In Exhibit 1 we have listed the three items and the associated increase in the proposed pensionable elements of pay. The total increase in General County salary for Items 1 and 2 is expected to be approximately $226,367. This is equivalent to $4,620 each over the 49 General SCPA 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 proposed changes, if we take the average salary increase stated above of $4,620 and divide it by the average General SCPA member salary of $129,579 (as provided by the County), we estimate an average increase in salary of 3.57% as a result of the proposed changes. This increase is more than our 3.50% wage increase assumption by 0.07%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Also in Exhibit 1 we have listed the estimated increase in pensionable pay for Item 3. In our December 31, 2016 valuation, the normal cost rates have been calculated assuming all members would work prospectively on a full time basis. In practice, if members subsequently take an unpaid leave then the County would recognize a normal cost contribution savings during that time (as no such contributions would be made). Under the proposed paid parental leave, a portion of the leave that would previously have been unpaid will now be paid by the County. We have estimated this increase in pay to be $12,412, as detailed in Exhibit 1. Since the total normal cost contribution for a General County member (weighted for Plan A and Plan B members) is 19.39%, then the additional total normal cost contributions as a result of this proposed increase would be approximately $2,000. Please refer to the Results section of this letter for the derivation of the employer contribution increase due to the paid parental leave.

Non-Pensionable Elements of Pay

It is our understanding that SCERA and the County have rendered a determination that Items 4 – 7 in Exhibit 1 are non-pensionable elements of pay. Therefore, these items will not have any impact on the level of benefits and will 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

EK/gxk
Enclosure

Exhibit 1

Summary of Elements of Pay – SCPA

Item	Pensionable Elements of Pay		
		Eligible Employee Count	**Estimated Amount**
1	One time lump sum	General: 49	General[2]: $176,784
2	Salary adjustment	General: 49	General[3]: $49,583
3	Paid parental leave	General: 2.5	General[4]: $12,412
	Non-Pensionable Elements of Pay		
4	8 hours of holiday time on Cesar Chavez day		
5	8 hours of floating holiday time each calendar year		
6	Increase in County's contributions for Medical Premiums		
7	Increase in County's contributions for Dental Premiums		

2 The estimated cost for Item 1 was provided by the County.

3 The estimated cost for Item 2 was provided by the County.

4 The cost for Item 3 has been estimated by Segal using the following data items and formula: (i) number of eligible employees taking this leave of 2.5 (as provided by the County) times (ii) the average General SCPA member salary of $129,579 (as provided by the County) times (iii) the ratio of the number of hours of paid parental leave to the full-time equivalent number of hours (i.e., eight 40-hour weeks over 2088 hours) times (iv) 25% (i.e., the amount of leave that would have otherwise been unpaid).