SCERA Actuarial Valuation 101

- Every year after the close of the Plan year, which is December 31st, SCERA's Actuary, Segal Consulting, performs an actuarial valuation where they compare the Plan's experience for that year to the assumptions (salary growth, investment earnings, mortality, etc.).
- The valuation is usually received by SCERA in late April and brought to the Retirement Board in early May for discussion and approval.
- The purpose of the valuation is to calculate the liability of the Plan as of the date of the valuation in order to set contribution rates to properly fund both the normal cost and the Unfunded Actuarial Accrued Liability (UAAL) cost.
- The normal cost is the cost of another year of benefit for each active member of the Plan. The UAAL cost is the annual amortization payment on the unfunded liability for each layer of amortization.
- A layer of amortization is created each year in the amount of either the gain or loss experienced for that year resulting from comparing the plan's actual experience to what SCERA assumed was going to happen with things like the annual payroll growth, mortality of the members and beneficiaries, retirement rates, and how much the plan earned or lost on its investments, among other things.
- The gain or loss for each is amortized over a closed 20-year period with a resulting annual amortization payment. A closed amortization period means that each year the remaining payments towards the original loss or recognition of the gain gets smaller by one year.
- The actuarial valuation sets contribution rates for the fiscal year that starts 18 months from the end of the Plan year. For example, the 12-31-23 valuation sets contribution rates for FY 2025/26. SCERA does this so that the County, Court and Sonoma Valley Fire District have time to budget for upcoming contribution rate changes.
- When contribution rates rise, the 18-month delay will result in increased UAAL, and conversely when rates go down, the UAAL is decreased. It is typically a very small amount.

Specific points regarding the 12-31-23 actuarial valuation

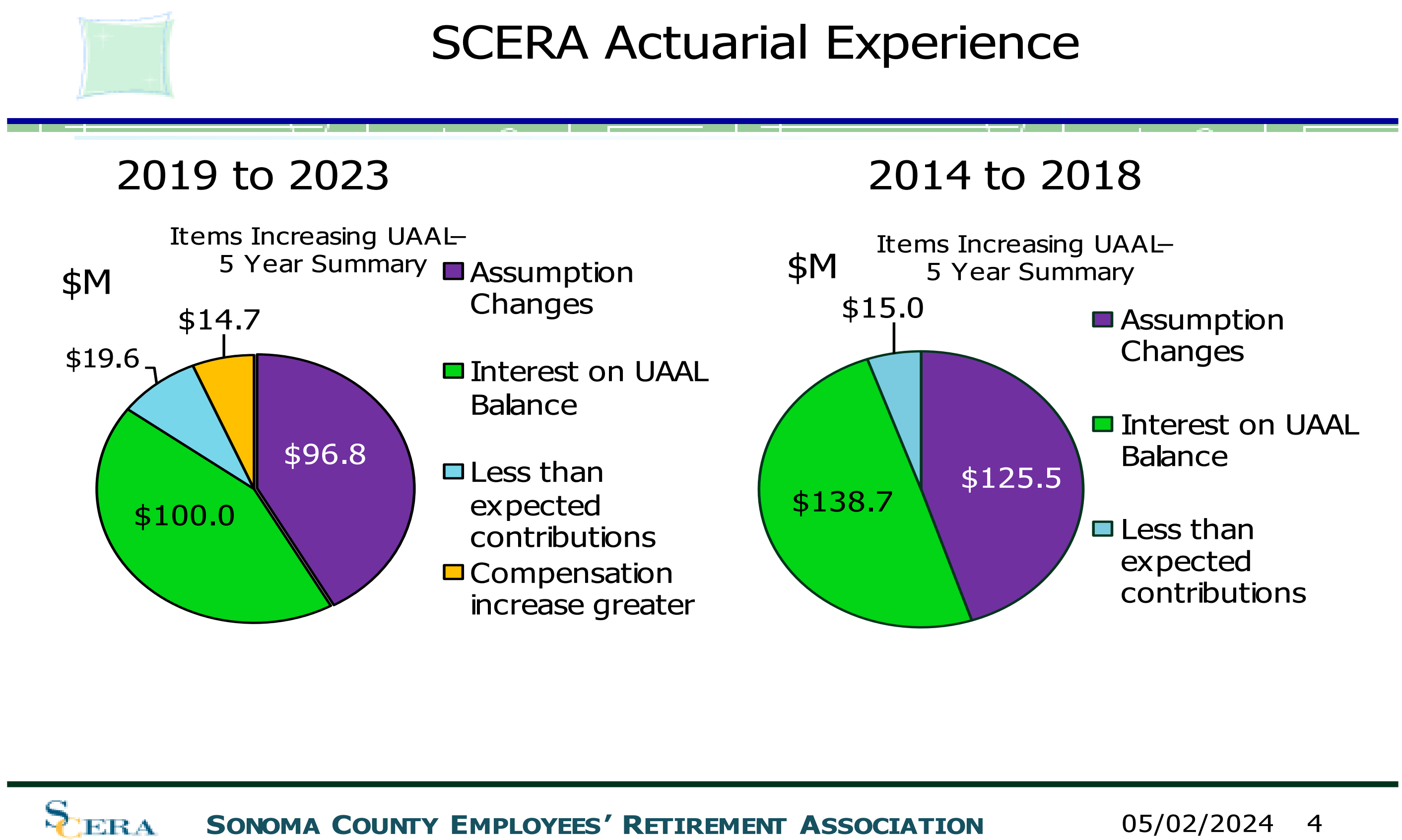
- SCERA's valuation value funded ratio (which is the ratio of valuation value assets to liabilities) increased from 92.4% to 93.8%. A valuation value of assets means that the actuary calculates the asset value using smoothed investment returns (market investment returns that are recognized over a five-year period in 20% increments).

- SCERA's market value funded ratio increased from 88.5% to 93.3%.
- The major causes of the increase in funded ratio were investment returns greater than the assumed investment return rate, the County of Sonoma's additional UAAL payments and the over collected contributions from the Sonoma Valley Fire District.
- The UAAL decreased from $271.6 million to $229.5 million.
- Plan experience resulted in an actuarial gain of $16.5 million which impacted the average employer contribution rate, decreasing it from 20.92% of payroll to 20.16% of payroll. (We reported 21.25% last year which was based upon last year's projected payroll. 20.92% is based on actual payroll). This contribution rate is an average of the three employers' contribution rates.
- The impact on the average member contribution rate was a decrease from 9.90% to 9.87% of payroll. (SCERA reported 10.11% last year based upon last year's projected payroll. 9.90% is based upon actual payroll). This contribution rate is an average of the age-based rates paid by the Legacy Plan A members and the flat rate paid by the PEPRA Plan B members.
- For specific contribution rate impacts please refer to the actuarial valuation itself.
- Each year the valuation contains a reconciliation starting with the prior year's UAAL and ending with the current year's UAAL. This year it is found on page 29 and it shows that we received all of the normal cost contribution and UAAL cost contribution for the year, as well as an annual interest payment on the UAAL. It then shows the result of our experience as compared to our assumptions. It is an informative page.
- Over the past five years, the largest items increasing the UAAL have been the changes to actuarial assumptions, interest on the UAAL balance, salary growth larger than assumed and less than expected contributions. Investments over this five-year period resulted in a gain of $186.4M and the County's additional UAAL payment resulted in a gain of $19.2M. See the following slides from the summary report provided to the Board.

The actuarial valuation can be found at http://scretire.org/Financial/Actuarial-Reports/

SCERA Actuarial Analysis of Financial Experience

(K$)	2023	2022	2021	2020	2019	5 Year Total
Beginning of the Year UAAL Liability (Surplus)	271592	244546	282715	332031	404732	
Source of Actuarial (Gain) Loss:						
Compensation Increase Greater/(Less) than Expected	24788	12509	(5243)	17286	(34651)	14689
Investment Experience recognized	(53266)	39826	(99099)	(41110)	(32718)	(186367)
Other Experience	11300	(1211)	(7266)	(983)	(2786)	(946)
(Greater)/Less than Expected Contributions	5206	4298	(1976)	(255)	12332	19605
Composite (Gain) Loss for the Year - Total	(11,972)	55422	(113584)	(25062)	(57823)	(153019)
Other Items Impacting UAAL:						
Assumption Change (Economic and Demographic)			96768			96768
Interest Accrual on UAAL Balance	17038	15353	18586	22003	27009	99989
County's Additional UAAL Payment	(4450)	(5795)	(1873)	(7128)		(19246)
SVFD Additional Contributions	(62)					(62)
Expected UAAL Contribution Payment	(42606)	(37934)	(38066)	(39129)	(41887)	(199622)
Other Items Impacting UAAL - Total	(30080)	(28376)	75415	(24254)	(14878)	(22173)
End of the Year UAAL Liability (Surplus)	229540	271592	244546	282715	332031	



SCERA Member Information as of December 31, 2023

- Of the 3,580 active General members, 1,283 are in Plan A (Legacy) and 2,297 are in Plan B (PEPRA), which means that roughly 64% of SCERA active General members are in the PEPRA Plan.

- Of the 662 Active Safety members, 327 are in Plan A (Legacy) and 335 are in Plan B (PEPRA), which means that roughly 50% of the active Safety members are in the PEPRA Plan.

- The average annual retirement benefit for all General retired Plan A (Legacy) retirees is $41,864 with 17.3 average years of service at retirement. The average annual retirement benefit for all General Plan B (PEPRA) retirees is $14,413 with 6.9 average years of service. The average annual retirement benefit for all General Pre-Plan A retirees is $18,553 with 14.3 average years of service.

- The average annual retirement benefit for all Safety retired Plan A (Legacy) retirees is $61,345 with 18.2 average years of service at retirement. The average annual retirement benefit for all Safety Plan B (PEPRA) retirees is $42,899 with 6.9 average years of service. The average annual retirement benefit for all Safety Pre-Plan A retirees is $37,688 with 16.2 average years of service.

- The average age at retirement for all General retirees is 58.2 years old and for all Safety retirees is 50.9.
- The average annual retirement benefit for just those retirees who retired in 2023 for General Plan A (Legacy) is $49,194 with 17.2 average years of service and for General Plan B (PEPRA) is $17,075 with 7.9 average years of service.
- The average annual retirement benefit for just those retirees who retired in 2023 for Safety Plan A (Legacy) is $68,887 with 16.6 average years of service and for Safety Plan B (PEPRA) is $46,163 with 6.4 average years of service.
- The average age at retirement for new 2023 General retirees is 60.3 years old and for new 2023 Safety retirees is 49.2.

Specific Points regarding the 2018 to 2020 Experience Study (Effective January 1, 2022)

- Beginning January 1, 2022, SCERA is assuming investment earnings of 6.75% which includes a real rate of return expectation of 5.11% minus administrative and investment expenses of .70% and a risk adjustment of .16%, plus an inflation expectation of 2.50%.
- The real rate of return expectation is what we expect to get from our target asset allocation (where we invest our money, like fixed income, equities, real estate, etc.) over and above inflation and deducting expenses and a risk adjustment. The risk adjustment is used to reflect the potential risk of shortfalls in achieving the return assumption.
- SCERA is assuming annual salary growth from inflationary increases plus across the board pay increases of 3.00%. SCERA also assumes that individual salaries will increase as employees advance in their career. These are called merit and promotion increases and they are in addition to the annual salary growth assumption.
- SCERA adopted a Benefit-Weighted mortality table with mortality improvements projected generationally. This approach combines the generational approach with a benefit weighted scale to capture the mortality improvements that accompany the higher likelihood of getting medical care when retirees and beneficiaries receive a retirement benefit. The likelihood increases with the amount of the retirement benefit.
- There are other assumption changes in this report, which can be accessed at http://scretire.org/Financial/Actuarial-Reports/.