

Sonoma County Employees' Retirement Association

Risk Assessment

**Based on the Actuarial Valuation and Review of the
Plan as of December 31, 2022**

June 22, 2023

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Section 1: Introduction and Executive Summary

Introduction

The purpose of this report is to assist the Board of Retirement,¹ participating employers and members, and other stakeholders to better understand and assess the risk profile of the Association, as well as the particular risks inherent in using a fixed set of actuarial assumptions in preparing the results in our December 31, 2022 funding valuation for Sonoma County Employees' Retirement Association ("SCERA", "the Association", or "the Plan").

The results included in our December 31, 2022 funding valuation report for the Plan were prepared based on a fixed set of economic and non-economic actuarial assumptions under the premise that future experience of SCERA would be consistent with those assumptions. While those assumptions are generally reviewed every three years (with the assumptions from the last triennial experience study adopted by the Board of Retirement for use starting with the December 31, 2021 valuation), there is a risk that emerging results may differ significantly as actual experience is fluid and will not completely track current assumptions.

It is important to note that this actuarial valuation is based on plan assets as of December 31, 2022. The plan's funded status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. Moreover, this actuarial valuation does not include any possible short-term or long-term impacts on mortality of the covered population that may emerge after December 31, 2022 due to COVID-19. Segal is available to prepare projections of potential outcomes of market conditions and other demographic experience upon request.

Actuarial Standard of Practice on Risk Assessment

The Actuarial Standards Board approved the Actuarial Standard of Practice No. 51 (ASOP 51) regarding risk assessment when performing a funding valuation and it was effective with SCERA's December 31, 2018 actuarial valuation for benefits provided by the Plan. ASOP 51 requires actuaries to identify and assess risks that "may reasonably be anticipated to significantly affect the plan's future financial condition." Examples of key risks listed that are particularly relevant to SCERA are asset/liability mismatch risk, investment risk, and longevity or other demographic risks. ASOP 51 also requires an actuary to consider if there is any ongoing contribution risk to the plan; however, it does not require the actuary to evaluate the particular ability or willingness of contributing entities to make contributions when due, nor does it require the actuary to assess the likelihood or consequences of future changes in applicable law.

¹ This risk report has been prepared at the request of the Board of Retirement to assist in administering the Plan. This risk report may not otherwise be copied or reproduced in any form without the consent of the Board of Retirement and may only be provided to other parties in its entirety, unless expressly authorized by Segal. The measurements shown in this risk report may not be applicable for other purposes.

Section 1: Introduction and Executive Summary

The actuary's assessment can be strictly a qualitative discussion about potential adverse experience and the possible effect on future results, but it may also include quantitative numerical demonstrations where informative. The actuary is also encouraged to consider a recommendation as to whether a more detailed risk assessment would be beneficial for the intended user in order to examine particular financial risks. When making that recommendation, the actuary will take into account such factors as the plan's design, risk profile, maturity, size, funded status, asset allocation, cash flow, possible insolvency and current market conditions. This report incorporates a more detailed risk assessment as agreed upon with SCERA.

Plan Risk Assessment

In *Section 2*, we start by discussing some of the historical factors that have caused changes in SCERA's funded status and employer contribution rates. It is important to understand how the combination of prior decisions and experience has led to the current financial status of the plan.

We follow this with a discussion of the most significant risk factors going forward. Based on our discussions with SCERA, we have provided illustrations that show the impact on the funded status and employer contribution rates using relevant economic scenario tests. These tests illustrate the effect of future investment returns on the Plan's portfolio deviating from the current 6.75% annual investment return assumption used in the December 31, 2022 valuation.

ASOP 51 also requires disclosure of plan maturity measures and other historical information that are significant to understanding the risks associated with the Plan and this information is included in this report.

Section 1: Introduction and Executive Summary

Executive Summary

Historical Funded Status and Employer Contribution Rates

The following table provides a summary of financial changes to the Plan over the last 10 valuations. On a valuation value basis, the unfunded actuarial accrued liability (UAAL) decreased primarily as a result of the favorable investment and non-investment experience, somewhat offset by the strengthening of the actuarial assumptions² used in preparing the valuations. The contribution rates increased primarily as a result of the strengthening of the actuarial assumptions³ used in preparing the valuations and the sunset of employee UAAL contributions for various members, somewhat offset by the favorable investment and non-investment experience.

Valuation Date	Market Value Basis		Valuation Value Basis		Total (Aggregate) Employer Contribution Rate (% of Payroll)
	Funded Status	UAAL	Funded Status	UAAL	
December 31, 2013	90.1%	\$243.5 M	81.8%	\$449.4 M	21.1%
December 31, 2022	88.5%	\$413.1 M	92.4%	\$271.6 M	21.3%

Future Funded Status and Employer Contribution Rates

In this report, we highlight key factors besides assumption changes that may affect the financial profile of the Plan going forward. As investment experience in the past 10 years has had a significant impact on the funded status and employer contribution rates, we have also provided deterministic projections (using select scenarios for illustration) under hypothetical unfavorable and favorable future market experience so that the impact of market performance can be better understood.

The total (aggregate) employer contribution rate for the plan is 21.3% of total payroll in the December 31, 2022 valuation. Using a deterministic projection, this report shows the effect of either unfavorable (0.00%) or favorable (13.50%) hypothetical market returns for 2023 on key valuation results. In particular, the changes in the total employer contribution rate (relative to the December 31, 2022 valuation aggregate employer contribution rate of 21.3%) in the

² For example, the UAAL increased by \$94 million in the December 31, 2015 valuation, \$32 million in the December 31, 2018 valuation, and \$97 million in the December 31, 2021 valuation (for a total of \$223 million), as a result of the experience studies over the last ten valuations.

³ For example, the increase in the employer's total aggregate rate (normal cost plus UAAL) was 2.29% in the December 31, 2015 valuation, 1.25% in the December 31, 2018 valuation, and 2.38% in the December 31, 2021 valuation (for a total of 5.92%), as a result of the experience studies over the last ten valuations.

Section 1: Introduction and Executive Summary

December 31, 2023 valuation and in the December 31, 2027 valuation (when all the investment gains or losses are fully recognized at the end of the five-year asset smoothing period) are as shown in the following table:⁴

Contribution Rate Change	2023 Single Plan-Year Investment Return		
	0.00%	6.75% (Baseline)	13.50%
December 31, 2023	+0.4% of payroll	-0.3% of payroll	-1.0% of payroll
December 31, 2027	+5.4% of payroll	+1.4% of payroll	-2.7% of payroll

Under the favorable hypothetical market return scenario for 2023, the Association would be expected to reach full funding within six years and the total employer contribution rate would be comprised of only normal cost contributions, or about 10% of payroll. Furthermore, under the baseline and unfavorable hypothetical market return scenarios for 2023, the Association would be expected to reach full funding within 20 and 22 years, respectively. This shows that the Board's funding policy is very effective in achieving the general policy goal of long-term full funding of the costs of the benefits paid by SCERA. For purposes of illustration, once the Association is projected to become fully funded, the results contained herein do not reflect the amount of additional UAAL contributions (if any) that may be made by the employees belonging to the bargaining units which have agreed to pay such contributions.

Plan Maturity Measures

During the past 10 valuations, the Association has become more mature as evidenced by an increase in the ratio of members in pay status (retirees and beneficiaries) to active members (as shown in *Section 2, Chart 8* on page 23) and by an increase in the ratios of plan assets and liabilities to active member payroll (as shown in *Section 2, Chart 9* on page 24 and *Chart 10* on page 25, respectively). We expect these trends to continue going forward. This is significant for understanding the volatility of both historical and future employer contribution rates because any increase in UAAL due to unfavorable investment and non-investment experience for the relatively larger group of non-active members would have to be amortized and funded over the payroll of the relatively smaller group of only active members. Put another way, as a plan grows more mature, its contribution rate becomes more sensitive to investment volatility and liability changes. As SCERA continues to mature with time, its risk profile will continue to evolve in this way and contributions will grow more sensitive to plan experience.

⁴ Assuming no further assumption changes, method changes or experience that differs significantly from assumptions.

Section 2: Key Plan Risks on Funded Status, Unfunded Actuarial Accrued Liabilities, and Employer Contribution Rates

Evaluation of Historical Trends

Funded Status and Change in Unfunded Actuarial Accrued Liabilities

One common measure of SCERA's financial status is the funded ratio. This ratio compares the valuation⁵ and market value of assets to the actuarial accrued liabilities (AAL)⁶ of SCERA. After accounting for contributions made at the Actuarially Determined Contribution (ADC) amount, the overall level of funding of SCERA on a valuation basis has increased for the Plan as a result of favorable investment and non-investment experience, offset to some degree by the strengthening of the actuarial assumptions. The funded ratios and UAAL for the past 10 valuations from December 31, 2013 to 2022 measured using both valuation and market value of assets are provided in *Chart 1*.

The factors that caused the changes in the UAAL for each of the past 10 valuations from December 31, 2013 to 2022 are specified in *Chart 2*. *Chart 2(a)* displays the aggregate changes in UAAL by source over the last 10 valuations. The results in *Chart 2* reflect the changes in the investment return assumption in the December 31, 2015, 2018, and 2021 valuations. These reductions, together with the changes in the mortality tables and other assumptions from the three triennial experience studies recommending assumptions used in the December 31, 2015, 2018, and 2021 valuations, were the single factor having the greatest impact on increasing the UAAL for SCERA.⁷

Chart 2 also shows that, over this period, the impact on the UAAL due to strengthening of assumptions was more than offset by favorable investment and non-investment experience.⁸ The favorable non-investment experience was mainly comprised of lower than expected salary increases for continuing active members. The non-investment experience also included the scheduled delay in implementing the contribution rates determined in the annual valuation.

⁵ The valuation value of assets is equal to the market value of assets excluding unrecognized returns from the last few years and any non-valuation reserves. Unrecognized return is equal to the difference between the actual market return and the expected return on the valuation value of assets, and is recognized over a five-year period.

⁶ For the actives, the actuarial accrued liability is the value of the accumulated normal costs allocated to the years before the valuation date. For the pensioners, beneficiaries and inactive vested members, the actuarial accrued liability is the single-sum present value of the lifetime benefit expected to be paid to those members.

⁷ For example, the UAAL increased by \$94 million in the December 31, 2015 valuation, \$32 million in the December 31, 2018 valuation and \$97 million in the December 31, 2021 valuation (for a total of \$223 million), as a result of the experience studies over the last ten years.

⁸ Included in the non-investment experience were additional UAAL contributions made by the County in the amounts of \$3.7 million, \$7.1 million, \$1.9 million and \$5.8 million during calendar years 2015, 2020, 2021 and 2022, respectively.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

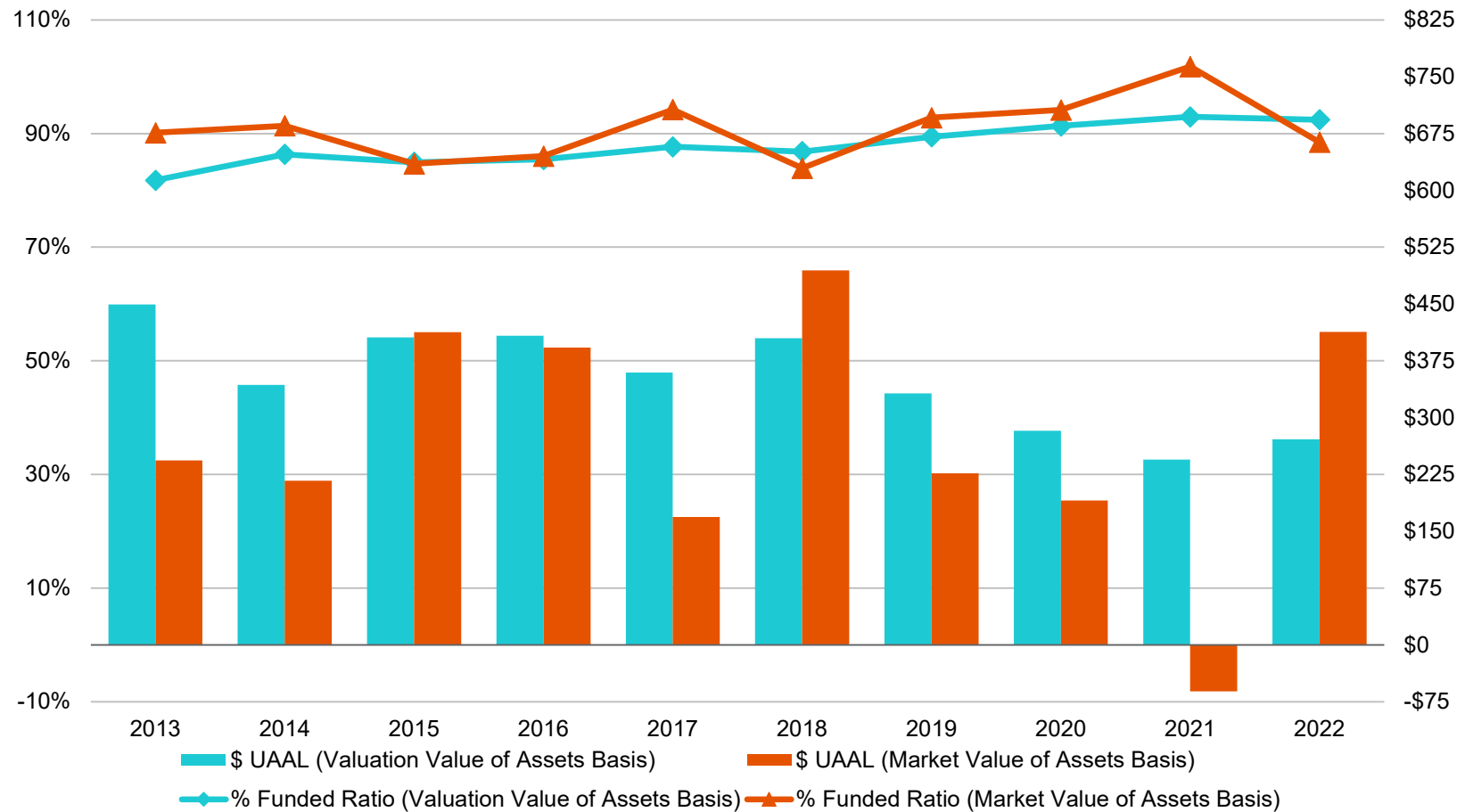
Finally, *Chart 2* shows that SCERA's current assumptions and amortization policy requires UAAL contributions that are greater than the interest charged on the outstanding balance of the UAAL, thus effectively paying down the principal UAAL and avoiding any “negative amortization” that would have led to an initial increase in the total UAAL.

It is important to note that SCERA has taken strides in risk management and resulting long-term plan sustainability. This includes strengthening of assumptions, particularly the expected investment rate of return, and mortality assumption (amount weighted and generational), and adopting a funding policy that eliminates negative amortization and promotes intergenerational equity. Assumptions will continue to be reviewed in future experience studies to reflect the Plan's experience as well as future expectations. Those changes may result in higher contributions in the short term, but in the medium to longer term avoid both deferring contributions and allowing unmanaged growth in the UAAL. We believe these actions are essential for SCERA's fiscal health going forward.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 1

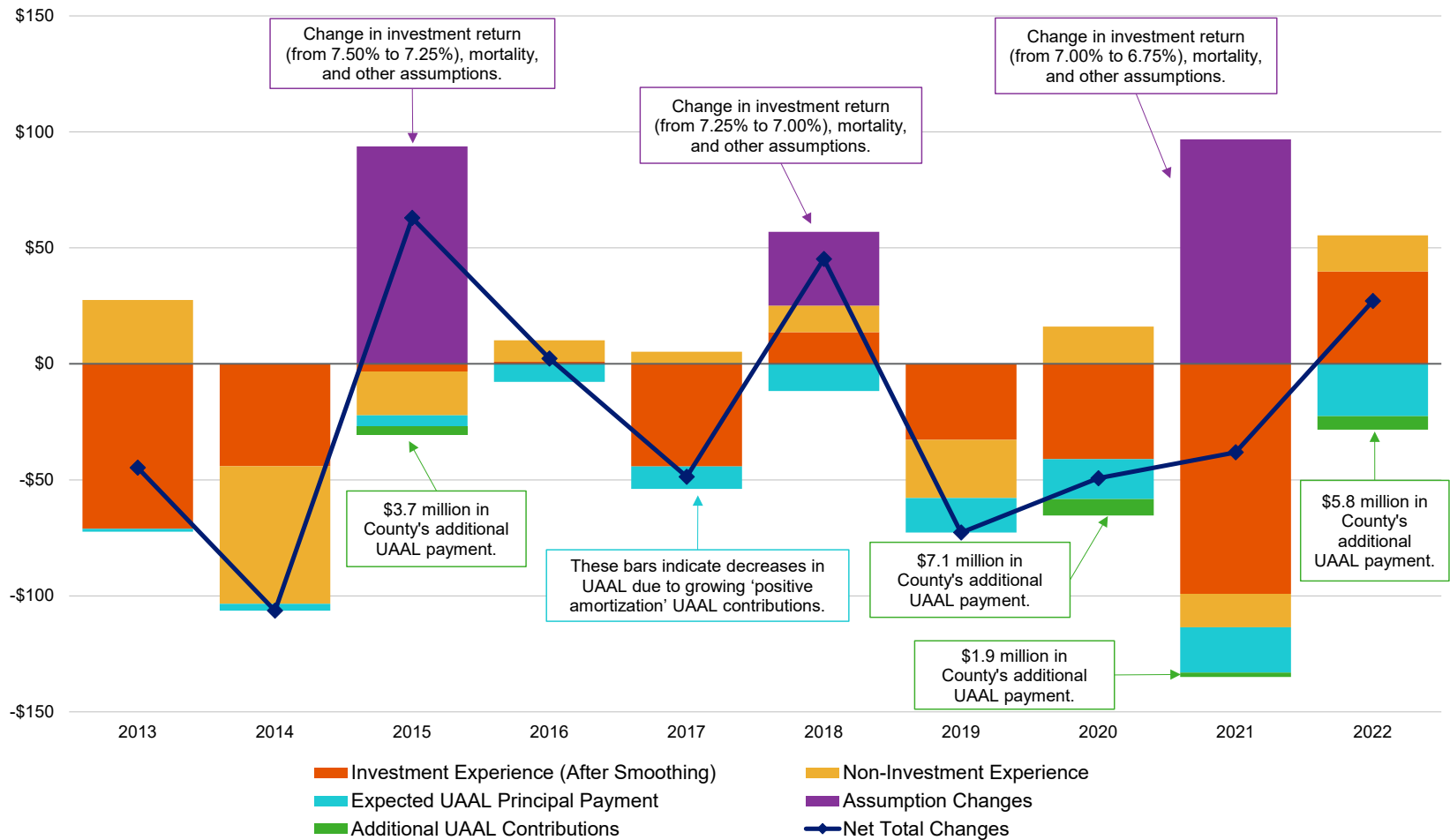
Funded Ratio (Percentages) and Dollar UAAL (\$ Millions)
in December 31, 2013 to 2022 Valuations



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 2

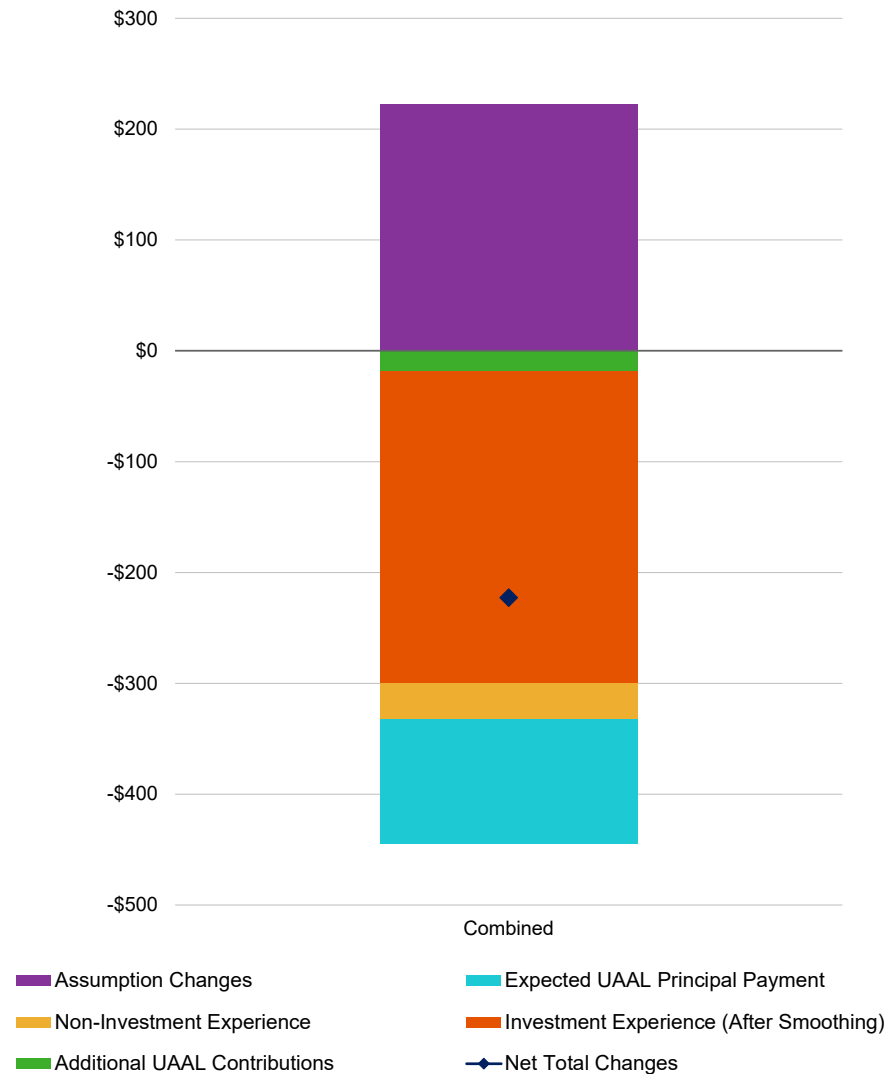
Factors that Changed UAAL in December 31, 2013 to 2022 Valuations (\$ Millions)



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 2(a)

Factors that Changed UAAL in December 31, 2013 to 2022 Valuations Combined (\$ Millions)



Note: This summation of unfunded liability changes by source does not account for the timing of when they occurred nor any resulting compounding effects.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Employer Contribution Rates

The total (normal cost⁹ plus UAAL payment) employer contribution rates determined in the December 31, 2013 to 2022 valuations are provided in *Chart 3* and the factors that caused the changes in the total aggregate employer rates¹⁰ are provided in *Chart 4*.

The aggregate employer normal cost rates shown in *Chart 3* have decreased since the December 31, 2013 valuation. While there have been increases in the normal cost rates due to the changes in the actuarial assumptions, those increases were offset to some degree by the plan changes under the Public Employees' Pension Reform Act of 2013 (PEPRA) as new members have been enrolled in the lower cost PEPRA benefit tiers starting on January 1, 2013. In addition, active legacy members represented by some of the bargaining groups have agreed to pay additional employee Normal Cost contributions that are above those determined under the County Employees Retirement Law of 1937 (CERL), as permitted under PEPRA. As the specific amount of those higher contributions are dependent on the specific bargaining agreements, we have included in this report only the minimum member contribution rates specified in the CERL, consistent with how the employer normal cost rates have been reported in the annual valuation reports.

Chart 4 shows that the changes in the investment return, mortality tables and other assumptions have had the most impact on increasing the UAAL contribution rates¹¹ for the employers. Favorable investment and non-investment experience during 2013 to 2022, including additional UAAL contributions made by the County in 2015, 2020, 2021 and 2022, have decreased the contribution rates.

⁹ The normal cost is the amount of contributions required to fund the portion of the level cost of the member's projected retirement benefit that is allocated to the current year of service.

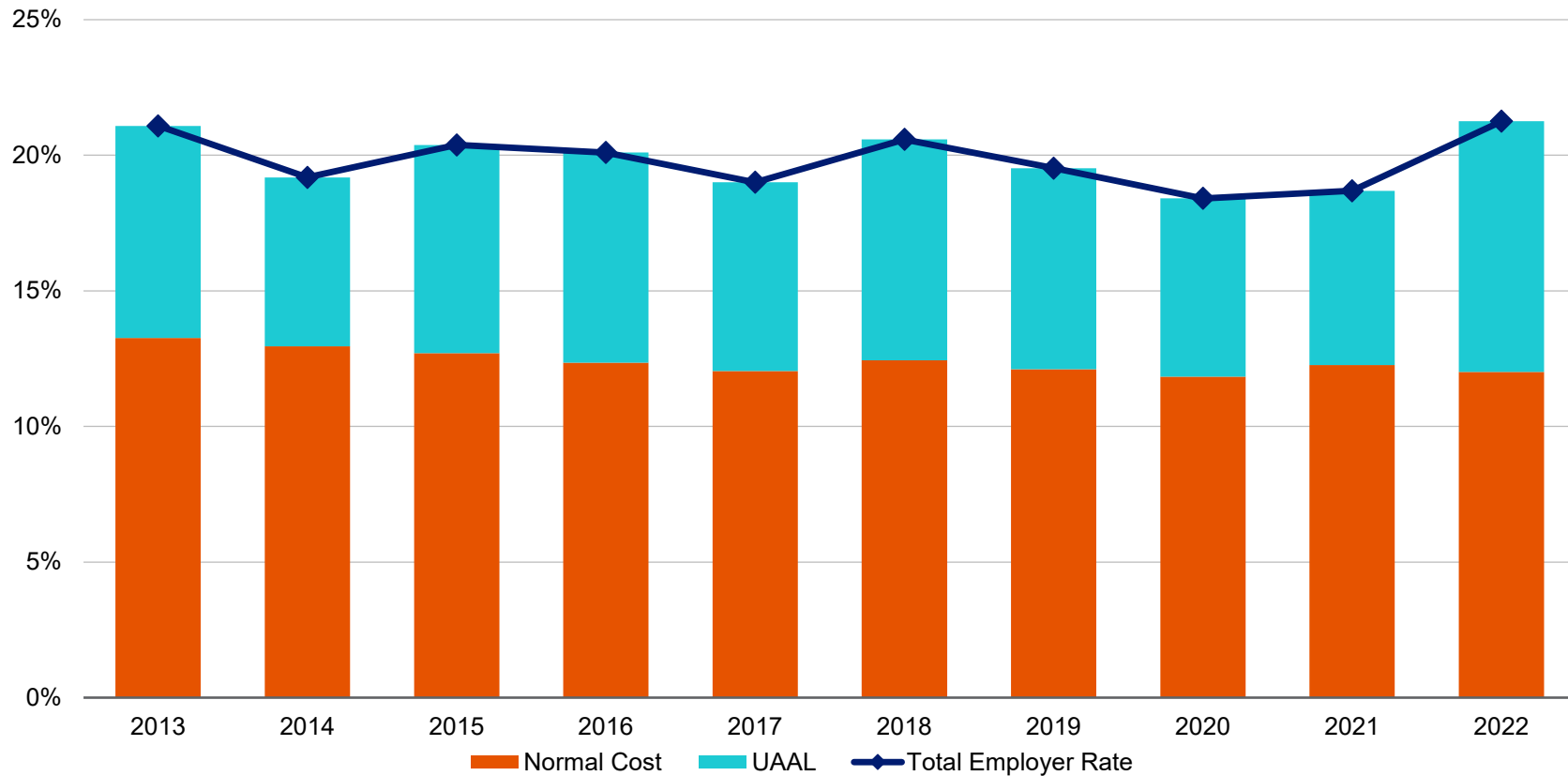
¹⁰ There are separate contribution rates determined in the valuation for the General and Safety membership groups and for the different benefit tiers and employers. The aggregate contribution rates have been calculated based on an average of those rates weighted by the payrolls of the active members reported in those valuations.

¹¹ For example, the total aggregate employer contribution rate increased by 2.29% in the December 31, 2015 valuation, 1.25% in the December 31, 2018 valuation, and 2.38% in the December 31, 2021 valuation (for a total of 5.92%), as a result of the experience studies over the last ten valuations.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 3

Employer Contribution Rates in December 31, 2013 to 2022 Valuations
(% of Payroll)

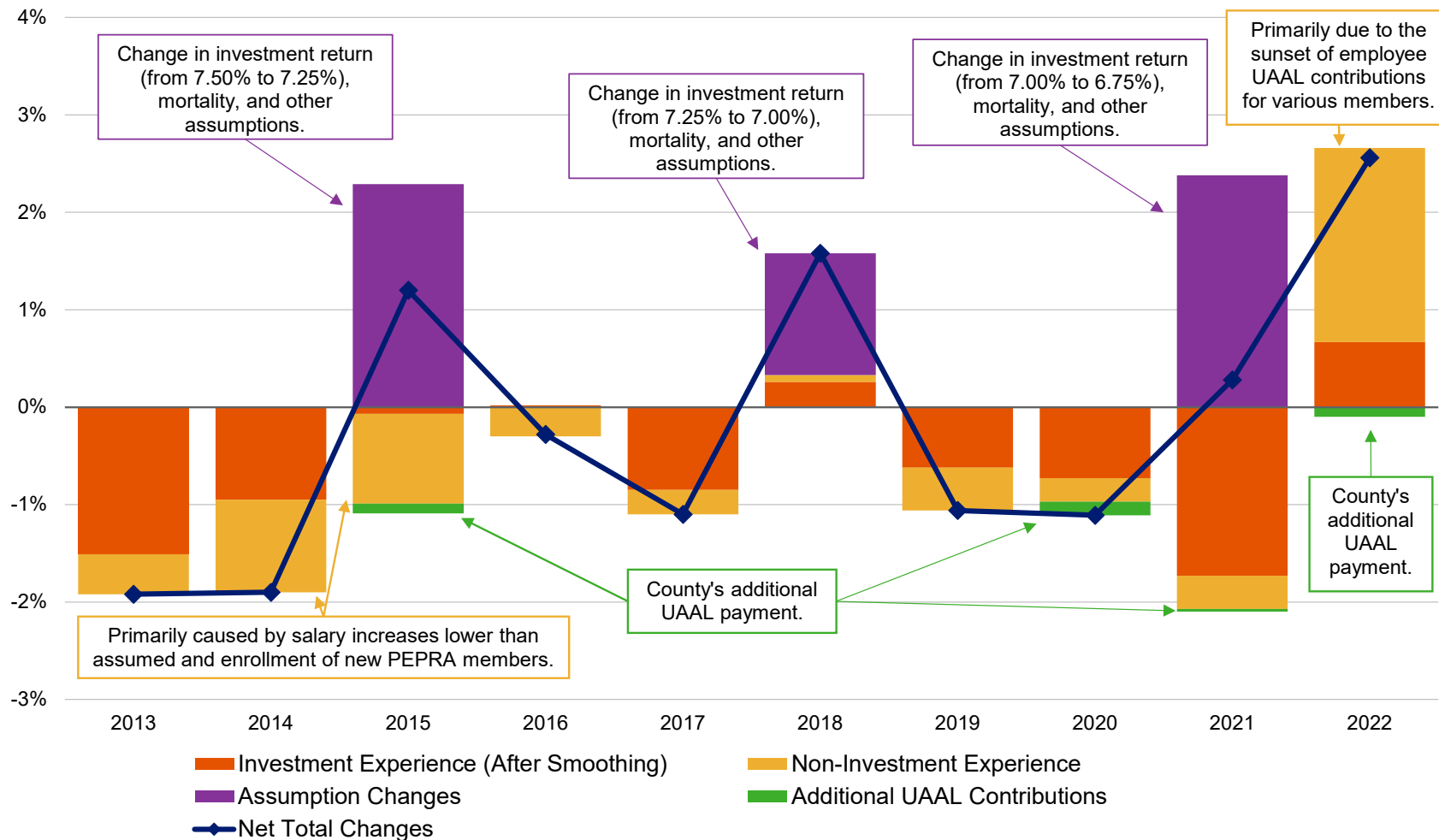


Note: Consistent with the format of the annual valuations, the above rates were determined without adjustment for the phase-in of the increase in the employer contribution rates due to assumption changes (if any). In addition, employer normal cost rates have not been adjusted to reflect additional member contribution rates that some active legacy members have agreed to pay as permitted by PEPRA.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 4

Factors that Affected Employer Contribution Rates in December 31, 2013 to 2022 Valuations (% of Payroll)



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Assessment of Primary Risk Factors Going Forward

As discussed in the *Evaluation of Historical Trends* section, in the 2013 to 2022 valuations the funded ratios and the employer contribution rates have changed mainly as a result of changes in actuarial assumptions, investment experience, and non-investment experience.

In general, we anticipate the following risk factors to have an ongoing influence on those financial metrics in our future valuations:

- **Asset/Liability Mismatch Risk** – the potential that future plan experience does not affect asset and liability values in the same way, causing them to diverge.

The most significant asset/liability mismatch risk to SCERA is investment risk, as defined below. In fact, investment risk has the potential to impact asset/liability mismatch in two ways. The first mismatch is evident in annual valuations: when asset values deviate from assumptions, those changes are typically independent from liability changes. The second mismatch can be caused when systemic asset deviations from assumptions may signal the need for an assumption change, which causes liability values and contribution rates to move in the opposite direction from any change in the expected experience of asset growth rates.

Asset/liability mismatch can also be caused by longevity and other demographic assumption risks, which affect liabilities but have no impact on asset levels. These risks are also discussed below.

It may be informative to use the asset volatility and liability volatility ratios and associated contribution rate impacts provided in the following *Plan Maturity Measures* section when discussing with the employers the effect of unfavorable or favorable actuarial experience on the assets and the liabilities of SCERA.

- **Investment Risk** – the potential that future market returns will be different from the current expected 6.75% annual return assumption.

The Board has a policy of reviewing the investment return and the other actuarial assumptions generally every three years, with the next triennial experience study (recommending assumptions for the December 31, 2024 actuarial valuations) scheduled to be performed in 2024.

The investment return assumption is a long-term, deterministic assumption for valuation purposes even though in reality market experience can be quite volatile in any given year. We have included deterministic scenario tests later in this section so that SCERA can better understand the risk associated with earning either less or more than the assumed rate.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

- **Longevity and Other Demographic Risks** – the potential that mortality or other demographic experience will be different than expected.

Changes to the mortality tables were the most major change to the non-economic assumptions in the last experience study. As can be observed from *Charts 2 and 4*, there has been a relatively small impact on the UAAL and employer contribution rates due to non-investment related experience relative to the assumptions used in the last 10 valuations.

In January 2019, the Society of Actuaries (SOA) published new benefit weighted mortality tables based on data from public sector retirement plans, and those tables have been used as the basis for the mortality assumptions that were adopted by the Board in the latest triennial experience study.

- **Contribution Risk** – the potential that actual future contributions will be different from expected future contributions.

ASOP 51 does not require the actuary to evaluate the particular ability or willingness of the plan sponsor or other contributing entity to make contributions to the plan when due. However, it does require the actuary to consider the potential for and impact of actual contributions deviating from expected in the future. SCERA's employers have a well-established practice of making the Actuarially Determined Contribution (ADC) determined in the annual actuarial valuations, based on the Board of Retirement's Actuarial Funding Policy. As a result, in practice SCERA has essentially no contribution risk.

Furthermore, when ADCs determined in accordance with the SCERA Actuarial Funding Policy are made in the future by the employers (and contributions required by the statute are made by the employees), it is anticipated that the Association would have enough assets to provide all future benefits promised to the current members enrolled in the Association, if all of the actuarial assumptions used in the valuation are met.

The ASOP also lists interest rate risk as an example of a potential risk to consider. However, the valuations of SCERA's liabilities are not linked directly to market interest rates so the resulting interest rate risk exposure is minimal.

Scenario Tests: Deterministic Projections

Since the funded ratio, UAAL, and the employer contribution rates have fluctuated as a result of deviation in investment experience in the last 10 valuations, we have further examined the investment risk for SCERA using projections under a deterministic approach.

To measure such risk, we have included scenario tests to study the change in the funded ratio, UAAL, and the employer contribution rates if SCERA were to earn a market return that was lower or higher than the assumed rate of 6.75% in the

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

year following the December 31, 2022 valuation. In *Charts 5, 6 and 7*, we show the aggregate employer contribution rates, funded ratios, and UAAL respectively assuming that the Association’s portfolio market return in 2023 will be as follows:

- Scenario 1: 0.00% (unfavorable)
- Scenario 2: 6.75% (baseline)
- Scenario 3: 13.50% (favorable)

The following table summarizes the resulting employer contribution changes (relative to the December 31, 2022 valuation aggregate employer contribution rate of 21.3%) in the next valuation (i.e., December 31, 2023) as well as in the December 31, 2027 valuation when all of the investment gains and losses are fully recognized in the (smoothed) valuation value of assets.¹²

Contribution Rate Change	2023 Single Plan-Year Investment Return		
	0.00%	6.75% (Baseline)	13.50%
December 31, 2023	+0.4% of payroll	-0.3% of payroll	-1.0% of payroll
December 31, 2027	+5.4% of payroll	+1.4% of payroll	-2.7% of payroll

Under the favorable hypothetical market return scenario for 2023, the Association would be expected to reach full funding within six years and the total employer contribution rate would be comprised of only normal cost contributions, or about 10% of payroll. Furthermore, under the baseline and unfavorable hypothetical market return scenarios for 2023, the Association would be expected to reach full funding within 20 and 22 years, respectively. This shows that the Board’s funding policy is very effective in achieving the general policy goal of long-term full funding of the costs of the benefits paid by SCERA. For purposes of this illustration, once the Association is projected to become fully funded the results shown do not reflect the amount of additional UAAL contributions (if any) that may be made by the employees belonging to the bargaining units which have agreed to pay such contributions.

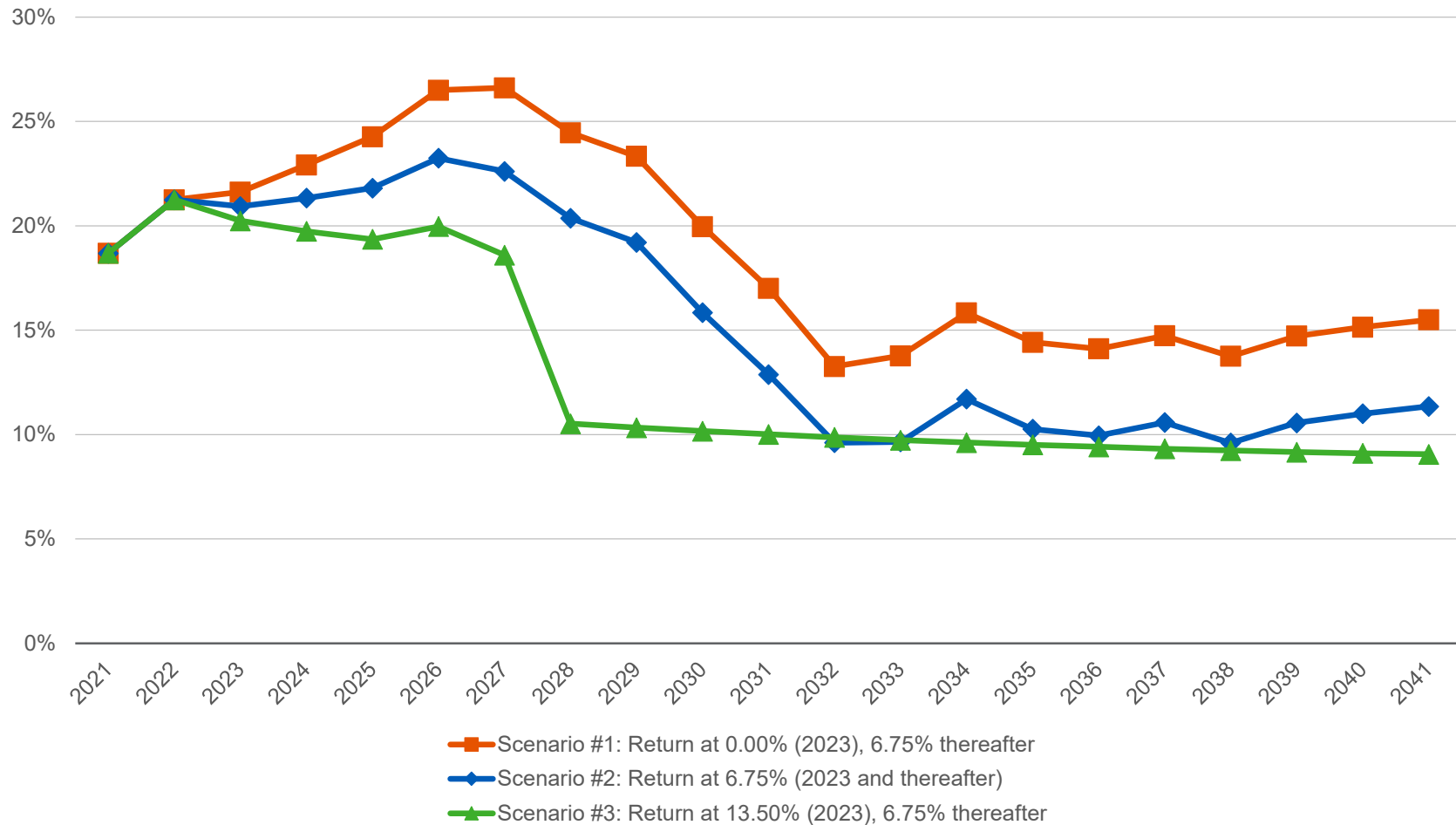
While we have not assigned a probability on the 2023 market return coming in at these rates, the Board and other stakeholders monitoring SCERA can interpolate between these results to estimate the key metrics for SCERA as the actual investment experience for the 2023 year becomes available. Additionally, comparable experience in upcoming future years is likely to have a similar impact on the Association absent any significant plan or assumption changes.

¹² Assuming no further assumption changes, method changes or experience that differs significantly from assumptions.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 5

Projected Employer Contribution Rates
Under Three Hypothetical Market Return Scenarios for 2023
(% of Payroll)

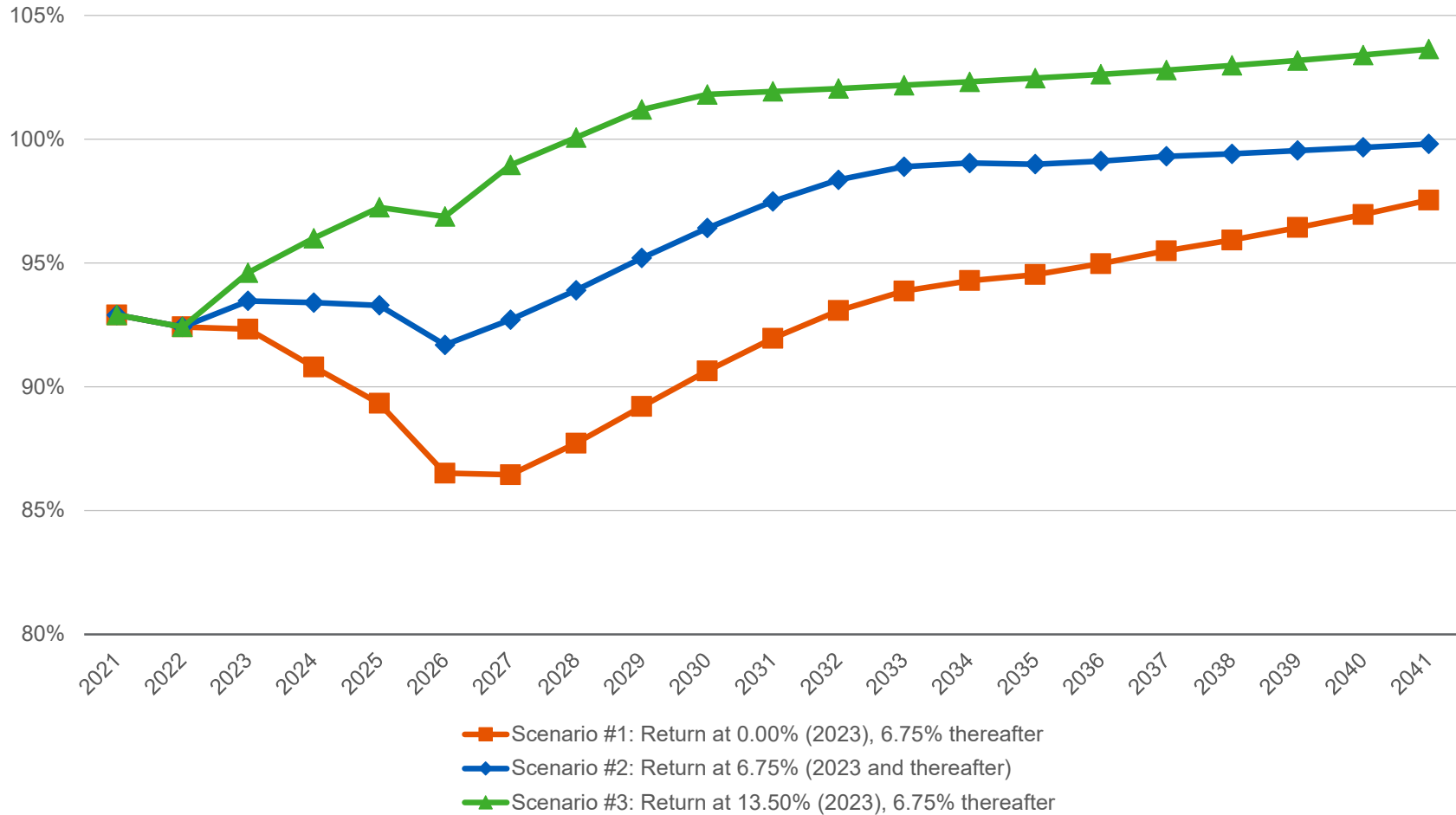


Note: The expected increase in the employer contribution rate at the 12/31/2034 valuation under Scenario #1 and Scenario #2 is due to the full amortization of the Actuarial Gain Amortization Layer from the 12/31/2014 Actuarial Valuation.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 6

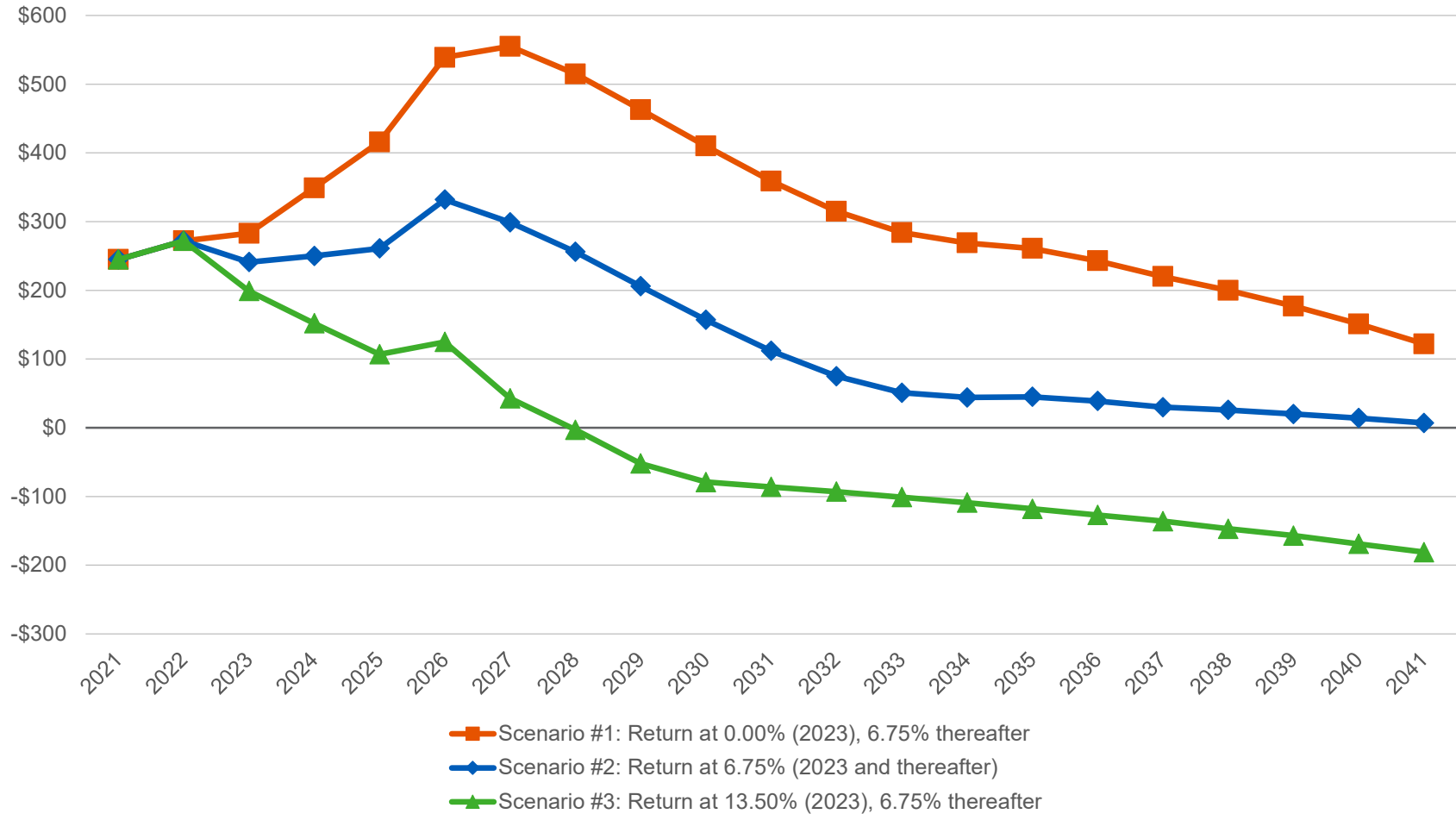
Projected Funded Ratios (on Valuation Value of Assets Basis)
Under Three Hypothetical Market Return Scenarios for 2023



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 7

Projected UAAL (on Valuation Value of Assets Basis)
Under Three Hypothetical Market Return Scenarios for 2023 (\$ Millions)



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Plan Maturity Measures that Affect Primary Risks

The annual actuarial valuation considers the number and demographic characteristics of covered members, including active members and non-active members (inactive vested, retirees and beneficiaries). In the past 10 valuations from December 31, 2013 to 2022, SCERA has become more mature, indicated by the continued increase in the ratio of non-active to active members covered by the Association as shown in *Chart 8*. The Chart also shows the ratio of members in pay status (retirees and beneficiaries) to active members. This ratio excludes the inactive vested members who have relatively smaller liabilities. The increase in the ratios is significant because any increase in UAAL due to unfavorable future investment and non-investment experience for a plan with a relatively larger group of non-active members would have to be amortized and funded using the payroll of a relatively smaller group of active members.

Besides the ratio of members in pay status to active members, another indicator of a more mature plan is relatively large amounts of assets and/or liabilities compared to active member payroll, which leads to increasing volatility in the level of required contributions. The **Asset Volatility Ratio (AVR)**, which is equal to the market value of assets divided by total projected payroll, provides an indication of contribution sensitivity to changes in the current level of assets and is detailed in *Chart 9*. The **Liability Volatility Ratio (LVR)**, which is equal to the actuarial accrued liability divided by total projected payroll, provides an indication of the contribution sensitivity to changes in the current level of liability and is detailed in *Chart 10*. Over time, the AVR should approach the LVR because when a plan is fully funded the assets will equal the liabilities. As such, the LVR also indicates the long-term contribution sensitivity to the asset volatility, as the plan approaches full funding.

In particular, SCERA's AVR was 7.5 as of December 31, 2022. This means that a 1% asset gain or loss in 2023 (relative to the assumed investment return) would amount to 7.5% of one year's payroll. Similarly, SCERA's LVR was 8.5 as of December 31, 2022, so a 1% liability gain or loss in 2023 would amount to 8.5% of one year's payroll. Based on SCERA's policy to amortize actuarial experience over a period of 20 years, there would be a 0.5% of payroll decrease or increase in the required contribution rate for each 1% asset gain or loss, respectively, and a 0.6% of payroll decrease or increase in the required contribution rate for each 1% liability gain or loss, respectively.

It is also informative to note that the AVR and LVR ratios for SCERA's Safety groups are higher than for the General groups. This means that both investment volatility and assumption changes will have a greater impact on the contribution rates of Safety groups than General groups. This is illustrated in the following table:

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

December 31, 2022

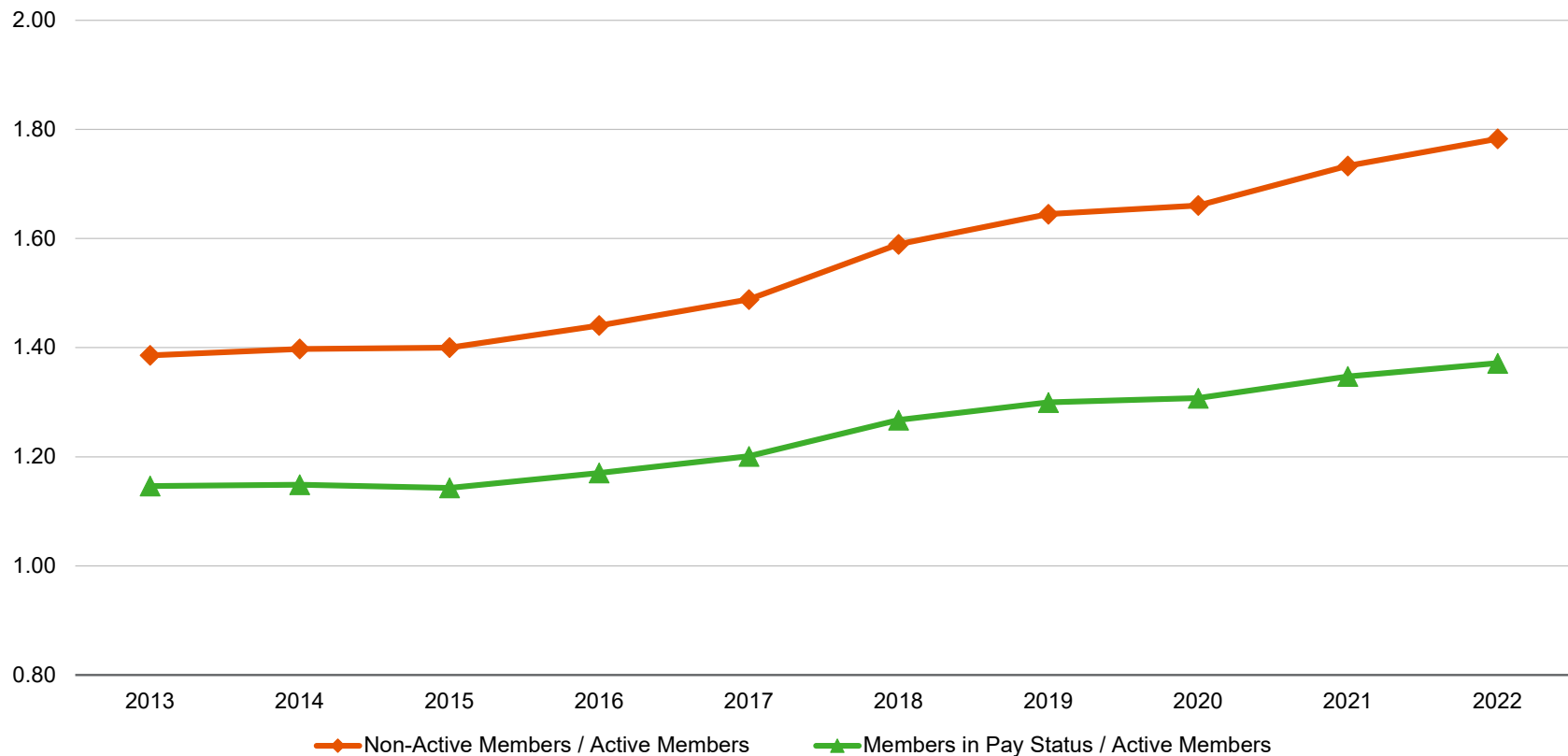
Employee Group	AVR	10% ¹³ Investment Loss Compares to	LVR	10% ¹⁵ Liability Change Compares to
General	6.8	68% of payroll	7.7	77% of payroll
Safety	10.4	104% of payroll	11.8	118% of payroll
Combined	7.5	75% of payroll	8.5	85% of payroll

¹³ Please refer to the illustrative contribution rate impact provided at the bottom of page 21 when a 1% asset or liability gain/loss is amortized over 20 years.

Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 8

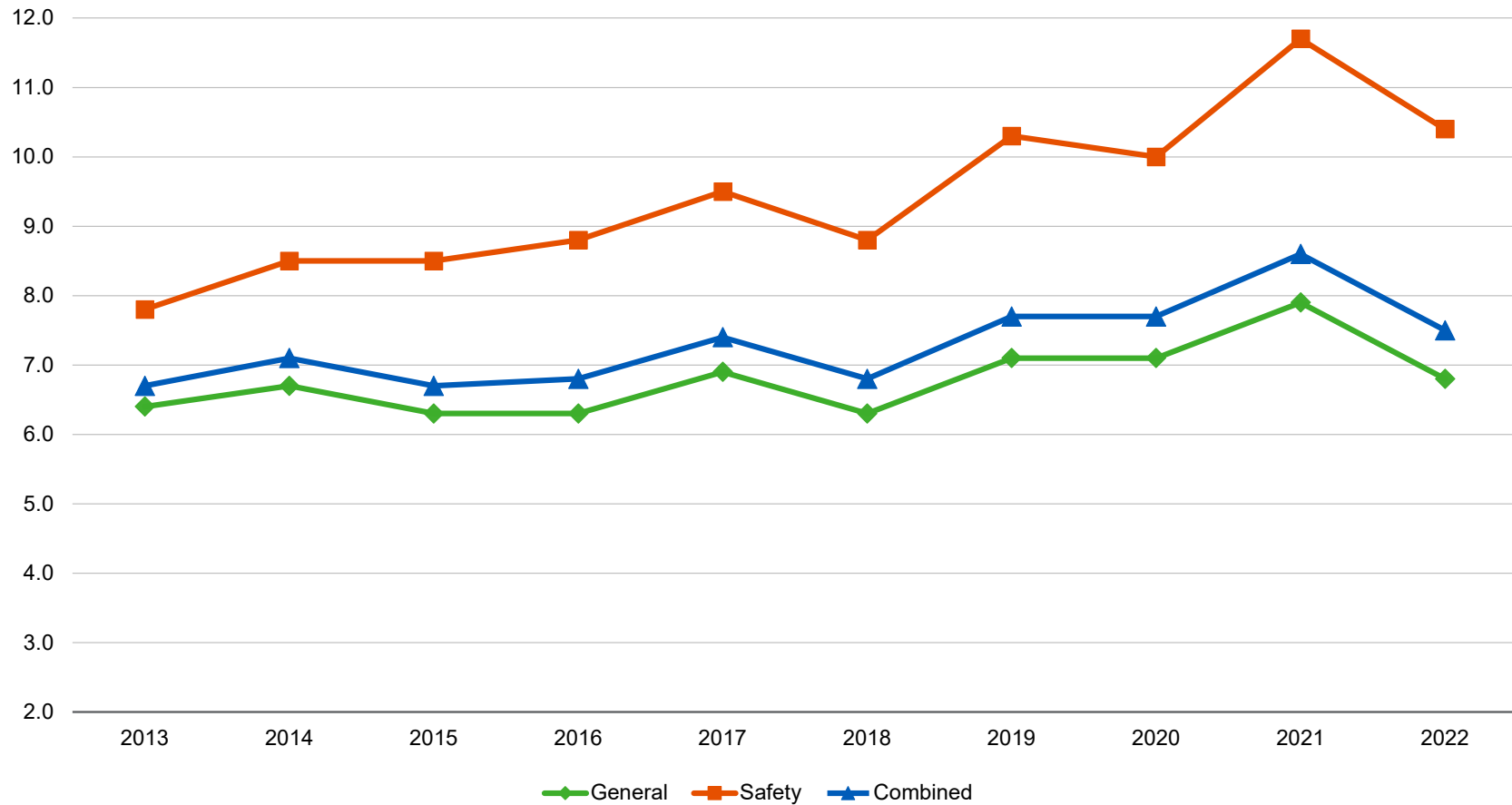
Ratios of Members in Pay-Status (Retirees and Beneficiaries) to Active Members & Non-Active Members (Inactive Vested, Retirees and Beneficiaries) to Active Members in December 31, 2013 to 2022 Valuations



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 9

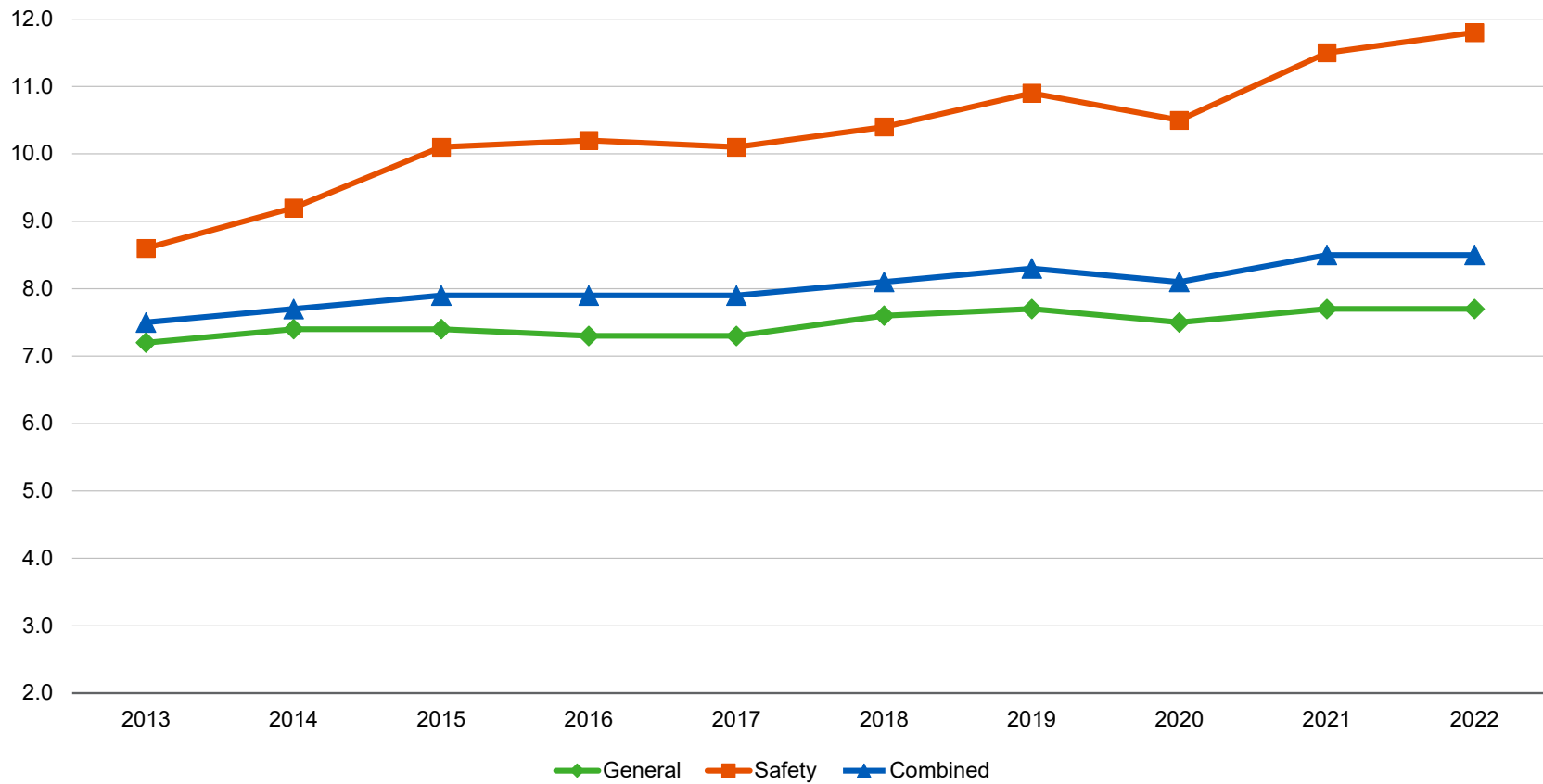
Asset Volatility Ratios in December 31, 2013 to 2022 Valuations



Section 2: Key Plan Risks on Funded Status, UAAL, and Employer Contribution Rates

Chart 10

Liability Volatility Ratios in December 31, 2013 to 2022 Valuations



Section 3: Appendices

Appendix A: Actuarial Assumptions & Methods

Unless otherwise noted, the results included in this report have been prepared based on the assumptions and methods used in preparing the December 31, 2022 valuation.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Deterministic Projections

We have prepared the deterministic projections using the following assumptions and methods applied in the December 31, 2022 actuarial valuation:

- Non-economic assumptions will remain unchanged.
- Retirement benefit formulas will remain unchanged.
- 1937 Act and PEPRA statutes will remain unchanged.
- UAAL amortization method will remain unchanged (i.e., 20-year layers and level percent of pay).
- Economic assumptions will remain unchanged, including the annual 6.75% investment earnings and 3.00% active payroll growth assumptions.
- Deferred investment gains and losses will be recognized over a five-year period.
- In estimating the benefit payments for the open group, we have assumed that the annual payments will increase by 4% for the Plan. This assumption has been developed by analyzing the increase in the actual benefit payments over the last 5 years combined with the projected benefit payments based on the actuarial assumptions described herein for the next 5 years.
- All other actuarial assumptions used in the December 31, 2022 actuarial valuation will be realized.

Section 3: Appendices

For purposes of illustration, the following assumptions have been made:

- Once the Association is projected to become fully funded (if applicable), the results contained herein do not reflect the amount of additional UAAL contributions (if any) that may be made by the employees belonging to the bargaining units which have agreed to pay such contributions.
- The ratio of General Plan A members who are paying additional UAAL contributions to the total General Plan A population as of December 31, 2022 is assumed to remain stable.
- Once the Association is projected to become 120% funded (if applicable), the results contained herein do not reflect any potential reduction in the employer's normal cost contribution as a result of amortizing the surplus over an open 30-year period.

Other Considerations

The results presented in this report are intended to provide insight into key plan risks that can inform financial preparation and future decision making. However, we emphasize that deterministic projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Section 3: Appendices


Appendix B: Actuarial Certification

The actuarial calculations in this report were completed under the supervision of Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary.

The actuarial opinions expressed in this report were prepared by Paul Angelo, FSA, MAAA, FCA, Enrolled Actuary, Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary, and Todd Tauzer, FSA, MAAA, FCA, CERA. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



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



Todd Tauzer, FSA, MAAA, FCA, CERA
Vice President and Actuary

OH/jl

Section 3: Appendices

Appendix C: Detailed Scenario Test Results

The following table contains detailed results from each of the three hypothetical market return scenario projections.

- Scenario 1: Return at 0.00% (2023), 6.75% thereafter
- Scenario 2: Return at 6.75% (2023 and thereafter)
- Scenario 3: Return at 13.50% (2023), 6.75% thereafter

	Projected Employer Rates (% of Payroll)			Projected Funded Ratio (Valuation Value Basis)			Projected UAAL (\$ Millions)		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
2021	18.7%	18.7%	18.7%	92.9%	92.9%	92.9%	245	245	245
2022	21.3%	21.3%	21.3%	92.4%	92.4%	92.4%	272	272	272
2023	21.6%	20.9%	20.2%	92.3%	93.5%	94.6%	283	241	199
2024	22.9%	21.3%	19.7%	90.8%	93.4%	96.0%	349	250	152
2025	24.3%	21.8%	19.4%	89.3%	93.3%	97.3%	416	261	107
2026	26.5%	23.2%	20.0%	86.5%	91.7%	96.9%	539	332	125
2027	26.6%	22.6%	18.6%	86.5%	92.7%	99.0%	555	299	43
2028	24.5%	20.4%	10.5%	87.7%	93.9%	100.1%	515	256	(3)
2029	23.3%	19.2%	10.3%	89.2%	95.2%	101.2%	463	206	(52)
2030	20.0%	15.8%	10.2%	90.6%	96.4%	101.8%	410	157	(79)
2031	17.0%	12.9%	10.0%	92.0%	97.5%	101.9%	359	112	(86)
2032	13.3%	9.6%	9.9%	93.1%	98.4%	102.1%	315	75	(93)
2033	13.8%	9.7%	9.7%	93.9%	98.9%	102.2%	284	51	(101)
2034	15.8%	11.7%	9.6%	94.3%	99.0%	102.3%	269	44	(109)
2035	14.4%	10.3%	9.5%	94.5%	99.0%	102.5%	261	45	(118)
2036	14.1%	10.0%	9.4%	95.0%	99.1%	102.6%	243	39	(127)
2037	14.7%	10.6%	9.3%	95.5%	99.3%	102.8%	220	30	(136)
2038	13.8%	9.6%	9.2%	95.9%	99.4%	103.0%	200	26	(147)
2039	14.7%	10.6%	9.2%	96.4%	99.5%	103.2%	177	20	(157)
2040	15.2%	11.0%	9.1%	97.0%	99.7%	103.4%	151	14	(169)
2041	15.5%	11.4%	9.1%	97.5%	99.8%	103.6%	122	7	(181)

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