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VIA E-MAIL

March 8, 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 – SEIU – 2018/2019 Fiscal Year - REVISED**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of several 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 July 5, 2018 on the analysis of several salary changes (referred to as Items 1-2 and 4-9 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 changes and there would be some savings to the County. This letter supersedes the information previously provided in our July 5, 2018 letter to include an additional salary change (referred to as Item 3 in Exhibit 1) proposed for the remainder of the 2018/2019 Fiscal Year.

The results presented in this letter are based on changes in elements of pay that were bargained as of the issuance of this letter. Any additional changes that may be bargained for the 2018/2019 Fiscal Year would result in a revised cost impact to be provided at that time.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes for approximately 1,893¹ General County members covered under Service Employees' International Union (SEIU). We issued our initial Disclosure letter for SEIU on July 5, 2018. Subsequent to the issuance of that letter, a further change in salary has been proposed for the remainder of the 2018/2019 Fiscal Year. All of the 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.

¹ This excludes 562 extra-help staff who are not members of SCERA.

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 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 SEIU 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 sufficient to cover the costs of the salary increases under Items 1 through 3 for this group. Furthermore, the savings from the salary increases from these items are sufficient to cover the increase in the County's normal cost contributions due to the paid parental leave under Item 4.

The salary increases under Items 1 through 3, as described herein, would decrease the General County total employer and employee normal cost by approximately \$70,000 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 cost², resulting in a decrease to the employer's normal cost contribution by roughly \$40,000. Additionally, the salary increases would decrease the General County Unfunded Actuarial Accrued Liability (UAAL) by \$907,000, which translates to a decrease in the amortization payment by approximately \$65,000 in the first year, for a total employer contribution decrease of about \$105,000.

The paid parental leave would increase the General County total employee and employer normal cost contributions by approximately \$95,000 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 \$54,000. The contribution decrease of about \$105,000 calculated above is sufficient to cover the increase in employer normal cost contributions due to the paid parental leave for a net total employer contribution decrease of about \$51,000.

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.

² 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 SEIU.

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 pensionable elements of pay. The total increase in General County salary for Items 1 through 3 is expected to be approximately \$3,871,941. This is equivalent to \$2,045 each over the 1,893 General SEIU 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 \$2,045 and divide it by the average General SEIU member salary of \$63,922 (as provided by the County), we estimate an average increase in salary of 3.20% as a result of the changes. This increase is less than our 3.50% wage increase assumption by 0.30%. Please refer to the Results section of this letter for the contribution decrease from these salary changes.

Also in Exhibit 1 we have listed the estimated increase in pensionable pay for Item 4. 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 \$489,827, 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 increase would be approximately \$95,000. 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 5 – 9 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.

Ms. Julie Wyne
March 8, 2019
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Please let us know if you have any questions on this information.

Sincerely,

A handwritten signature in dark ink, appearing to read "Andy Yeung", with a long horizontal flourish extending to the right.

Andy Yeung

EK/gxk
Enclosure

Exhibit 1

Summary of Elements of Pay – SEIU

Item	Pensionable Elements of Pay		
		Eligible Employee Count	Estimated Amount
1	One time lump sum of \$1,905	General ³ : 1,893 or 1,877.3 FTE	General ⁴ : \$3,575,941
2a	Shift differential premium	General ³ : 9	General ⁴ : \$8,000
2b	Heavy truck operator premium	General ³ : 30	General ⁴ : \$8,000
3	Salary adjustment	General ³ : 118.5 FTE	General ⁴ : \$280,000
4	Paid parental leave	General ³ : 100	General ⁵ : \$489,827
Non-Pensionable Elements of Pay			
5	8 hours of holiday time on Cesar Chavez day		
6	8 hours of floating holiday time each calendar year		
7	Increase in Compensatory Time bank maximum number of hours		
8	Increase in County's contributions for Medical Premiums		
9	Increase in County's contributions for Dental Premiums		

³ We understand all eligible SEIU are currently assigned to a General position even though 10 employees have had some time in a Safety position.

⁴ The estimated costs for Items 1 through 3 were provided directly by the County.

⁵ The cost for Item 4 has been estimated by Segal using the following data items and formula: (i) number of eligible employees taking this leave of 100 (as provided by the County) times (ii) the average General SEIU member salary of \$63,922.45 (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) 50% (i.e., the amount of leave that would have otherwise been unpaid).



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**Re: Sonoma County Employees' Retirement Association (SCERA)
Disclosure under Government Code Section 31515.5 in compliance with
Section 23026 – SEIU – 2019/2020 Fiscal Year**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of a proposed change in elements of pay and its 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 proposed changes in elements of pay that were bargained as of the issuance of this letter. Any additional proposed changes that may be bargained for the 2019/2020 Fiscal Year would result in a revised cost impact to be provided at that time.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for 118.5 General County members covered under Service Employees' International Union (SEIU). The proposed 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 proposed salary increases for employees covered under SEIU as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2017 Valuation to develop the employer costs for the 2019/2020 Fiscal Year for

the General County membership group, are sufficient to cover the costs of the proposed salary increases for this group.

The proposed salary increases under Item 1, as described herein, would decrease the General County total employer and employee normal cost by approximately \$687,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 44% of the total normal cost¹, resulting in a decrease to the employer's normal cost contribution by roughly \$385,000. Additionally, the proposed salary increases would decrease the General County Unfunded Actuarial Accrued Liability (UAAL) by \$9,035,000, which translates to a decrease in the amortization payment by approximately \$644,000 in the first year, for a total employer contribution decrease of about \$1,029,000.

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, 2017 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 one item and the associated increase in the proposed pensionable elements of pay. The total increase in General County salary for Item 1 is expected to be approximately \$960,000. This is equivalent to \$485 each over the total 1,979.5 General SEIU 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 \$485 and divide it by the average General SEIU member salary of \$66,027 (as provided by the County), we estimate an average increase in salary of 0.73% as a result of the proposed changes. This increase is less than our 3.50% wage increase assumption by 2.77%. Please refer to the Results section of this letter for the contribution decrease 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.

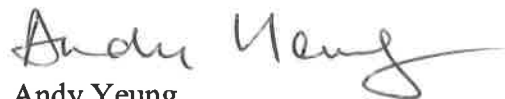
¹ The 44% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under SEIU.

Ms. Julie Wyne
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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,

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Andy Yeung

EK/gxk
Enclosure

Exhibit 1

Summary of Elements of Pay – SEIU

Item	Pensionable Elements of Pay		
		Eligible Employee Count	Estimated Amount
1	Salary adjustment	General:118.5	General ² : \$960,000
	Non-Pensionable Elements of Pay		
	None		

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