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 to set contribution rates to properly fund the cost of benefits that have been earned by SCERA members. The cost is broken down into a Normal Cost, which is the cost for every active member of the plan to accrue another year of service, and an Unfunded Actuarial Accrued Liability (UAAL) cost, which is the cost for prior years when the plan's experience does not match the assumptions SCERA's actuary applies to the Plan. The UAAL cost is amortized over twenty years.
- Each year, a layer of amortization is created in the amount of either the gain or loss experienced for that year 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 actuarial valuation sets contribution rates for the fiscal year that starts 18 months from the end of the Plan year. For example, the 12-31-24 valuation sets contribution rates for FY 2026/27. 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.

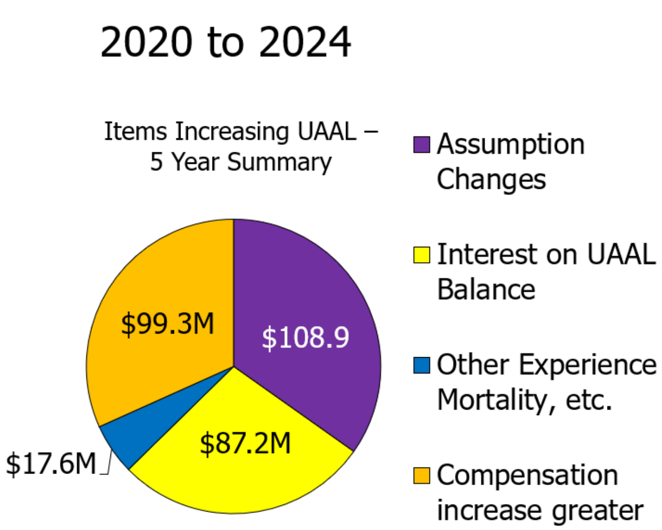
Specific points regarding the 12-31-24 actuarial valuation

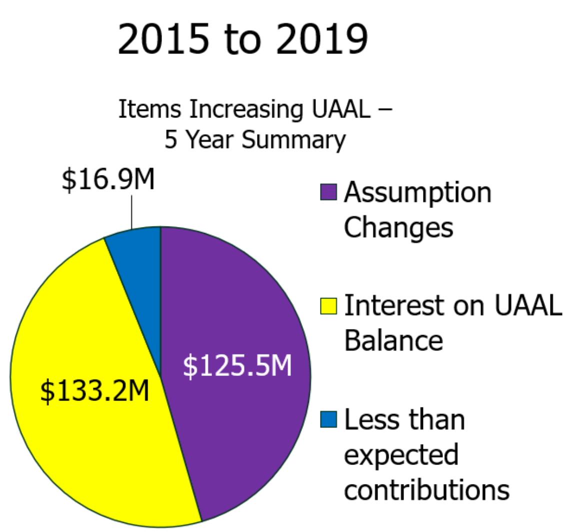
- SCERA's valuation value funded ratio (which is the ratio of valuation value assets to liabilities) slightly decreased from 93.8% to 93.7%.
- A valuation value of assets means that the actuary calculates the asset value using smoothed investment returns (market investment returns that are recognized over a five-year period in 20% increments) and excludes a reserve that SCERA is required to maintain in the event the Plan has insufficient investment earnings to credit interest to member and employer contributions and those reserves set aside to pay benefits.

- SCERA's market value (not smoothed) funded ratio increased from 93.3% to 95.7%.
- The UAAL increased from $229.5 million to $248.1 million.
- The major causes of the increase in the UAAL were individual salary increases that were greater than expected, changes in actuarial assumptions and other experience losses partially offset by investment returns greater than the assumed investment return rate.
- Plan experience resulted in an actuarial loss of $34.9 million which impacted the <u>average</u> employer contribution rate, increasing it from 19.98% of payroll to 20.25% of payroll. (We reported 20.16% last year which was based upon last year's projected payroll. 19.98% is based on actual payroll). This contribution rate is an average of the three employers' contribution rates.
- The impact on the <u>average</u> member contribution rate was an increase from 9.70% to 9.94% of payroll. (SCERA reported 9.87% last year based upon last year's projected payroll. 9.70% 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 30 and it shows that we received all of the Normal Cost contributions and UAAL contributions 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 other experience losses like mortality and when members retire. Investments over this five-year period resulted in a gain of $172.7M and the County's additional UAAL payments resulted in a gain of $22.5M. 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$)	2024	2023	2022	2021	2020	5 Year Total
Beginning of the Year UAAL Liability (Surplus)	229,540	271,592	244,546	282,715	332,031	
Source of Actuarial (Gain) Loss:						
Compensation Increase Greater/(Less) than Expected	49,925	24,788	12,509	(5,243)	17,286	99,265
Investment Experience recognized	(19,061)	(53,266)	39,826	(99,099)	(41,110)	(172,710)
Other Experience (mortality, retirement, disability, etc.)	15,761	11,300	(1,211)	(7,266)	(983)	17,601
(Greater)/Less than Expected Contributions	(8,454)	5,206	4,298	(1,976)	(255)	(1,181)
Composite (Gain) Loss for the Year - Total	38,171	(11,972)	55,422	(113,584)	(25,062)	(57,025)
Other Items Impacting UAAL:						
Assumption Change (Economic and Demographic)	12,147			96,768		108,915
Interest Accrual on UAAL Balance	14,191	17,038	15,353	18,586	22,003	87,171
County's Additional UAAL Payment	(3,232)	(4,450)	(5,795)	(1,873)	(7,128)	(22,478)
SVFD Additional Contributions		(62)				(62)
Expected UAAL Contribution Payment	(42,699)	(42,606)	(37,934)	(38,066)	(39,129)	(200,434)
Other Items Impacting UAAL - Total	(19,593)	(30,080)	(28,376)	75,415	(24,254)	(26,888)
End of the Year UAAL Liability (Surplus)	248,118	229,540	271,592	244,546	282,715	





SCERA Member Information as of December 31, 2024

- Of the 3,743 active General members, 1,176 are in Plan A (Legacy) and 2,567 are in Plan B (PEPRA), which means that roughly 69% of SCERA active General members are in the PEPRA Plan.
- Of the 739 Active Safety members, 303 are in Plan A (Legacy) and 436 are in Plan B (PEPRA), which means that roughly 59% of the active Safety members are in the PEPRA Plan.
- The average annual retirement benefit for all General retired Plan A (Legacy) retirees is $42,754 with 17.4 average years of service at retirement.
- The average annual retirement benefit for all General retired Pre-Plan A (Not Enhanced) retirees is $18,670 with 15.4 average years of service at retirement.
- The average annual retirement benefit for all General Plan B (PEPRA) retirees is $14,735 with 7.1 average years of service at retirement.
- The average annual retirement benefit for all Safety retired Plan A (Legacy) retirees is $62,684 with 18.3 average years of service at retirement.
- The average annual retirement benefit for all Safety retired Pre-Plan A (Not Enhanced) retirees is $38,102 with 17 average years of service at retirement.
- The average annual retirement benefit for all Safety Plan B (PEPRA) retirees is $44,204 with 5.7 average years of service.
- The average age at retirement for all General retirees is 58.3 years old and for all Safety retirees is 50.9.

Specific Points regarding the 2021 to 2023 Experience Study (Applied to the December 31, 2024 Actuarial Valuation)

- SCERA's actuary did not recommend any changes to the Plan's investment earnings assumption of 6.75% nor any changes to the inflation assumption of 2.50% or salary growth assumption of 3.00%. Minor changes were recommended to the individual merit and promotion salary assumptions, disability retirement assumptions, termination rates, mortality assumptions and a few others.
- The report can be accessed here http://scretire.org/Financial/Actuarial-Reports/.