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Via Email

December 20, 2024

Mr. Eric Stern
Chief Executive Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

Re: Sacramento County Employees' Retirement System (SCERS) Seven-year projection of employer contribution rates

Dear Eric:

As requested, we have prepared a seven-year projection of estimated employer contribution rates for SCERS. This projection is generally derived from the June 30, 2024 actuarial valuation report. Other key assumptions and methods are detailed below. **It is important to understand that these results are entirely dependent on those assumptions used in preparing the June 30, 2024 valuation being met and remaining unchanged in the next six years. Actual results as determined in future actuarial valuations will differ from these results. In particular, actual investment returns, actual salary levels for actives and actual cost-of-living-adjustments (especially for Tier 1 retirees and beneficiaries*) different than assumed can have a significant impact on future contribution rates.**

Results

The estimated contribution rate changes shown on the next page apply to the average employer contribution rate for all of SCERS' employers in the aggregate. For purposes of this projection, the rate changes that are reflected are due to:

1. recognition of deferred investment gains and losses under the actuarial asset smoothing methodology;
2. losses due to investment income not earned on the excess of the actuarial value of assets (AVA) over the market value of assets (MVA) (and gains when the opposite situation occurs, i.e., when the AVA is less than the MVA);
3. contribution gains and losses which occur from the scheduled delay in the implementation of new rates until 12 months after the actuarial valuation date; and
4. anticipated rate changes that apply to County legacy Safety associated with the cessation of member contributions after 30 years of service.

* All Miscellaneous and Safety Tier 1 retirees and beneficiaries are entitled to a maximum cost-of-living-adjustment of up to 4% per year.

In preparing the above rate changes for the next several years, we have neither taken into account on an employer-by-employer basis nor on a System-wide basis the gradual savings in normal cost that would become available as current active members in the legacy tiers are replaced by new members in the CalPEPRA tiers.

Employer rate changes for total plan

The following table provides the year-to-year rate changes from each of the above components and the cumulative rate change over the seven-year projection period. Again, due to the scheduled delay in implementing new rates, these rate changes will become effective 12 months following the actuarial valuation date shown in the table. To obtain the estimated average employer contribution rate at each successive valuation date (such as those provided for the “Total Plan” projection in Exhibit B5), these cumulative rate changes should be added to the average employer rate as found in our June 30, 2024 actuarial valuation report.

The rate changes shown below represent the changes in average rate for the total plan.

Table One: Change in Average Rate as of Valuation Date (June 30)

Rate Change Component	2025	2026	2027	2028	2029	2030	2031
1. Investment (Gains)/Losses	-0.30%	-0.28%	-0.56%	0.88%*	-0.09%	-0.16%	0.00%
2. (Gain)/Loss of Investment Income on Difference Between MVA and AVA	-0.04%	-0.01%	0.00%	0.04%	-0.01%	-0.01%	0.00%
3. 12-Month Rate Delay	-0.08%	-0.03%	-0.02%	-0.05%	0.06%	0.00%	-0.01%
4. County Safety Item	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Incremental Rate Change	-0.41%	-0.32%	-0.58%	0.87%	-0.04%	-0.17%	-0.01%
Cumulative Rate Change	-0.41%	-0.73%	-1.31%	-0.44%	-0.48%	-0.65%	-0.66%

Employer rate changes for each of the cost groups

Exhibit A shows the rate change due to these generally investment related gains and losses as provided in items (1), (2) and (3) of Table One on this page for each individual cost group. We have estimated the rate change due to investment related gains and losses for each individual cost group by allocating the investment related gains and losses based on each cost group’s proportional share of the AVA as of the June 30, 2024 valuation. The actual rate changes by group may differ from those shown in the exhibit if there are changes to their proportional share of the AVA in future valuations. The rate change for item (4) of Table One was allocated entirely to County Safety. These estimated rate changes for each cost group are shown in Exhibit A. Finally, the cumulative rate impact of the changes for each of the cost groups are provided in Exhibits B1 through B4.

* Before considering application of \$399.3 million in the Contingency Reserve as of June 30, 2024 (see “Key assumptions and methods”).

In developing the rates for the Miscellaneous cost groups in Exhibits A and B, we have expanded the rates for those cost groups to delineate between the different rates paid by the County, Sacramento Area Sewer District (SacSewer), Superior Court and other District employers as those rates are presented in the June 30, 2024 valuation.

Key assumptions and methods

The projection is based upon the following assumptions and methods:

- June 30, 2024 non-economic assumptions remain unchanged.
- June 30, 2024 retirement benefit formulas remain unchanged.
- June 30, 2024 1937 Act and CalPEPRA statutes remain unchanged.
- UAAL amortization method remains unchanged (i.e., 20-year layers, level percent of pay).
- June 30, 2024 economic assumptions remain unchanged, including the 6.75% investment earnings assumption.
- We have assumed that returns of 6.75% are actually earned on a market value basis for each of the next seven plan years beginning July 1, 2024.
- Active payroll grows at 2.75% per annum.
- Deferred investment gains and losses are recognized per the asset smoothing schedule shown on page 24 of the June 30, 2024 actuarial valuation report. Deferred investment gains and losses are funded as a level percentage of the System's total active payroll.
- The amount in the Contingency Reserves remains unchanged (i.e., the Contingency Reserve will not be increased above 3% of the market value of assets as of June 30, 2024 nor will it be used to offset any future actuarial losses).

As we point out in our June 30, 2024 valuation report, if the \$399.3 million in the Contingency Reserve were utilized to determine the employer's contribution rate in that valuation, the aggregate employer contribution rate in that valuation would decrease by about 2.1% of payroll.

In practice, this means that after the amount in the Contingency Reserve is taken into account in the June 30, 2028 valuation, the 0.88% increase in the employer's aggregate rate in Table One that is caused by the recognition of the deferred investment losses would be fully offset by the Contingency Reserve.

- All other actuarial assumptions used in the June 30, 2024 actuarial valuation report are realized.
- The projections do not reflect any changes in the employer contribution rates that could result due to future changes in the demographics of SCERS' current active members or decreases in the employer contribution rates that might be due to new hires going into CalPEPRA tiers as applicable.

Other considerations

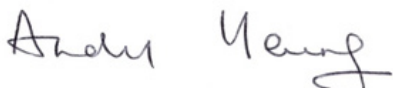
It is important to note that the projection is based on plan assets as of June 30, 2024. The System's funded status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. Segal is available to prepare projections of potential outcomes upon request.

We emphasize that 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.

Unless otherwise noted, all of the above calculations are based on the June 30, 2024 actuarial valuation results including the participant data and actuarial assumptions on which that valuation was based. That valuation and these projections were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary. I am 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.

Sincerely,



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

ST/jl
Enclosures

cc: Margo Allen

Disclaimer

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Sacramento County Employees' Retirement System

Estimated Employer Contribution Rate Changes by Cost Group based on June 30, 2024 Valuation

Rate Change as of June 30	Miscellaneous County, Courts and Districts*	SacSewer	Safety County	Total Plan
Estimated Incremental Rate Change due to 1, 2, 3 as shown in Table One				
2025	-0.35%	-0.34%	-0.69%	-0.42%
2026	-0.27%	-0.25%	-0.55%	-0.32%
2027	-0.48%	-0.45%	-0.96%	-0.58%
2028	0.71%	0.67%	1.47%	0.87%
2029	-0.03%	-0.03%	-0.07%	-0.04%
2030	-0.14%	-0.14%	-0.30%	-0.17%
2031	-0.01%	-0.01%	-0.02%	-0.01%
Estimated Incremental Rate Change due to 4 as shown in Table One				
2025	0.00%	0.00%	0.05%	0.01%
2026	0.00%	0.00%	0.02%	0.00%
2027	0.00%	0.00%	0.01%	0.00%
2028	0.00%	0.00%	0.02%	0.00%
2029	0.00%	0.00%	0.00%	0.00%
2030	0.00%	0.00%	0.03%	0.00%
2031	0.00%	0.00%	0.03%	0.00%
Cumulative Rate Change				
2025	-0.35%	-0.34%	-0.64%	-0.41%
2026	-0.62%	-0.59%	-1.17%	-0.73%
2027	-1.10%	-1.04%	-2.12%	-1.31%
2028	-0.39%	-0.37%	-0.63%	-0.44%
2029	-0.42%	-0.40%	-0.70%	-0.48%
2030	-0.56%	-0.54%	-0.97%	-0.65%
2031	-0.57%	-0.55%	-0.96%	-0.66%

* Excludes SacSewer.

Sacramento County Employees' Retirement System
 Projection of Estimated Employer Contribution Rates as of June 30 — County

Category	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fiscal Year	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
Miscellaneous									
Tier 1 Members	24.86%	23.32%	22.97%	22.70%	22.22%	22.93%	22.90%	22.76%	22.75%
Tier 2 Members	20.28%	19.64%	19.29%	19.02%	18.54%	19.25%	19.22%	19.08%	19.07%
Tier 3 Members	23.27%	22.42%	22.07%	21.80%	21.32%	22.03%	22.00%	21.86%	21.85%
Tier 4 Members	22.83%	21.99%	21.64%	21.37%	20.89%	21.60%	21.57%	21.43%	21.42%
Tier 5 Members	21.96%	21.08%	20.73%	20.46%	19.98%	20.69%	20.66%	20.52%	20.51%
Miscellaneous County Combined	22.52%	21.66%	21.31%	21.04%	20.56%	21.27%	21.24%	21.10%	21.09%
Safety									
Tier 1 Members	62.52%	65.73%	65.09%	64.56%	63.61%	65.10%	65.03%	64.76%	64.77%
Tier 2 Members	57.70%	56.14%	55.50%	54.97%	54.02%	55.51%	55.44%	55.17%	55.18%
Tier 3 Members	57.24%	55.46%	54.82%	54.29%	53.34%	54.83%	54.76%	54.49%	54.50%
Tier 4 Members	51.29%	49.59%	48.95%	48.42%	47.47%	48.96%	48.89%	48.62%	48.63%
Safety County Combined	54.42%	52.80%	52.16%	51.63%	50.68%	52.17%	52.10%	51.83%	51.84%

Sacramento County Employees' Retirement System
 Projection of Estimated Employer Contribution Rates as of June 30 — **SacSewer**

Category	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fiscal Year	2024–25*	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
Miscellaneous									
Tier 2 Members	23.52%	23.09%	22.75%	22.50%	22.05%	22.72%	22.69%	22.55%	22.54%
Tier 3 Members	27.21%	26.06%	25.72%	25.47%	25.02%	25.69%	25.66%	25.52%	25.51%
Tier 4 Members	23.03%	21.76%	21.42%	21.17%	20.72%	21.39%	21.36%	21.22%	21.21%
Tier 5 Members	21.96%	20.96%	20.62%	20.37%	19.92%	20.59%	20.56%	20.42%	20.41%
Miscellaneous SacSewer Combined	24.72%	23.63%	23.29%	23.04%	22.59%	23.26%	23.23%	23.09%	23.08%

* These contribution rates, determined before considering Pension Obligation Bonds debt service paid by SacSewer to service those Bonds, were shown in our April 25, 2024 letter and are effective from December 15, 2024 through June 30, 2025.

Sacramento County Employees' Retirement System
 Projection of Estimated Employer Contribution Rates as of June 30 — Court

Category	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fiscal Year	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
Miscellaneous									
Tier 1 Members	30.25%	27.85%	27.50%	27.23%	26.75%	27.46%	27.43%	27.29%	27.28%
Tier 2 Members	24.06%	23.64%	23.29%	23.02%	22.54%	23.25%	23.22%	23.08%	23.07%
Tier 3 Members	28.00%	27.07%	26.72%	26.45%	25.97%	26.68%	26.65%	26.51%	26.50%
Tier 5 Members	21.93%	21.05%	20.70%	20.43%	19.95%	20.66%	20.63%	20.49%	20.48%
Miscellaneous Court Combined	24.86%	23.96%	23.61%	23.34%	22.86%	23.57%	23.54%	23.40%	23.39%

Sacramento County Employees' Retirement System
 Projection of Estimated Employer Contribution Rates as of June 30 — **Other Miscellaneous Districts**

Category	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fiscal Year	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
Galt Arno Cemetery District and Fair Oaks Cemetery District									
Tier 3 Members	31.62%	30.15%	29.80%	29.53%	29.05%	29.76%	29.73%	29.59%	29.58%
Tier 5 Members	25.55%	24.13%	23.78%	23.51%	23.03%	23.74%	23.71%	23.57%	23.56%
Orangevale Recreation and Parks District									
Tier 3 Members	31.17%	29.70%	29.35%	29.08%	28.60%	29.31%	29.28%	29.14%	29.13%
Tier 5 Members	29.86%	28.36%	28.01%	27.74%	27.26%	27.97%	27.94%	27.80%	27.79%
Rio Linda Elverta Recreation and Parks District									
Tier 5 Members	11.63%	11.37%	11.02%	10.75%	10.27%	10.98%	10.95%	10.81%	10.80%
All Other Districts									
Tier 3 Members	35.93%	34.38%	34.03%	33.76%	33.28%	33.99%	33.96%	33.82%	33.81%
Tier 5 Members	29.86%	28.36%	28.01%	27.74%	27.26%	27.97%	27.94%	27.80%	27.79%
Miscellaneous Districts Combined	31.89%	30.46%	30.11%	29.84%	29.36%	30.07%	30.04%	29.90%	29.89%

Sacramento County Employees' Retirement System
 Projection of Estimated Employer Contribution Rates as of June 30 — Total Plan

Category	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fiscal Year	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
Total Plan	29.81%	28.74%	28.33%	28.01%	27.43%	28.30%	28.26%	28.09%	28.08%