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**Andy Yeung ASA, MAAA, FCA, EA**  
Vice President & Actuary  
ayeung@segalco.com

VIA E-MAIL

May 16, 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 – DSLEM – 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 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 August 6, 2018 on the analysis of several salary changes (referred to as Items 1 and 6-11 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 letter dated August 6, 2018 (Items 1 and 6-11 in Exhibit 1 approved by the Board of Supervisors on August 28, 2018) to include additional salary changes (referred to as Items 2-5 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.

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 3.50% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Deputy Sheriff's Law Enforcement Management Unit (DSLEM) described herein.

## **BACKGROUND**

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for approximately 14 Safety County members covered under DSLEM. We issued our initial Disclosure letter for DSLEM on August 6, 2018. Subsequent to the issuance of that letter, further changes in salary have been proposed for the remainder of the 2018/2019 Fiscal Year. All of the proposed changes in salaries and benefits that we have reviewed 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 DSLEM 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 Safety County membership group are sufficient to cover the costs of the proposed salary increases under Items 1 through 5 for this group. Further, the savings from the proposed salary increases are sufficient to cover the increase in the County's normal cost contributions due to the paid parental leave under Item 6.

The salary increases under Items 1 through 5, as described herein, would decrease the Safety County total employer and employee normal cost by approximately \$4,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost<sup>1</sup>, resulting in a decrease to the employer's normal cost contribution by roughly \$2,000. Additionally, the proposed salary increases would decrease the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$40,000, which translates to a decrease in the amortization payment by approximately \$3,000 in the first year, for a total employer contribution decrease of about \$5,000.

The paid parental leave under Item 6 was estimated to increase the Safety County total employee and employer normal cost contributions by approximately \$2,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost<sup>1</sup>, resulting in an increase to the employer's normal cost contribution by roughly \$1,000. The contribution decrease of about \$5,000 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 \$4,000.

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<sup>1</sup> The 35% of the total normal cost expected to be paid by the Safety 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 DSLEM.

## **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, 2016 includes a 3.50% annual wage growth assumption that is applied to project all future salary amounts for pension purposes.

In Exhibit 1, the total increase in Safety County pensionable elements of pay for Items 1 through 5 is expected to be approximately \$67,285. This is equivalent to \$4,806 each over the 14 Safety DSLEM 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 \$4,806 and divide it by the average Safety DSLEM member salary of \$166,505 (as provided by the County), we estimate an average increase in salary of 2.89% as a result of the proposed changes. This increase is less than our 3.50% wage increase assumption by 0.61%. 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 6. 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 approved 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 \$6,379, as detailed in Exhibit 1. Since the total normal cost contribution for a Safety County member (weighted for Plan A and Plan B members) is 26.40%, then the additional total normal cost contributions as a result of this approved 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**

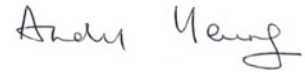
It is our understanding that SCERA and the County have rendered a determination that Items 7 – 11 in Exhibit 1 are non-pensionable elements of pay. Therefore, these items will not have any impact on the level of benefits and will not increase the employer cost of the plan.

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  
May 16, 2019  
Page 4

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

Sincerely,

A handwritten signature in cursive script that reads "Andy Yeung".

Andy Yeung

EK/bbf

Enclosure

## Exhibit 1

### Summary of Elements of Pay – DSLEM

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2018/2019 <sup>2</sup>
1	One time lump sum	Safety: \$61,483
2	Cost-of-Living Adjustment – New Effective: 6/4/2019	Safety: \$3,203
3	Equities – New Effective: 5/21/2019	Safety: \$1,285
4	Cash Allowance Roll-In – New Effective: 5/21/2019	Safety: \$502
5	Management Certificate – New Effective: 5/21/2019	Safety: \$812
6	Paid parental leave	Safety <sup>3</sup> : \$6,379
<b>Non-Pensionable Elements of Pay</b>		
7	8 hours of holiday time on Cesar Chavez day	
8	8 hours of floating holiday time each calendar year	
9	Increase in County's contributions for Medical Premiums	
10	Increase in County's contributions for Dental Premiums	
11	Increase in Maximum Accumulated Vacation Hours	

<sup>2</sup> The estimated costs during Fiscal Year 2018/2019 for Items 1 through 5 were provided directly by the County.

<sup>3</sup> The cost for Item 6 has been estimated by Segal using the following data items and formula: (i) number of eligible employees taking this leave of 1 (as provided by the County) times (ii) the average Safety DSLEM member salary of \$166,505 (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).



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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 – DSLEM – 2019/2020 Fiscal Year**

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.

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 2019/2020 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, 2017 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, 2017, including the annual wage growth assumption of 3.50% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Deputy Sheriff's Law Enforcement Management Unit (DSLEM) 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 present within this letter would be mitigated to some extent if other County members do not receive the full 3.50% salary increase anticipated by the wage growth assumption.

## **BACKGROUND**

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for 14<sup>1</sup> Safety County members covered under DSLEM. 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 proposed salary increases for employees covered under DSLEM 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 Safety County membership group are not sufficient to cover the costs of the proposed salary increases for this group.

The salary increases under Items 1 through 7, as described herein, would increase the Safety County total employer and employee normal cost by approximately \$16,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost<sup>2</sup>, resulting in an increase to the employer's normal cost contribution by roughly \$10,000. Additionally, the proposed salary increases would increase the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$221,000, 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 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.

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<sup>1</sup> According to the County, this is based on budgeted full-time equivalent positions for Fiscal Year 2018/2019.

<sup>2</sup> The 35% of the total normal cost expected to be paid by the Safety 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 DSLEM.

In Exhibit 1 we have listed the seven items and the associated increases in the proposed pensionable elements of pay. The total increase in Safety County salary for Items 1 through 7 is expected to be approximately \$146,555. This is equivalent to \$10,468 each over the total 14 Safety DSLEM 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 \$10,468 and divide it by the average Safety DSLEM member salary of \$174,967 (as provided by the County), we estimate an average increase in salary of 5.98% as a result of the proposed changes. This increase is greater than our 3.50% wage increase assumption by 2.48%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

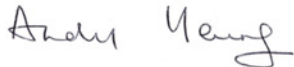
### **Non-Pensionable Elements of Pay**

It is our understanding that SCERA and the County have rendered a determination that Item 8 in Exhibit 1 is a non-pensionable element of pay. Therefore, this item 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,

A handwritten signature in blue ink that reads "Andy Yeung". The signature is written in a cursive, flowing style.

Andy Yeung

EK/bbf  
Enclosure



## Exhibit 1

### Summary of Elements of Pay – DSLEM

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2019/2020 <sup>3</sup>
1	Cost-of-Living Adjustment Effective: 6/4/2019	Safety: \$80,084
2	Equities Effective: 5/21/2019	Safety: \$15,415
3	Cash Allowance Roll-In Effective: 5/21/2019	Safety: \$6,024
4	Management Certificate Effective: 5/21/2019	Safety: \$9,738
5	Cost-of-Living Adjustment Effective: 4/21/2020	Safety: \$13,697
6	Equities Effective: 4/7/2020	Safety: \$20,342
7	Cash Allowance Roll-In Effective: 4/7/2020	Safety: \$1,255
	Non-Pensionable Elements of Pay	
8	Increase in County's contributions for Medical Premiums	

<sup>3</sup> The estimated costs during Fiscal Year 2019/2020 for Items 1 through 7 were provided directly by the County.



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**Re: Sonoma County Employees' Retirement Association (SCERA)  
Disclosure under Government Code Section 31515.5 in compliance with  
Section 23026 – DSLEM – 2020/2021 Fiscal Year**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of proposed changes in elements of pay and the 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 bargained as of the issuance of this letter. Any additional changes that may be bargained for the 2020/2021 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, 2018 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, 2018, including the annual wage growth assumption of 3.25% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Deputy Sheriff's Law Enforcement Management Unit (DSLEM) 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 present within this letter would be mitigated to some extent if other County members do not receive the full 3.25% salary increase anticipated by the wage growth assumption.

## **BACKGROUND**

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for 14 Safety County members covered under DSLEM. 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. The changes in salaries include an estimated 2.70% cost-of-living adjustment effective April 6, 2021, as provided by the County.<sup>1</sup> The results in this letter are subject to change if the actual cost-of-living adjustment differs from 2.70%.

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 DSLEM as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation to develop the employer costs for the 2020/2021 Fiscal Year for the Safety County membership group are not sufficient to cover the costs of the proposed salary increases for this group.

The salary increases under Items 1 through 6, as described herein, would increase the Safety County total employer and employee normal cost by approximately \$31,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost<sup>2</sup>, resulting in an increase to the employer's normal cost contribution by roughly \$20,000. Additionally, the proposed salary increases would increase the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$396,000, which translates to an increase in the amortization payment by approximately \$28,000 in the first year, for a total employer contribution increase of about \$48,000.

## 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.

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<sup>1</sup> We understand that the cost-of-living adjustment effective April 6, 2021 will be based on the lesser of the Consumer Price Index-Urban Consumers for the San Francisco-Oakland-Hayward Area as of December for the preceding year or the County Secured Property Tax Growth year over year divided by 1.5, then applied to a sliding scale where a value of 2.00% results in an effective cost-of-living adjustment of 1.75%, and a value of 4.00% results in an effective cost-of-living adjustment of 3.65%. The County has provided us with a historical calculation of the County Secured Property Tax Growth rate, and they have asked for input on an alternative assumption to consider in lieu of their 2.70% cost-of-living adjustment assumption (which we note to be the average of the above 1.75% and 3.65% adjustments). As we are not an expert in how changes in price inflation are to be taken into consideration in the County's Secured Property Tax Growth rate calculations, we are not qualified to express any opinion on what inflation assumption to use. We have therefore used the 2.70% cost-of-living adjustment assumption provided by the County.

<sup>2</sup> The 35% of the total normal cost expected to be paid by the Safety 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 DSLEM.

### **Pensionable Elements of Pay**

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2018 includes a 3.25% annual wage growth assumption<sup>3</sup> that is applied to project all future salary amounts for pension purposes.

In Exhibit 1 we have listed the six items and the associated increase in the proposed pensionable elements of pay. The total increase in Safety County salary for Items 1 through 6 is expected to be approximately \$192,373. This is equivalent to \$13,741 each over the total 14 Safety DSLEM 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 \$13,741 and divide it by the average Safety DSLEM member salary of \$182,070 (as provided by the County), we estimate an average increase in salary of 7.55% as a result of the proposed changes. This increase is greater than our 3.25% wage increase assumption by 4.30%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

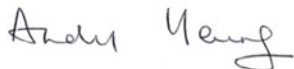
### **Non-Pensionable Elements of Pay**

It is our understanding that SCERA and the County have rendered a determination that Item 7 in Exhibit 1 is a non-pensionable element of pay. Therefore, this item 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

MAM/bbf  
Enclosure

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<sup>3</sup> For the purposes of developing employer and employee contribution rate requirements, 3.25% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

## Exhibit 1

### Summary of Elements of Pay – DSLEM

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2020/2021 <sup>4</sup>
1	Cost-of-Living Adjustment Effective: 4/21/2020	Safety: \$75,336
2	Equities Effective: 4/7/2020	Safety: \$85,438
3	Cash Allowance Roll-In Effective: 4/7/2020	Safety: \$5,271
4	Estimated 2.70% Cost-of-Living Adjustment Effective: 4/6/2021	Safety: \$17,085
5	Equities Effective: 3/23/2021	Safety: \$7,988
6	Cash Allowance Roll-In Effective: 4/6/2021	Safety: \$1,255
	Non-Pensionable Elements of Pay	
7	Increase in County's contributions for Medical Premiums	

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<sup>4</sup> The estimated costs during Fiscal Year 2020/2021 for Items 1 through 6 were provided directly by the County.



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May 16, 2019

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**Re: Sonoma County Employees' Retirement Association (SCERA)  
Disclosure under Government Code Section 31515.5 in compliance with  
Section 23026 – DSLEM – 2021/2022 and 2022/2023 Fiscal Years**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of proposed changes in elements of pay and the 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 bargained as of the issuance of this letter. Any additional changes that may be bargained for the 2021/2022 and 2022/2023 Fiscal Years would result in a revised cost impact to be provided at that time.

The contribution impacts in this letter are based on the December 31, 2018 Actuarial Valuation, including the participant data and actuarial assumptions on which that valuation was based. Although the December 31, 2018 Actuarial Valuation is not going to be used to set the contribution rates for the 2021/2022 and 2022/2023 Fiscal Years<sup>1</sup>, it is the most recent Actuarial Valuation available at the time of this writing, and we have therefore used that valuation to illustrate the potential cost impact of the proposed 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, 2019 and 2020 Actuarial Valuations.

In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2018, including the annual wage growth assumption of 3.25% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Deputy Sheriff's Law Enforcement Management Unit (DSLEM) described herein. We have also assumed that there will be no changes in the

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<sup>1</sup> Contribution rates for the 2021/2022 and 2022/2023 Fiscal Years will be set using the December 31, 2019 and 2020 valuations, respectively.

assumptions, methods and the demographic profile between the December 31, 2018 valuation and the December 31, 2019 and 2020 valuations.

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 present within this letter would be mitigated to some extent if other County members do not receive the full 3.25% salary increase anticipated by the wage growth assumption.

## **BACKGROUND**

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for 14 Safety County members covered under DSLEM. 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. The changes in salaries include an estimated 2.70% cost-of-living adjustment effective April 6, 2021,<sup>2</sup> and an estimated 3.00% cost-of-living adjustment effective April 5, 2022,<sup>3</sup> as provided by the County. The results in this letter are subject to change if the actual cost-of-living adjustments differ from 2.70% or 3.00%.

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.

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<sup>2</sup> We understand that the cost-of-living adjustment effective April 6, 2021 will be based on the lesser of the Consumer Price Index-Urban Consumers for the San Francisco-Oakland-Hayward Area as of December for the preceding year or the County Secured Property Tax Growth year over year divided by 1.5, then applied to a sliding scale where a value of 2.00% results in an effective cost-of-living adjustment of 1.75%, and a value of 4.00% results in an effective cost-of-living adjustment of 3.65%. The County has provided us with a historical calculation of the County Secured Property Tax Growth rate, and they have asked for input on an alternative assumption to consider in lieu of their 2.70% cost-of-living adjustment assumption (which we note to be the average of the above 1.75% and 3.65% adjustments). As we are not an expert in how changes in price inflation are to be taken into consideration in the County's Secured Property Tax Growth rate calculations, we are not qualified to express any opinion on what inflation assumption to use. We have therefore used the 2.70% cost-of-living adjustment assumption provided by the County.

<sup>3</sup> We understand that the cost-of-living adjustment effective April 5, 2022 will be based on the lesser of the Consumer Price Index-Urban Consumers for the San Francisco-Oakland-Hayward Area as of December for the preceding year or the County Secured Property Tax Growth year over year divided by 1.5. The County has provided us with a historical calculation of the County Secured Property Tax Growth rate, and they have asked for input on an alternative assumption to consider in lieu of their 3.00% cost-of-living adjustment assumption. As we are not an expert in how changes in price inflation are to be taken into consideration in the County's Secured Property Tax Growth rate calculations, we are not qualified to express any opinion on what inflation assumption to use. We have therefore used the 3.00% cost-of-living adjustment assumption provided by the County.

## RESULTS

### Fiscal Year 2021/2022

After reviewing the proposed salary increases for employees covered under DSLEM as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation would not be sufficient to cover the costs of the proposed salary increases in Fiscal Year 2021/2022 for the Safety County group when measured as of December 31, 2018.

The salary increases under Items 1 through 4 (Fiscal Year 2021/2022), as described herein, would increase the Safety County total employer and employee normal cost by approximately \$9,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost<sup>4</sup>, resulting in an increase to the employer's normal cost contribution by roughly \$6,000. Additionally, the proposed salary increases would increase the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$113,000, which translates to an increase in the amortization payment by approximately \$8,000 in the first year, for a total employer contribution increase of about \$14,000.

### Fiscal Year 2022/2023

After reviewing the proposed salary increases for employees covered under DSLEM as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation would be sufficient to cover the costs of the proposed salary increases in Fiscal Year 2022/2023 for the Safety County group when measured as of December 31, 2018.

The salary increase under Item 5 (Fiscal Year 2022/2023), as described herein, would decrease the Safety County total employer and employee normal cost by approximately \$7,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost, resulting in a decrease to the employer's normal cost contribution by roughly \$4,000. Additionally, the proposed salary increases would decrease the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$85,000, which translates to a decrease in the amortization payment by approximately \$6,000 in the first year, for a total employer contribution decrease of about \$10,000.

## 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.

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<sup>4</sup> The 35% of the total normal cost expected to be paid by the Safety 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 DSLEM.



### **Pensionable Elements of Pay**

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2018 includes a 3.25% annual wage growth assumption<sup>5</sup> that is applied to project all future salary amounts for pension purposes.

In Exhibit 1 we have listed the five items and the associated increase in the proposed pensionable elements of pay.

#### Fiscal Year 2021/2022

The total increase in Safety County salary for Items 1 through 4 (Fiscal Year 2021/2022) is expected to be approximately \$120,161. This is equivalent to \$8,583 each over the total 14 Safety DSLEM 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 \$8,583 and divide it by the average Safety DSLEM member salary of \$195,061 (as provided by the County), we estimate an average increase in salary of 4.40% as a result of the proposed changes. This increase is greater than our 3.25% wage increase assumption by 1.15%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

#### Fiscal Year 2022/2023

The total increase in Safety County salary for Item 5 (Fiscal Year 2022/2023) is expected to be approximately \$69,320. This is equivalent to \$4,951 each over the total 14 Safety DSLEM 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 \$4,951 and divide it by the average Safety DSLEM member salary of \$204,346 (as provided by the County), we estimate an average increase in salary of 2.42% as a result of the proposed changes. This increase is less than our 3.25% wage increase assumption by 0.83%. Please refer to the Results section of this letter for the contribution decrease from these salary changes.

### **Non-Pensionable Elements of Pay**

It is our understanding that SCERA and the County have rendered a determination that Item 6 in Exhibit 1 is a non-pensionable element of pay. Therefore, this item 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.

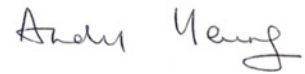
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<sup>5</sup> For the purposes of developing employer and employee contribution rate requirements, 3.25% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

Ms. Julie Wyne  
May 16, 2019  
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Please let us know if you have any questions on this information.

Sincerely,

A handwritten signature in cursive script that reads "Andy Yeung".

Andy Yeung

MAM/bbf  
Enclosure

## Exhibit 1

### Summary of Elements of Pay – DSLEM

Item	Pensionable Elements of Pay	
		<b>Estimated Amount Fiscal Year 2021/2022<sup>6</sup></b>
1	Estimated 2.70% Cost-of-Living Adjustment Effective: 4/6/2021	Safety: \$71,758
2	Equities Effective: 3/23/2021	Safety: \$26,627
3	Cash Allowance Roll-In Effective: 4/6/2021	Safety: \$5,271
4	Estimated 3.00% Cost-of-Living Adjustment Effective: 4/5/2022	Safety: \$16,505
		<b>Estimated Amount Fiscal Year 2022/2023<sup>6</sup></b>
5	Estimated 3.00% Cost-of-Living Adjustment Effective: 4/5/2022	Safety: \$69,320
	<b>Non-Pensionable Elements of Pay</b>	
6	Increase in County's contributions for Medical Premiums	

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<sup>6</sup> The estimated costs during Fiscal Year 2021/2022 for Items 1 through 4 and during Fiscal Year 2022/2023 for Item 5 were provided directly by the County.