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January 5, 2023

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, 2022 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, 2022 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 beneficiaries¹) 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
- 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);

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

² As of June 30, 2022, there were \$182.5 million in net deferred investment gains made up of gains to be recognized in each of the next five years followed by losses to be recognized in year six.

- 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 contribution changes that apply to County Safety associated with the cessation of member contributions after 30 years of service.

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 active members in the legacy tiers are replaced by new members in the CalPEPRA tiers.³ Also, we have not taken into account any impact the recent California Supreme Court ruling in the Alameda Decision (see additional discussion in the Other Considerations section of this letter) may have on the System.

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 B4), these cumulative rate changes should be added to the average employer rate as found in our June 30, 2022 actuarial valuation report.

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

Table One

Rate Change Component	Valuation Date (6/30)						
	2023	2024	2025	2026	2027	2028	2029
(1) Investment (Gains)/Losses	-0.86%	-0.44%	-0.23%	-0.21%	-0.51%	1.06%	0.00%
(2) (Gain)/Loss of Investment Income on Difference Between MVA and AVA	-0.07%	-0.01%	0.01%	0.02%	0.04%	0.07%	0.00%
(3) 12-Month Rate Delay	-0.05%	-0.07%	-0.04%	-0.02%	-0.01%	-0.03%	0.08%
(4) County Safety Item	<u>0.00%</u>	<u>0.00%</u>	<u>0.02%</u>	<u>0.01%</u>	<u>0.01%</u>	<u>0.02%</u>	<u>0.00%</u>
Incremental Rate Change	-0.98%	-0.52%	-0.24%	-0.20%	-0.47%	1.12%	0.08%
Cumulative Rate Change	-0.98%	-1.50%	-1.74%	-1.94%	-2.41%	-1.29%	-1.21%

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

³ The gradual savings in Normal Cost on a System-wide basis that would become available as active members in the legacy tiers are replaced by new members in the CalPEPRA tiers will be included in the upcoming Risk Report as of June 30, 2022.

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 Actuarial Value of Assets as of the June 30, 2022 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 Actuarial Value of Assets 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 B3.

In developing the rates for the Miscellaneous cost group in Exhibits A and B, we have expanded the rates for that cost group to delineate between the different rates paid by the County, Superior Court and other District employers as those rates are presented in the June 30, 2022 valuation. Rio Linda Elverta Recreation and Parks District is not responsible for paying any changes in UAAL contribution rates due to deferred investment gains/losses and assumption changes identified in the June 30, 2017 valuation (i.e., a portion of item (1)). However, they are responsible for paying any actuarial gains/losses from all causes after that valuation (i.e., items (2), and (3)).

Key Assumptions and Methods

The projection is based upon the following assumptions and methods:

- June 30, 2022 non-economic assumptions remain unchanged.
- June 30, 2022 retirement benefit formulas remain unchanged.
- June 30, 2022 1937 Act and CalPEPRA statutes remain unchanged.
- UAAL amortization method remains unchanged (i.e., 20-year layers, level percent of pay).
- June 30, 2022 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, 2022.
- Active payroll grows at 3.00% per annum.
- Deferred investment gains and losses are recognized per the asset smoothing schedule shown on page 21 of the June 30, 2022 actuarial valuation report. Deferred investment gains and losses established before July 1, 2017 are funded as a level percentage of the System's total active payroll excluding the active payroll from Rio Linda Elverta Recreation and Parks District. Deferred investment gains and losses established after June 30, 2017 are funded as a level percentage of the System's total active payroll (including the active payroll from Rio Linda Elverta Recreation and Parks District).

- 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, 2022 nor will it be used to offset any future actuarial losses).

As we point out in our June 30, 2022 valuation report, if the \$354.9 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 2.3% 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 1.06% increase in the employer's aggregate rate in Table One⁴ that is caused by the recognition of the deferred investment loss would be fully offset by the Contingency Reserve.

- All other actuarial assumptions used in the June 30, 2022 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' 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, 2022. Due to the COVID-19 pandemic, market conditions have changed significantly since the onset of the Public Health Emergency. 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. While it is impossible to determine how the pandemic will continue to affect market conditions in future valuations, Segal is available to prepare projections of potential outcomes upon request.

On July 30, 2020, the California Supreme Court issued a decision in the Alameda County Deputy Sheriffs' Assn. et al. v. Alameda County Employees' Retirement Assn. litigation that clarified what should be considered compensation earnable for legacy members and pensionable compensation for CalPEPRA members. It should be noted that neither the June 30, 2022 assets provided by SCERS nor the liabilities we calculated using the membership data provided by SCERS reflect the financial impact of the Supreme Court decision. This is based on our understanding that as of August 2022, when the membership and other information was provided to us for the June 30, 2022 valuation, SCERS had not finalized any adjustments as of June 30, 2022.

Finally, 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

⁴ The same is also true with respect to the increase in the employer's rate provided in the Exhibits in the June 30, 2028 valuation.


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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, 2022 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 & Actuary

ST/bbf
Enclosures

cc: Margo Allen

Sacramento County Employees' Retirement System
 Estimated Employer Contribution Rate Changes by Cost Group (CG)
 based on June 30, 2022 Valuation

	Miscellaneous				Safety County	Total Plan
	County	Court	Districts	Total		
Rate Change due to (1), (2), (3) as shown in Table One						
Estimated Incremental Rate Change as of 6/30/2023	-0.83%	-0.83%	-0.82%	-0.83%	-1.49%	-0.98%
Estimated Incremental Rate Change as of 6/30/2024	-0.43%	-0.43%	-0.43%	-0.43%	-0.84%	-0.52%
Estimated Incremental Rate Change as of 6/30/2025	-0.21%	-0.21%	-0.21%	-0.21%	-0.41%	-0.26%
Estimated Incremental Rate Change as of 6/30/2026	-0.17%	-0.17%	-0.17%	-0.17%	-0.32%	-0.21%
Estimated Incremental Rate Change as of 6/30/2027	-0.40%	-0.40%	-0.40%	-0.40%	-0.78%	-0.48%
Estimated Incremental Rate Change as of 6/30/2028	0.91%	0.91%	0.91%	0.91%	1.76%	1.10%
Estimated Incremental Rate Change as of 6/30/2029	0.07%	0.07%	0.07%	0.07%	0.13%	0.08%
Rate Change due to (4) as shown in Table One						
Estimated Incremental Rate Change as of 6/30/2023	0.00%	0.00%	0.00%	0.00%	-0.02%	0.00%
Estimated Incremental Rate Change as of 6/30/2024	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%
Estimated Incremental Rate Change as of 6/30/2025	0.00%	0.00%	0.00%	0.00%	0.07%	0.02%
Estimated Incremental Rate Change as of 6/30/2026	0.00%	0.00%	0.00%	0.00%	0.03%	0.01%
Estimated Incremental Rate Change as of 6/30/2027	0.00%	0.00%	0.00%	0.00%	0.06%	0.01%
Estimated Incremental Rate Change as of 6/30/2028	0.00%	0.00%	0.00%	0.00%	0.11%	0.02%
Estimated Incremental Rate Change as of 6/30/2029	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Rate Change as of 6/30/2023	-0.83%	-0.83%	-0.82%	-0.83%	-1.51%	-0.98%
Cumulative Rate Change as of 6/30/2024	-1.26%	-1.26%	-1.25%	-1.26%	-2.33%	-1.50%
Cumulative Rate Change as of 6/30/2025	-1.47%	-1.47%	-1.46%	-1.47%	-2.67%	-1.74%
Cumulative Rate Change as of 6/30/2026	-1.64%	-1.64%	-1.63%	-1.64%	-2.96%	-1.94%
Cumulative Rate Change as of 6/30/2027	-2.04%	-2.04%	-2.03%	-2.04%	-3.68%	-2.41%
Cumulative Rate Change as of 6/30/2028	-1.13%	-1.13%	-1.12%	-1.13%	-1.81%	-1.29%
Cumulative Rate Change as of 6/30/2029	-1.06%	-1.06%	-1.05%	-1.06%	-1.68%	-1.21%

Sacramento County Employees' Retirement System Projection of Estimated Employer Contribution Rates – County

Valuation Date Fiscal Year	June 30, 2021 2022-23	June 30, 2022 2023-24	June 30, 2023 2024-25	June 30, 2024 2025-26	June 30, 2025 2026-27	June 30, 2026 2027-28	June 30, 2027 2028-29	June 30, 2028 2029-30	June 30, 2029 2030-31
Miscellaneous County									
Tier 1 Members	25.37%	23.95%	23.12%	22.69%	22.48%	22.31%	21.91%	22.82%	22.89%
Tier 2 Members	21.70%	20.55%	19.72%	19.29%	19.08%	18.91%	18.51%	19.42%	19.49%
Tier 3 Members	24.83%	24.13%	23.30%	22.87%	22.66%	22.49%	22.09%	23.00%	23.07%
Tier 4 Members	24.48%	23.75%	22.92%	22.49%	22.28%	22.11%	21.71%	22.62%	22.69%
Tier 5 Members	23.43%	22.71%	21.88%	21.45%	21.24%	21.07%	20.67%	21.58%	21.65%
All Miscellaneous County Categories Combined	24.19%	23.48%	22.65%	22.22%	22.01%	21.84%	21.44%	22.35%	22.42%
Safety County									
Tier 1 Members	72.96%	69.13%	65.54%	67.10%	71.59%	71.63%	72.72%	76.81%	78.11%
Tier 2 Members	58.70%	58.48%	56.99%	56.15%	55.87%	55.65%	55.09%	57.30%	57.58%
Tier 3 Members	57.47%	58.20%	56.71%	55.87%	55.46%	55.14%	54.36%	56.12%	56.25%
Tier 4 Members	52.37%	52.27%	50.78%	49.94%	49.53%	49.21%	48.43%	50.19%	50.32%
All Safety County Categories Combined	56.17%	56.02%	54.51%	53.69%	53.35%	53.06%	52.34%	54.21%	54.34%

Sacramento County Employees' Retirement System Projection of Estimated Employer Contribution Rates – Court

Valuation Date Fiscal Year	June 30, 2021 2022-23	June 30, 2022 2023-24	June 30, 2023 2024-25	June 30, 2024 2025-26	June 30, 2025 2026-27	June 30, 2026 2027-28	June 30, 2027 2028-29	June 30, 2028 2029-30	June 30, 2029 2030-31
Miscellaneous Court									
Tier 1 Members	29.10%	27.01%	26.18%	25.75%	25.54%	25.37%	24.97%	25.88%	25.95%
Tier 2 Members	25.78%	24.18%	23.35%	22.92%	22.71%	22.54%	22.14%	23.05%	23.12%
Tier 3 Members	29.92%	29.22%	28.39%	27.96%	27.75%	27.58%	27.18%	28.09%	28.16%
Tier 5 Members	23.39%	22.67%	21.84%	21.41%	21.20%	21.03%	20.63%	21.54%	21.61%
All Miscellaneous Court Categories Combined	27.62%	26.90%	26.07%	25.64%	25.43%	25.26%	24.86%	25.77%	25.84%

Sacramento County Employees' Retirement System Projection of Estimated Employer Contribution Rates – Other Miscellaneous Districts

Valuation Date Fiscal Year	June 30, 2021 2022-23	June 30, 2022 2023-24	June 30, 2023 2024-25	June 30, 2024 2025-26	June 30, 2025 2026-27	June 30, 2026 2027-28	June 30, 2027 2028-29	June 30, 2028 2029-30	June 30, 2029 2030-31
Miscellaneous District									
Galt Arno Cemetery District and Fair Oaks Cemetery District									
Tier 3 Members	34.43%	33.18%	32.35%	31.92%	31.71%	31.54%	31.14%	32.05%	32.12%
Tier 5 Members	27.90%	26.63%	25.80%	25.37%	25.16%	24.99%	24.59%	25.50%	25.57%
Orangevale Recreation and Parks District									
Tier 3 Members	32.94%	31.92%	31.09%	30.66%	30.45%	30.28%	29.88%	30.79%	30.86%
Tier 5 Members	31.54%	30.50%	29.67%	29.24%	29.03%	28.86%	28.46%	29.37%	29.44%
Rio Linda Elverta Recreation and Parks District									
Tier 5 Members	12.04%	11.37%	10.88%	10.45%	10.24%	10.07%	9.90%	10.81%	10.88%
All Other Districts									
Tier 3 Members	38.07%	37.05%	36.22%	35.79%	35.58%	35.41%	35.01%	35.92%	35.99%
Tier 5 Members	31.54%	30.50%	29.67%	29.24%	29.03%	28.86%	28.46%	29.37%	29.44%
All Miscellaneous District Categories Combined	34.17%	33.07%	32.25%	31.82%	31.61%	31.44%	31.04%	31.95%	32.02%

Sacramento County Employees' Retirement System
Projection of Estimated Employer Contribution Rates – Total Plan

Valuation Date Fiscal Year	June 30, 2021 2022-23	June 30, 2022 2023-24	June 30, 2023 2024-25	June 30, 2024 2025-26	June 30, 2025 2026-27	June 30, 2026 2027-28	June 30, 2027 2028-29	June 30, 2028 2029-30	June 30, 2029 2030-31
Total Plan	31.74%	31.12%	30.14%	29.62%	29.38%	29.18%	28.71%	29.83%	29.91%