



Sacramento County Employees'
Retirement System

Actuarial Experience Study

**Analysis of Actuarial Experience During the Period
July 1, 2019 through June 30, 2022**

June 13, 2023

Board of Retirement
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

Re: Review of Actuarial Assumptions for the June 30, 2023 Actuarial Valuation

Dear Members of the Board:

We are pleased to submit this report of our review of the actuarial experience for the Sacramento County Employees' Retirement System (SCERS). This study utilizes the census data for the period July 1, 2019 to June 30, 2022 as well as prior periods for some assumptions, and provides the proposed actuarial assumptions, both economic and demographic, to be used in the June 30, 2023 valuation.

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.

We look forward to reviewing this report with you and answering any questions you may have.


Sincerely,



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Senior Vice President and Actuary



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1. Introduction, Summary, and Recommendations

To project the cost and liabilities of the pension plan, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the projected experience, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are modified, contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions means that year's experience is treated as temporary and that, over the long run, experience will return to what was originally assumed. For example, the actuarial assumptions used in the most recent valuation did not include any possible short-term or long-term impacts on mortality of the covered population that emerged due to COVID-19.¹ Changing assumptions reflects a basic change in thinking about the future, and has a much greater effect on the current contribution requirements than recognizing gains or losses as they occur.

The use of realistic actuarial assumptions is important in maintaining adequate funding, while paying the promised benefit amounts to participants already retired and to those near retirement. The actuarial assumptions used do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the economic and demographic actuarial assumptions and to compare the actual experience with that expected under the current assumptions during the three-year experience period from July 1, 2019 through June 30, 2022. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 27 "Selection of Economic Assumptions for Measuring Pension Obligations"² and ASOP No. 35 "Selection of Demographic and Other Non-Economic Assumptions for Measuring Pension Obligations." These Standards of Practice provide guidance for the selection of the various actuarial assumptions utilized in a pension plan actuarial valuation. Based on the study's results and expected future experience, we are recommending various changes in the current actuarial assumptions.

We are recommending changes in the assumptions for inflation, investment return, merit and promotion salary increases, retirement from active employment, retirement age for deferred vested members, percent of members assumed to go on to work for a reciprocal system, reciprocal salary increases, percent married, pre-retirement mortality, post-retirement healthy

¹ An analysis of the ongoing impact of COVID-19 is beyond the scope of the current experience study.

² References made later in this report are with respect to the revised ASOP 27 adopted in June 2020.

and disabled life mortality, beneficiary mortality, termination, disability incidence (duty and non-duty), and service from unused sick leave conversion.

Our recommendations for the major actuarial assumption categories are as follows:

Pg #	Actuarial Assumption Category	Recommendation
11	Inflation: Future increases in the Consumer Price Index (CPI), which drives investment returns and active member salary increases.	Reduce the inflation assumption from 2.75% to 2.50% per annum as discussed in Section (3)(A).
14	Retiree Cost-of-Living Increases: Future increases in the cost-of-living adjustment for retirees.	For those tiers with a 4.00% maximum cost-of-living adjustment (COLA), maintain the retiree COLA assumption at 2.75% per annum (based on our recommended inflation assumption of 2.50% plus a margin for adverse deviation of 0.25%) as discussed in Section (3)(A). For those tiers with a 2.00% maximum COLA, maintain the retiree COLA assumption at 2.00% per annum.
16	Investment Return: The estimated average future net rate of return on current and future assets of the System as of the valuation date. This rate is used to discount liabilities.	Reduce the investment return assumption from 6.75% to 6.50% per annum as discussed in Section (3)(B). Alternatively, maintain the investment return assumption at 6.75% per annum by increasing the net real rate of return as discussed in Section (3)(B).
25	Individual Salary Increases: Increases in the salary of a member between the date of the valuation to the date of separation from active service. This assumption has three components: <ul style="list-style-type: none"> • Inflationary salary increases • Real “across the board” salary increases • Merit and promotion increases 	Reduce the current inflationary salary increase assumption from 2.75% to 2.50% and maintain the current real “across the board” salary increase assumption of 0.25%. This means that the combined inflationary and real “across the board” salary increases will decrease from 3.00% to 2.75%. We recommend adjusting the merit and promotion rates of salary increase as developed in Section (3)(C) to reflect past experience. Overall future merit and promotion salary increases are higher for Miscellaneous and Safety members under the proposed assumptions. The recommended <u>total</u> rates of salary increase anticipate slightly higher increases overall for Miscellaneous members and slightly lower increases overall for Safety members than the current assumptions.
31	Retirement Rates: The probability of retirement at each age at which participants are eligible to retire. Other Retirement Related Assumptions including: <ul style="list-style-type: none"> • Retirement age for deferred vested members • Future reciprocal members and reciprocal salary increases • Percent married and spousal age differences for members not yet retired 	For active members, adjust the current retirement rates to those developed in Section (4)(A). The retirement rate assumptions anticipate fewer retirements for Miscellaneous members and more retirements for Safety members overall. For deferred vested members, maintain the assumed retirement age for non-reciprocal Miscellaneous and Safety members at age 59 and 52, respectively, increase the assumed retirement age for reciprocal Miscellaneous members from age 59 to age 61; and increase the assumed retirement age for reciprocal Safety members from age 52 to age 55. Decrease the current proportion of future terminated members expected to be covered by a reciprocal system from 30% to 25% for Miscellaneous members and from 40% to 35% for Safety members. For active and deferred vested members, maintain the percent married at retirement assumption at 80% for males and increase the percent married at retirement assumption from 55% to 60% for females. Maintain the spouse age difference assumption that male retirees are three years older than their spouses and maintain the assumption that female retirees are two years younger than their spouses.

Pg #	Actuarial Assumption Category	Recommendation
48	Mortality Rates: The probability of dying at each age. Mortality rates are used to project life expectancies.	<p>Healthy Retirees:</p> <p>Current base table for Miscellaneous Members: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table with rates increased by 10% for males and females.</p> <p>Recommended base table for Miscellaneous Members: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table with rates increased by 10% for males and 5% for females.</p> <p>Current base table for Safety Members: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table with rates decreased by 5% for males and unadjusted for females.</p> <p>Recommended base table for Safety Members: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table.</p> <p>All Beneficiaries:</p> <p>Current base table both not in pay status at the valuation and in pay status at the valuation: Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table.</p> <p>Recommended base table not in pay status at the valuation: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table with rates increased by 10% for males and 5% for females.</p> <p>Recommended base table in pay status at the valuation: Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table with rates increased by 5% for males and 10% for females.</p> <p>For the purposes of the actuarial valuations (for funding and financial reporting), when calculating the liability for the continuance to a beneficiary of a surviving member we recommend that the Miscellaneous Healthy Retiree mortality tables be used for beneficiary mortality both before and after the expected death of the Miscellaneous or Safety member. Upon the actual death of the member (i.e., for all beneficiaries in pay status as of the valuation date), we recommend for the purposes of the actuarial valuations that we use the Contingent Survivor mortality tables as stated above.</p> <p>Pre-Retirement Mortality:</p> <p>Current & recommended base table for Miscellaneous Members: Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table.</p> <p>Current & recommended base table for Safety Members: Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table.</p> <p>Disabled Retirees:</p> <p>Current base table for Miscellaneous Members: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table.</p> <p>Recommended base table for Miscellaneous Members: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table with rates unadjusted for males and increased by 5% for females.</p> <p>Current base table for Safety Members: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table.</p> <p>Recommended base table for Safety Members: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table</p>

Pg #	Actuarial Assumption Category	Recommendation
		<p>with rates increased by 5% for males and unadjusted for females.</p> <p>All current tables are projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>All recommended tables are projected generationally with the two-dimensional mortality improvement scale MP-2021. This is the most recent projection scale, as an updated projection scale was not published in 2022.</p> <p>For member contribution rates, optional forms, and reserves: change the mortality rates to those developed in Section (4)(B).</p>
60	Termination Rates: The probability of leaving employment at each age or after accruing certain years of service and receiving either a refund of member contributions or a deferred vested retirement benefit.	We recommend adjusting the termination rates to those developed in Section (4)(D) to reflect a higher incidence of termination for Miscellaneous members and a slightly lower incidence of termination for Safety members.
65	Disability Incidence Rates: The probability of becoming disabled at each age.	We recommend adjusting the disability rates to those developed in Section (4)(E) to reflect a slightly lower incidence of disability overall for Miscellaneous members and a slightly higher incidence of disability overall for Safety members.
68	Service From Unused Sick Leave Conversions: Additional service that is expected to be received when a member retires due to conversion of unused sick leave.	We recommend adjusting the current assumptions shown in Section (4)(F).
69	Average Entry Ages: The entry age used to determine employee rates for legacy members hired after January 1, 1975 and prior to January 1, 2013.	Maintain the current assumed average entry ages of 35 for Miscellaneous and 29 for Safety.

We have estimated the impact of all the recommended economic and demographic assumptions as if they were applied to the June 30, 2022 actuarial valuation. The table below shows the changes in the employer and member contribution rates due to the proposed assumption changes separately for the recommended economic assumption changes (under the recommended 6.50% and the alternative 6.75% investment return assumptions) including the recommended merit and promotion salary increases (as recommended in Section 3 of this report) and the recommended demographic assumption changes (as recommended in Section 4 of this report).

Note that the cost impact shown is after reflecting the impact of some active members in the legacy tiers who have already agreed to pay a higher normal cost on a 50:50 cost-sharing basis, while the remaining active members continue to have agreed only to pay the full rate as defined by statute.

Cost Impact of the Recommended Assumptions Based on June 30, 2022 Actuarial Valuation

Assumption	Impact on Average Employer Contribution Rates	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Increase due to changes in economic assumptions	3.31%	0.11%
Decrease due to changes in demographic assumptions	<u>(0.16%)</u>	<u>(0.16%)</u>
Total increase/(decrease) in average employer rate	3.15%	(0.05%)
Total estimated increase/(decrease) in annual dollar amount (\$000s)¹	\$35,108	\$(1,008)

Assumption	Impact on Average Member Contribution Rates	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Increase/(decrease) due to changes in economic assumptions	0.59%	(0.18%)
Decrease due to changes in demographic assumptions	<u>(0.06%)</u>	<u>(0.06%)</u>
Total increase/(decrease) in average member rate	0.53%	(0.24%)
Total estimated increase/(decrease) in annual dollar amount (\$000s)¹	\$5,850	\$(2,854)

¹ Based on June 30, 2022 projected annual payroll as determined under each set of assumptions. These annual amounts are expected to change in the future in proportion to future payroll.

Assumption	Impact on UAAL ¹ (\$000s)	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Increase due to changes in economic assumptions	\$427,067	\$2,497
Decrease due to changes in demographic assumptions	(14,950)	(14,950)
Total increase/(decrease) in UAAL (\$000s)	\$412,117	\$(12,453)

	Impact on Funded Percentage	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Change in Funded Percentage on VVA basis	83.1% to 80.6%	83.1% to 83.1%

Of the various assumption changes, the most significant rate increase is due to the investment return assumption under the recommended 6.50% investment return assumption.

Section 2 provides some background on the basic principles and methodology used for the experience study and for the review of the economic and demographic actuarial assumptions. A detailed discussion of each assumption and reasons for the proposed changes are found in Section 3 for the economic assumptions and Section 4 for the demographic assumptions. The cost impact of the proposed changes is detailed in Section 5.

¹ UAAL stands for the Unfunded Actuarial Accrued Liability, which is the excess, if any, of the Actuarial Accrued Liability over the Valuation Value of Assets.

2. Background and Methodology

In this report, we analyzed both economic and demographic (“non-economic”) assumptions. The primary economic assumptions reviewed are inflation, investment return, salary increases, and administrative expenses. Demographic assumptions include the probabilities of certain events occurring in the population of members, referred to as “decrements,” e.g., termination from service, disability retirement, service retirement, and death before and after retirement. In addition to decrements, other demographic assumptions reviewed in this study include the percentage of members electing the unmodified option with an eligible spouse or domestic partner, spousal age difference, percent of members assumed to go on to work for a reciprocal system, reciprocal salary increase, unused sick leave conversion, and average entry ages for members hired after January 1, 1975 and prior to January 1, 2013.

Economic Assumptions

Economic assumptions consist of:

- **Inflation:** Increases in the price of goods and services. The inflation assumption reflects the basic return that investors expect from securities markets. It also reflects the expected basic salary increase for active employees and drives increases in the allowances of retired members (if any).
- **Investment Return:** Expected long-term rate of return on the System’s investments after accounting for certain investment expenses and all administrative expenses. This assumption has a significant impact on contribution rates.
- **Salary Increases:** In addition to inflationary increases, it is assumed that salaries will also grow by real “across the board” pay increases in excess of price inflation. It is also assumed that employees will receive raises above these average increases as they advance in their careers. These are commonly referred to as merit and promotion increases. Payments to amortize any Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase each year by the price inflation rate plus any real “across the board” pay increases that are assumed.

The setting of these economic assumptions is described in Section 3.

Demographic Assumptions

In order to determine the probability of an event occurring, we examine the “decrements” and “exposures” of that event. For example, taking termination from service, we compare the number of employees who actually terminate in a certain age and/or service category (i.e., the number of “decrements”) with those who could have terminated (i.e., the number of “exposures”). For example, if there were 500 active employees (exposures) in the 20-24 age group at the beginning of the year and 50 of them left during the year (decremented out), we would say the probability of termination in that age group is $50 \div 500$ or 10%.

The reliability of the resulting probability is highly dependent on both the number of decrements and the number of exposures. For example, if there are only a few people in a high age category at the beginning of the year (number of exposures), we would not lend as much

credibility to the probability of termination developed for that age category, especially if it is out of line with the pattern shown for the other age groups. Similarly, if we are considering the death decrement, there may be a large number of exposures in the age 20-24 category, but very few decrements (actual deaths); therefore, we would not be able to rely heavily on the probability developed for that category.

One reason we use several years of experience for such a study is to have more exposures and decrements, and therefore more statistical reliability. Another reason for using several years of data is to smooth out fluctuations that may occur from one year to the next. However, we also calculate the rates on a year-to-year basis to check for any trend that may be developing in the most recent years.

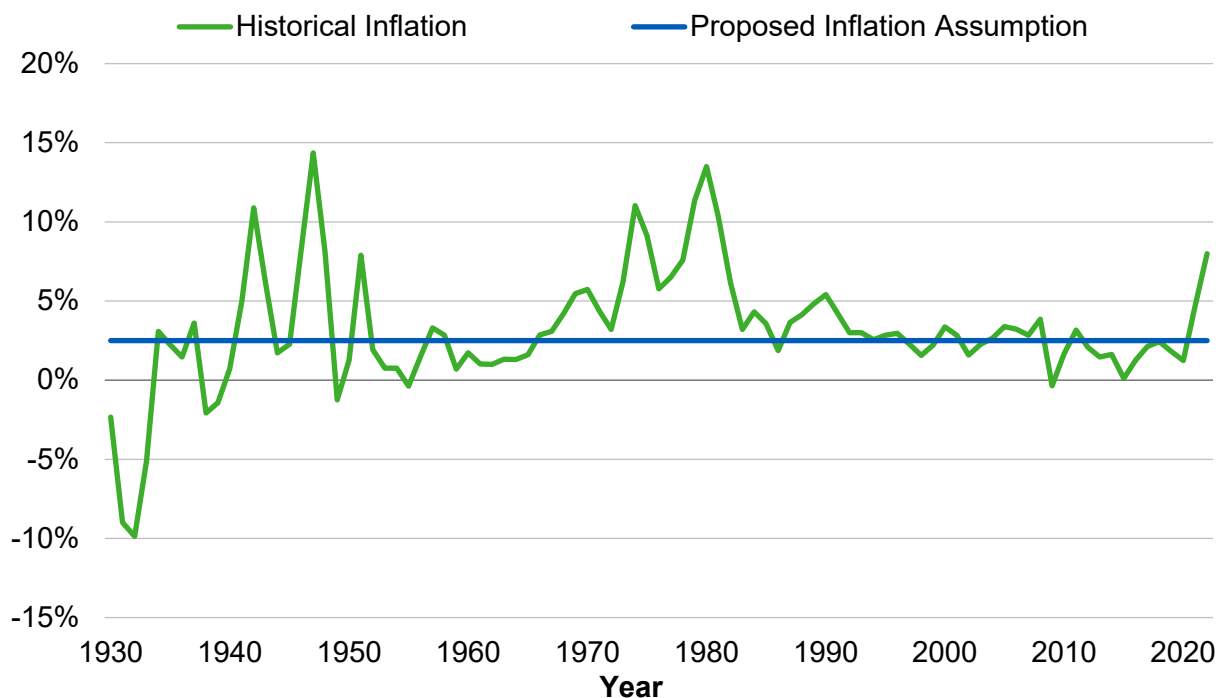
3. Economic Assumptions

A. Inflation

Unless an investment grows at least as fast as prices increase, investors will experience a reduction in the inflation-adjusted value of their investment. There may be times when “riskless” investments return more or less than inflation, but over the long term, investment market forces will generally require an issuer of fixed income securities to maintain a minimum return which protects investors from inflation.

The inflation assumption is long-term in nature, so our analysis begins with a review of historical information. Following is a graph showing historical inflation rates and a comparison with the inflation assumption of 2.50% that we recommend in this report:

Historical Consumer Price Index – 1930 to 2022¹
(U.S. City Average - All Urban Consumers)



There has been a spike in inflation that started in the second quarter of 2021 and continued into 2022. However, the rate of inflation, while still elevated, has leveled off and started to decline since the Federal Reserve began to increase interest rates starting around the second quarter of 2022.

Based on information found in the Public Plans Database, which is produced in partnership with the National System of State Retirement Administrators (NASRA), the median inflation

¹ Source: Bureau of Labor Statistics – Based on annual-to-annual CPI for All Items in U.S. city average, all urban consumers, not seasonally adjusted (Series ID: CUUR0000SA0).

assumption used by 194 large public retirement funds in their 2021 fiscal year valuations was 2.50%.¹ In California, CalSTRS and ten² 1937 Act CERL systems (including SCERS) currently use an inflation assumption of 2.75%, the other ten 1937 Act CERL systems use an inflation assumption of 2.50%³ and CalPERS uses an inflation assumption of 2.30%.

SCERS' investment consultant, Verus, anticipates an annual inflation rate of 2.10% over a 30-year horizon,⁴ while the average inflation assumption provided by Verus and five other investment advisory firms retained by Segal's California public sector clients, as well as Segal's investment advisory division (Segal Marco Advisors),⁵ was 2.43%. Note that, in general, investment consultants use a time horizon for this assumption that is shorter than the time horizon we use for the actuarial valuation.⁶

To find a forecast of inflation based on a longer time horizon, we referred to the Social Security Administration's (SSA) 2023 report on the financial status of the Social Security program.⁷ The projected average increase in the Consumer Price Index (CPI) over the next 75 years under the intermediate cost assumptions used in that report was 2.40%. The SSA report also includes alternative projections using lower and higher inflation assumptions of 1.80% and 3.00%, respectively.

We also compared the yields on the thirty-year inflation indexed U.S. Treasury bonds to comparable 30-year traditional U.S. Treasury bonds.⁸ This "break-even rate" is commonly regarded as a market-based gauge of future inflation expectations. As of April 2023, the difference in yields is about 2.23% which provides a measure of market expectations of inflation. This market expectation for long term inflation can be quite volatile and has dropped from a high of 2.55% over the last 12 months, which is illustrated in the table below. It is worth noting that even during the peak of the recent inflation spike this break-even rate exceeded 2.50% in only a single month, April 2022.

¹ Among 219 large public retirement funds, the 2021 fiscal year inflation assumption was not available for 25 of the public retirement funds in the survey data as of March 2023.

² We note that out of these ten 1937 Act CERL Systems, five of those are served by Segal and we would generally expect to recommend 2.50% as the inflation assumption in their next experience study. SCERS is included in this count.

³ Four of these 1937 Act CERL systems use a 2.50% inflation assumption with a 2.75% COLA assumption.

⁴ The annual inflation assumption used by Verus is 2.5% over a 10-year horizon.

⁵ We note that this is the first time we have included inflation and real rate of return assumptions used by Segal Marco Advisors in our review of economic assumptions for SCERS.

⁶ The time horizon used by the six investment consultants included in our review, with the exception of one investment consultant that uses a 1-year horizon, generally ranges from 20 years to 30 years, with Verus using a 30-year horizon.

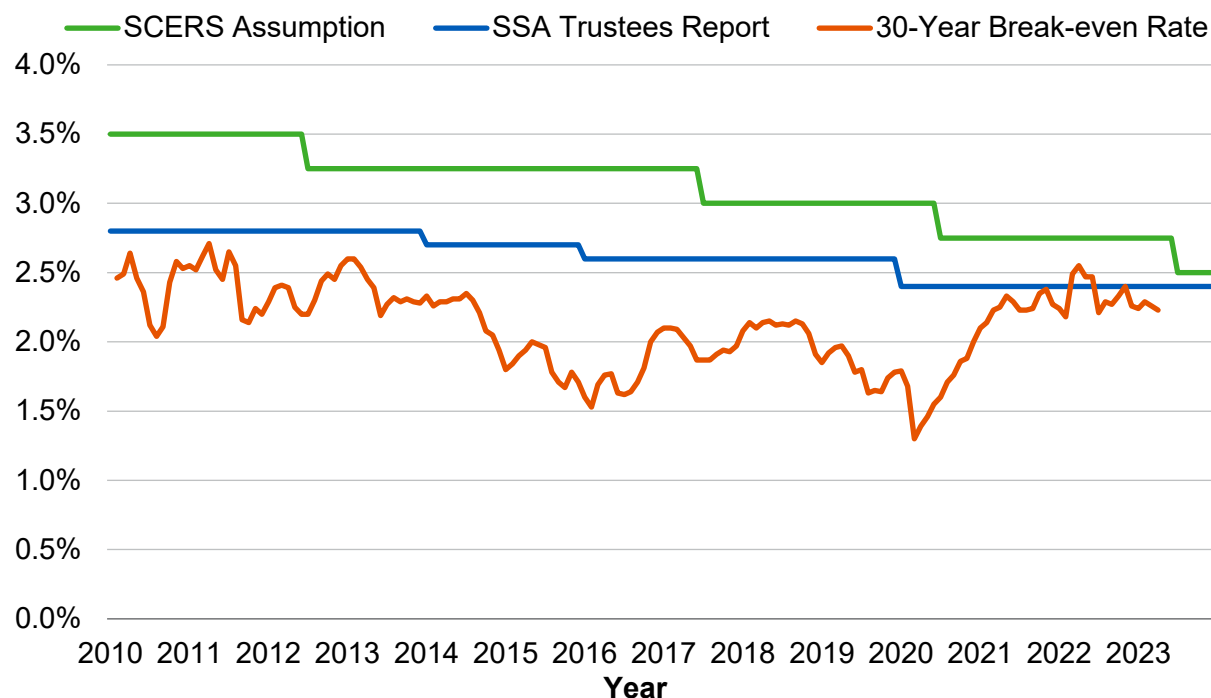
⁷ Source: Social Security Administration: The 2023 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.

⁸ Source: Board of Governors of the Federal Reserve System.

Observation Month	Difference in Yields	Observation Month	Difference in Yields
November 2021	2.38%	August 2022	2.29%
December 2021	2.27%	September 2022	2.27%
January 2022	2.24%	October 2022	2.33%
February 2022	2.18%	November 2022	2.40%
March 2022	2.49%	December 2022	2.26%
April 2022	2.55%	January 2023	2.24%
May 2022	2.47%	February 2023	2.29%
June 2022	2.47%	March 2023	2.26%
July 2022	2.21%	April 2023	2.23%

The following graph shows SCERS' historical and current proposed inflation assumptions compared to the two other measures just discussed, going back to 2010. In effect, this compares SCERS' assumption to two separate independent forecasts, one based on market observations and one developed by economists at the SSA. The graph shows that over this period, SCERS' assumption has been higher but consistently moving towards these other forecasts.

Historical Inflation Forecasts



The setting of the inflation assumption using the information outlined above is a somewhat subjective process, and Segal does not apply a specific weight to each of the metrics in determining our recommended inflation assumption. Based on a consideration of all of the above metrics, beginning in 2021 we are generally recommending the same 2.50% inflation assumption in our experience studies for our California public retirement system clients.

Based on all of the above information, we recommend reducing the annual inflation assumption from 2.75% to 2.50%.

Retiree Cost-of-Living Increases

In our last experience study as of June 30, 2019, consistent with the 2.75% annual inflation assumption adopted by the Board, the Board adopted a 2.75% cost-of-living adjustment (COLA) assumption (which is lower than the maximum COLA of 4.00% provided by the System) for all retirees in Tier 1 and a 2.00% COLA assumption for retirees in Miscellaneous Tiers 3, 4 and 5 and Safety Tiers 2, 3 and 4.

At that time, we set the recommended Tier 1 post-retirement COLA assumption to be equal to our recommended inflation assumption. However, we observe in the table below that during the most recent 10-year and 20-year periods ending before December 31, 2022, the changes in the annual average CPI for the San Francisco-Oakland-Hayward Area used by the Board to set COLAs have exceeded those of the annual average CPI for the U.S. City Average. This difference is not seen during the most recent 5-year period, which had unusually volatile inflation experience.

	Change in Annual CPI for San Francisco-Oakland-Hayward	Change in Annual CPI for U.S. City Average
5-Year Period	3.53%	3.61%
10-Year Period	3.16%	2.46%
20-Year Period	2.67%	2.46%

In order to reflect this 10-year and 20-year experience and to mitigate actuarial losses which may arise from future COLA increases greater than the inflation assumption, we believe it is reasonable for the Board to consider adopting an extra margin above the general price inflation in anticipating future COLAs for Tier 1. **Accordingly, for Tier 1 retirees with a maximum 4.00% COLA, our recommended COLA assumption of 2.75% includes a 0.25% margin above our recommended inflation assumption, which leaves the COLA assumption unchanged as shown below. We recommend no change in the 2.00% assumption used to value the post-retirement COLA for Miscellaneous Tiers 3, 4 and 5 and Safety Tiers 2, 3 and 4.**

Tiers	Maximum COLA	Current Assumption	Proposed Assumption
Miscellaneous Tier 1 and Safety Tier 1	4.00%	2.75% ¹	2.75% ¹
Miscellaneous Tier 2	N/A	N/A	N/A
Miscellaneous Tiers 3, 4 and 5 and Safety Tiers 2, 3 and 4	2.00%	2.00%	2.00%

In developing the COLA assumption, we also considered the results of a stochastic approach that would attempt to account for the possible impact of low inflation that could occur before

¹ We will continue to assume in the valuation that retired members and beneficiaries with a COLA bank on the date of the valuation will continue to receive the maximum COLA until the balances in their COLA banks are used up.

COLA banks are able to be established for the member. Although the results of this type of analysis might justify the use of a lower COLA assumption, we are not recommending that at this time. The reasons for this conclusion include the following:

- The results of the stochastic modeling are significantly dependent on assuming that lower levels of inflation will persist in the early years of the projections. If this is not assumed, then the stochastic modeling will produce results similar to our proposed COLA assumptions.
- Using lower long-term COLA assumptions based on a stochastic analysis would mean that an actuarial loss would occur even when the inflation assumption of 2.50% is met in a year. We question the reasonableness of this result.

We do not see the stochastic possibility of COLAs averaging less than those predicted by the assumed rate of inflation as a reliable source of cost savings that should be anticipated in our COLA assumptions. Therefore, we continue to recommend setting the COLA assumptions consistent with the COLA assumption we have used in prior years.

B. Investment Return

The investment return assumption is comprised of two primary components, inflation and real rate of investment return, with adjustments for certain expenses and risk.

Real Rate of Investment Return

This component represents the portfolio's incremental investment market returns over inflation. Generally, when an investor takes on greater investment risk, the return on the investment is expected to also be greater, at least in the long run. This additional risk and return is expected to vary by asset class and empirical data supports that expectation. For that reason, the real rate of return assumptions are developed by asset class. Therefore, the real rate of return assumption for a retirement plan's portfolio will vary with the Board's asset allocation among asset classes.

The System's current target asset allocation and the assumed real rate of return assumptions by asset class are shown in the following table. The first column of real rate of return assumptions are determined by reducing Verus' total or "nominal" 2023 return assumptions by their assumed 2.10% inflation rate. The second column of returns (except for Value Added Real Estate, Opportunistic Real Estate, Absolute Return, Real Assets, and Liquid Real Return) represents the average of a sample of real rate of return assumptions. The sample includes the expected annual real rate of return provided to us by Verus and five other investment advisory firms retained by Segal's public sector clients, as well as Segal's investment advisory division. We believe these averages are a reasonable consensus forecast of long-term future market returns in excess of inflation.¹

¹ Note that, just as for the inflation assumption, in general the time horizon used by the investment consultants in determining the real rate of return assumption is shorter than the time horizon encompassed by the actuarial valuation.

SCERS' Target Asset Allocation and Assumed Arithmetic Net Real Rate of Return Assumptions by Asset Class and for the Portfolio

Asset Class	Percentage of Portfolio	Verus' Assumed Net Real Rate of Return ¹	Average Assumed Net Real Rate of Return from a Sample of Consultants to Segal's California Public Sector Clients ²
Global Equity	40.00%	7.70%	7.05%
Private Equity	11.00%	9.60%	10.12%
Public Credit – High Yield	1.00%	5.00%	4.63%
Public Credit – Leveraged Loan	1.00%	4.20%	4.07%
Private Credit	5.00%	6.90%	6.69%
Fixed Income – Core	12.00%	2.60%	1.97%
Fixed Income – U.S. Treasury	4.00%	1.90%	1.31%
Core Real Estate	6.00%	4.30%	3.86%
Value Added Real Estate	1.50%	6.70%	6.70% ³
Opportunistic Real Estate	1.50%	8.60%	8.60% ³
Absolute Return	7.00%	3.00%	3.00% ³
Real Assets	7.00%	7.30%	7.30% ³
Liquid Real Return	2.00%	4.40%	4.40% ³
Cash	<u>1.00%</u>	<u>1.20%</u>	<u>0.63%</u>
Total	100.00%	6.27%	5.92%

Generally, the above are representative of “indexed” returns for securities that are publicly traded, returns net of fees for securities that are non-publicly traded and do not include any additional returns (“alpha”) from active management. Consideration of returns without alpha is consistent with the Actuarial Standard of Practice No. 27, Section 3.8.3.d, which states:

“Investment Manager Performance - Anticipating superior (or inferior) investment manager performance may be unduly optimistic (or pessimistic). The actuary should not assume that superior or inferior returns will be achieved, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy unless the actuary has reason to believe, based on relevant supporting data, that such superior or inferior returns represent a reasonable expectation over the long term.”

¹ The rates shown have been estimated by Segal by taking Verus' nominal projected arithmetic returns and reducing by Verus' assumed 2.10% inflation rate to develop the assumed real rate of return shown.

² These are based on the projected arithmetic returns provided by Verus and five other investment advisory firms serving the county retirement system of SCERS and 16 other city and county retirement systems in California, as well as Segal's investment advisory division. These return assumptions are net of any applicable investment management expenses.

³ For this asset class, Verus' assumption is applied in lieu of the average because there is a larger disparity in returns for these asset classes among the firms surveyed and using Verus' assumption should more closely reflect the underlying investments made specifically for SCERS.

The following are some observations about the returns provided above:

1. The investment consultants to our California public sector clients, as well as Segal's investment advisory division, have each provided us with their expected real rates of return for each asset class, over various future periods of time. However, in general, the returns available from investment consultants are projected over time periods that are shorter than the durations of a retirement plan's liabilities.
2. As discussed in the next section, the real rates of return provided this year by the investment consultants reflect a change in how investment expenses are reported.
3. Using a sample average of expected net real rates of return allows the System's investment return assumption to reflect a broader range of capital market information and should help reduce year to year volatility in the investment return assumption.
4. Therefore, we recommend that the 5.92% portfolio net real rate of return be used to determine SCERS' investment return assumption, but with some caution. This return is 0.88% higher than the 5.04% gross return that was used three years ago in the review of the recommended investment return assumption for the June 30, 2020 valuation even before we consider the approximately 0.60% in investment management expense that, as discussed in the next section, will no longer be subtracted from the 5.92% gross return.
5. The 0.88% increase in the portfolio net real rate of return since the 2020 return is due to changes in the real rate of return assumptions provided to us by the investment advisory firms (+0.39% under the 2020 asset allocation), changes in SCERS' target asset allocation (+0.42%) and the interaction effect between these changes (+0.07%). We believe the increase in portfolio net real rate of return attributable to those real rate of return assumptions may be due to the very low returns earned in the 2021-2022 plan year, as well as the increase in the federal funds rate during 2022, and so should be used with caution in selecting a long-term investment return assumption.

System Expenses

For funding purposes, the real rate of return assumption for the portfolio needs to reflect investment expenses expected to be paid from investment income. In prior experience studies, we have adjusted the gross real rate of return developed using the target asset allocation by the investment expenses expected to be paid by SCERS. Note that current practice for SCERS also adjusts for expected administrative expenses.

However, as prevailing practice by investment advisory firms is to provide us with the real rates of return net of expected investment expenses, especially for active portfolio management, we now need to make adjustments only for investment consulting fees, custodian fees and other miscellaneous investment expenses (as well as administrative expenses). The following table provides the administrative and investment expenses in relation to the actuarial value of assets as of the beginning of the year, for the six-year period ending June 30, 2022.

**Administrative and Investment Expenses
as a Percentage of Actuarial Value of Assets**
(Dollars in 000's)

Year Ending June 30	Actuarial Value of Assets¹	Investment Expenses²	Administrative Expenses	Investment %	Administrative %	Total %
2017	\$8,665,226	\$4,709	\$6,906	0.05	0.08	0.13
2018	9,123,004	4,654	6,888	0.05	0.08	0.13
2019	9,703,313	4,498	7,601	0.05	0.08	0.12
Three-Year Average (2017-2019)				0.05	0.08	0.13
2020	10,229,760	3,731	8,460	0.04	0.08	0.12
2021	10,929,549	3,929	9,165	0.04	0.08	0.12
2022	11,647,866	3,330	8,971	0.03	0.08	0.11
Three-Year Average (2020-2022)				0.03	0.08	0.11
Six-Year Average				0.04	0.08	0.12
Current Assumption (including investment management fees)						0.75
Proposed Assumption (excluding investment management fees)						0.15

Based on the above experience, we recommend reducing the expense component of the investment return assumption from 0.75% to 0.15%.

Note related to investment expenses paid to active managers – As cited above, under Section 3.8.3.d of ASOP No. 27, the effect of an active investment management strategy should be considered “net of investment expenses...unless the actuary believes, based on relevant data, that such superior or inferior returns represent a reasonable expectation over the measurement period.”

We have not performed a detailed analysis to measure how much of the investment expenses paid to active managers might have been offset by additional returns (“alpha”) earned by that active management. For this study, we will continue to use the current approach that any “alpha” that may be identified would be treated as an increase in the risk adjustment and corresponding confidence level that are discussed in the next section. However, as discussed above, the real return assumptions provided by the investment advisory firms assume that active management will generate additional returns to cover the expense of such management, an assumption that is consistent with ASOP No. 27.

Risk Adjustment

The real rate of return assumption for the portfolio is adjusted to reflect the potential risk of shortfalls in the return assumptions. SCERS’ asset allocation determines this portfolio risk, since risk levels are driven by the variability of returns for the various asset classes and the correlation

¹ As of the end of the plan year.

² Equals the sum of investment consulting fees, custodian fees, and other investment expenses and fees. Excludes investment manager fees.

of returns among those asset classes. This portfolio risk is incorporated into the real rate of return assumption through a risk adjustment.

The purpose of the risk adjustment (as measured by the corresponding confidence level) is to increase the likelihood of achieving the actuarial investment return assumption in the long term.¹ This is consistent with our experience that retirement plan fiduciaries would generally prefer that returns exceed the assumed rate more often than not.

The 5.92% expected real rate of return developed earlier in this report was based on expected arithmetic average returns. A retirement system using an expected arithmetic average return as the discount rate in a funding valuation is expected on average to have no surplus or asset shortfall relative to its expected obligations assuming all other actuarial assumptions are met in the future.² That is the basis used in Segal's previous experience studies for SCERS.

Beginning with this study, in addition to no longer including an explicit adjustment for investment management fees, we are converting the portfolio's expected arithmetic average return to an expected geometric average return. A retirement system using an expected geometric average return as the discount rate in a funding valuation will, over long periods of time, have an equal likelihood of having a surplus or asset shortfall relative to its expected obligations assuming all other actuarial assumptions are met in the future.³

Under either the arithmetic or geometric model, the confidence level associated with a particular risk adjustment represents a relative likelihood that future investment earnings would equal or exceed the assumed earnings over a 15-year period. The 15-year time horizon represents an approximation of the "duration" of the fund's liabilities, where the duration of a liability represents the sensitivity of that liability to interest rate variations.

For comparison purposes we first consider how the earlier model would look if used in this year's study. Three years ago, the Board adopted an investment return assumption of 6.75%. Under the model used in that experience study, that return implied a risk adjustment of 0.29%, corresponding to a 15-year confidence level of 54%, based on an annual portfolio return standard deviation of 10.93% provided by Verus in 2020.

If we use the same 54% 15-year confidence level from our last study to set this year's risk adjustment and the current annual portfolio return standard deviation of 11.5% provided by Verus, the corresponding risk adjustment would be 0.31%. Together with the other investment return components (including for this comparison updated expected arithmetic average returns and the same expense adjustment as used in the prior study), this would result in an investment return assumption of 7.36%, which is higher than the current assumption of 6.75%.

Based on the general practice of using one-quarter percentage point increments for economic assumptions, we evaluated the effect on the confidence level of other alternative investment return assumptions. We also considered that, as discussed above, the increase in the real rates of return provided by the investment consultants may reflect the very low returns earned in the 2021-2022 plan year, as well as the increase in the federal funds rate during 2022, and so could be overly optimistic when used for selecting a long-term investment return assumption. For that

¹ This type of risk adjustment is referred to in the Actuarial Standards of Practice as a "margin for adverse deviation."

² The mathematical terminology for this is that the mean (or average) surplus or asset shortfall is expected to be zero.

³ The mathematical terminology for this is that over time the median surplus or asset shortfall is expected to be zero.

reason, for this comparison value we considered a net investment return assumption of 6.50% which, together with the other investment return components, would produce a risk adjustment of 1.17% which corresponds to a confidence level of 65% under the model and expense adjustment used in prior studies. We believe this increase in confidence level would be appropriate given the concerns stated regarding the increase in the portfolio net real rate of return.¹ For comparison, the current net investment return assumption of 6.75% would now have a confidence level of 62% under the model and expense adjustment used in prior studies.

As noted above, beginning with this study, in addition to no longer including an explicit adjustment for investment management fees, we are converting the portfolio's expected arithmetic average return to an expected geometric average return. For any given asset portfolio, the expected geometric average return will be less than expected arithmetic average return.² The difference depends on the variability of the portfolio as measured by its standard deviation. Based on the annual portfolio return standard deviation of 11.5% provided by Verus, the adjustment to an expected geometric average return reduces the expected return by 0.62%.

Together with the other investment return components (now excluding investment management expenses) and prior to any risk adjustment, this would result in a median expected assumption of 7.65%, which is higher than the current assumption of 6.75%. In applying this model to SCERS for the first time we also considered a net investment return assumption of 6.50% which, together with the other investment return components, would produce a risk adjustment of 1.15% which under the expected geometric average return model corresponds to a confidence level of 65%. For comparison, the current net investment return assumption of 6.75% would have a confidence level of 62% under this model.

Recommended Investment Return Assumption

The following table summarizes the components of the recommended investment return assumption developed in the previous discussion. For comparison purposes, we have also included similar values from the last study as well as the comparison values discussed above that apply the prior year's model to this year's information.

¹ We note that part of the increase in SCERS' projected real investment returns is due to an adjustment to the asset allocation into assets that have a higher expected return and higher corresponding risk. This increase in risk may also support an increase in the risk adjustment and confidence level.

² This is because the expected geometric average return reflects expected median outcomes, while the expected arithmetic average return reflects expected average or mean outcomes. Expected median outcomes are lower than expected average outcomes because they are less affected by the possibility of extraordinary ("outlier") favorable outcomes.

Assumption Component	June 30, 2023 Recommended Value	June 30, 2023 Alternative Value	June 30, 2023 Comparison Values	June 30, 2020 Adopted Value
Inflation	2.50%	2.50%	2.50%	2.75%
Portfolio Expected Arithmetic Real Rate of Return	5.92%	5.92%	5.92%	5.04%
Expense Adjustment	(0.15)%	(0.15)%	(0.75)% ¹	(0.75)%
Adjustment to Expected Geometric Real Rate of Return	(0.62)%	(0.62)%	N/A	N/A
Risk Adjustment	<u>(1.15)%</u>	<u>(0.90)%</u>	<u>(1.17)%</u>	<u>(0.29)%</u>
Total	6.50%	6.75%	6.50%	6.75%
Confidence Level	65%	62%	65%	54%

Based on this analysis, we recommend reducing the investment return assumption from 6.75% to 6.50% per annum. Together with the recommended inflation assumption, this recommendation leaves the net real return component of the assumption consistent with the 2020 adopted value. This recommendation gives less credibility to the currently higher capital market assumptions, increases the risk adjustment to reflect higher volatility in the investment portfolio, and continues the practice that historically the Board has been relatively conservative in selecting this assumption.²

Alternatively, the Board could consider the higher capital market assumptions credible enough to justify a modest increase in the net real rate of return and so choose to maintain the current 6.75% per annum net investment return assumption, which corresponds to a 62% confidence level. In that case, we would recommend that Segal review this assumption next year based on the 2024 capital market assumptions and based on that review consult with SCERS staff to determine whether to recommend to the Board a formal out-of-cycle review of the investment return assumption in 2024.

The table below shows SCERS' recommended investment return assumption and the corresponding risk adjustment and confidence level compared to the similar values for prior studies.

¹ For purposes of these comparison values we have assumed the same investment expenses as in the previous study, which included investment management fees.

² For instance, SCERS was one of the first California public retirement systems to adopt the current 6.75% assumption.

Historical Investment Return Assumptions, Risk Adjustments and Confidence Levels based on Assumptions Adopted by the Board

Years Ending June 30	Investment Return	Risk Adjustment	Corresponding Confidence Level
2012 - 2013	7.50%	1.27%	64%
2014 - 2016	7.50%	0.92%	60%
2017 - 2019	7.00%	0.50%	57%
2020 - 2022	6.75%	0.29%	54%
2023 (Comparison)	6.50%	1.17%	65%
2023 (Recommended)	6.50%	1.15%	65%
2023 (Alternative)	6.75%	0.90%	62%

As we have discussed in prior experience studies, the risk adjustment model and associated confidence level is most useful as a means for comparing how SCERS has positioned itself relative to risk over periods of time.¹ The use of a 65% confidence level should be considered in context with other factors, including:

- As noted above, the confidence level is more of a relative measure than an absolute measure, and so can be reevaluated and reset for future comparisons. This is particularly true when comparing confidence levels developed using different models, as we are doing in this transitional year from one model to another.
- The confidence level is based on the standard deviation of the portfolio that is determined and provided to us by Verus. The standard deviation is a statistical measure of the future volatility of the portfolio and so is itself based on assumptions about future portfolio volatility and can be considered somewhat of a “soft” number.
- We have not taken into account any additional returns (“alpha”) that might be earned on active management. This means that if active management generates enough alpha to cover its related expenses, this would increase returns. This aspect of Segal’s model is further evaluated below.
- As with any model, the results of the risk adjustment model should be evaluated for reasonableness and consistency. This is discussed in the later section on “Comparison with Other Public Retirement Systems.”

Comparison with Alternative Model used to Review Investment Return Assumption

In previous studies, we have consistently reviewed investment return assumptions based on our model that incorporates expected arithmetic real returns for the different asset classes and for the entire portfolio as one component of that model.² The use of “forward looking expected

¹ In particular, it would not be appropriate to use this type of risk adjustment as a measure of determining an investment return rate that is “risk-free.”

² Again, as discussed earlier in this section, if a retirement system uses the expected arithmetic average return as the discount rate in the funding valuation, that retirement system is expected to have no surplus or asset shortfall relative to its expected obligations assuming all actuarial assumptions are met in the future.

arithmetic returns” is one of the approaches discussed for use in the Selection of Economic Assumptions for measuring Pension Obligations under Actuarial Standards of Practice (ASOP) No. 27.

Besides using forward looking expected arithmetic returns, ASOP No. 27 also discusses setting investment return assumptions using an alternative “forward looking expected geometric returns” approach, which is the model we have used in this study.¹ Even though as noted earlier expected geometric returns are lower than expected arithmetic returns, public retirement systems that have set investment return assumptions using this geometric approach have in practice adopted investment return assumptions that are comparable to those adopted by the Board for SCERS under the arithmetic approach. This is because under the model used by those retirement systems and by Segal in this report, the investment return assumption is not reduced to anticipate future investment management expenses. That is also why the comparison values and recommended values discussed earlier reach the same 6.50% expected return with comparable confidence levels. (The same is also true with respect to the alternative value of 6.75%.)

In the interest of still having an alternative model for comparison, we evaluated the recommended 6.50% assumption based on the expected geometric return for the entire portfolio gross of management investment expenses, but using a fully stochastic approach and a different source for capital market assumptions. Under this alternative model, over a 15-year period, there is a 57% likelihood that future average geometric returns will meet or exceed 6.50%² developed using the capital market assumptions compiled by Horizon Actuarial Services based on their most recent survey published in August 2022. (The likelihood is 54% under the alternative assumption of 6.75%.) This 57% likelihood is slightly lower than the corresponding likelihood of 58% that we observed in this comparison during the assumption review in 2020. However, note that some of the investment advisory firms that participated in the 2022 Horizon survey have since raised their capital market assumptions and it is reasonable to expect the 57% likelihood to increase if we were to revise these results using the updated capital market assumptions when the 2023 Horizon survey becomes available.

Comparison with Other Public Retirement Systems

One final test of the recommended investment return assumption is to compare it against those used by other public retirement systems, both in California and nationwide.

We note that an investment return of 6.75% or lower is becoming more common among California public sector retirement systems. In particular, of the twenty 1937 Act CERL systems, seven use a 7.00% investment return assumption, eight use 6.75%, two use 6.50% and one uses 6.25%. The remaining two 1937 Act CERL systems currently use a 7.25% earnings assumption. Furthermore, CalSTRS currently uses a 7.00% earnings assumption and CalPERS

¹ As also noted earlier in slightly different terms, if a retirement system uses the expected geometric average return as the discount rate in the funding valuation, that retirement system is expected to have an asset value that generally converges to the median accumulated value as the time horizon lengthens assuming all actuarial assumptions are met in the future.

² We performed this stochastic simulation using the capital market assumptions included in the 2022 survey prepared by Horizon Actuarial Services. That simulation was performed using 10,000 trial outcomes of future market returns, using assumptions from 20-year arithmetic returns, standard deviations and correlation matrix that were found in the 2022 survey that included responses from 24 investment advisors.

uses a 6.80% earnings assumptions, while the San Jose and San Diego City retirement systems use investment return assumptions of 6.625% and 6.50%, respectively.

The following table compares SCERS' recommended net investment return assumption against those of the 210 large public retirement funds in their 2021 fiscal year valuations based on information found in the Public Plans Database, which is produced in partnership with NASRA:¹

Assumption	SCERS	Public Plans Data ²		
		Low	Median	High
Net Investment Return	6.50%	4.25%	7.00%	8.25%

The detailed survey results show that over 80% of the systems have an investment return assumption in the range of 6.75% to 7.50%. Also, over half of the systems have reduced their investment return assumption from 2017 to 2021. State systems outside of California tend to change their economic assumptions less frequently and so may lag behind emerging practices in this area.

In summary, the recommended assumption of 6.50% gives less credibility to the higher capital market assumptions and provides for an appropriate risk margin within the risk adjustment model, and is consistent with SCERS' historical practice relative to other public systems. We believe this choice would produce a more stable assumption going forward regardless of whether or not capital market assumptions continue to move. If the Board wants to give somewhat more credibility to the currently higher capital market assumptions, then the alternative assumption of 6.75% could be considered. In this case we may recommend revisiting this assumption as soon as next year if we see a material correction in capital market assumptions.

¹ Among 219 large public retirement funds, the 2021 fiscal year investment return assumption was not available for 9 of the public retirement funds in the Public Plans Database as of March 2023.

² Public Plans Data website – Produced in partnership with the National System of State Retirement Administrators (NASRA).

C. Salary Increase

Salary increases impact plan costs in two ways: (1) by increasing members' benefits (since benefits are a function of the members' highest average pay) and future normal cost collections; and (2) by increasing total active member payroll which in turn generates lower UAAL contribution rates as a percent of payroll. These two impacts are discussed separately as follows:

As an employee progresses through his or her career, increases in pay are expected to come from three sources:

1. **Inflation:** Unless pay grows at least as fast as consumer prices grow, employees will experience a reduction in their standard of living. There may be times when pay increases lag or exceed inflation, but over the long term, labor market forces may require an employer to maintain its employees' standards of living.

As discussed earlier in this report, we recommend reducing the annual inflation assumption from 2.75% to 2.50%. This inflation component is used as part of the salary increase assumption.

2. **Real "Across the Board" Pay Increases:** These increases are typically termed productivity increases since they are considered to be derived from the ability of an organization or an economy to produce goods and services in a more efficient manner. As that occurs, at least some portion of the value of these improvements can provide a source for pay increases. These increases are typically assumed to extend to all employees "across the board". The State and Local Government Workers Employment Cost Index produced by the Department of Labor provides evidence that real "across the board" pay increases have averaged about 0.5% – 0.8% annually during the last ten to twenty years.

We also referred to the annual report on the financial status of the Social Security program published in June 2022. In that report, real "across the board" pay increases are forecast to be 1.15% per year under the intermediate assumptions.

The real pay increase assumption is generally considered a more "macroeconomic" assumption that is not necessarily based on individual plan experience. However, recent salary experience with public systems in California as well as anecdotal discussions with plans and plan sponsors indicate lower future real wage growth expectations for public sector employees. We note that for SCERS' active members, the actual average inflation plus "across the board" increase (i.e., wage inflation) over the three-year period ending June 30, 2022 was 1.94%, which is lower than the change in CPI of 3.51% during that same period, largely as a result of the inflation spike discussed above:

Valuation Date	Actual Average Increase ¹	Actual Annual-to-Annual Change in CPI ²
June 30, 2020	3.46%	1.72%
June 30, 2021	2.47%	3.21%
June 30, 2022	-0.10%	5.60%
Three-Year Average	1.94%	3.51%

¹ Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.

² Based on the change in the annual average CPI for the San Francisco-Oakland-Hayward Area compared to the prior year.

Even though the actual average salary increase was lower than the average change in the CPI over the 3-year period ending June 30, 2022, this was in part due to the spike in inflation in 2021-2022.

Based on all of the above information, we recommend maintaining the real “across the board” salary increase assumption at 0.25%. This means that the combined inflation and “across the board” salary increase assumption will decrease from 3.00% to 2.75%.

3. **Merit and Promotion Increases:** As the name implies, these increases come from an employee’s career advances. This form of pay increase differs from the previous two, since it is specific to the individual. For SCERS, there are service-specific merit and promotion increase assumptions.

The annual merit and promotion increases are determined by measuring the actual increases received by members over the experience period, net of the inflationary and real “across the board” pay increases. Increases are measured separately for Miscellaneous and Safety members. This is accomplished by:

- a. Measuring each continuing member’s actual salary increase over each year of the experience period on a salary-weighted basis, with higher weights assigned to experience from members with larger salaries;
- b. Excluding any members with increases of more than 50% or any decreases during any particular year;
- c. Categorizing these increases according to member demographics;
- d. Removing the wage inflation component from these increases (assumed to be equal to the increase in the members’ average salary during the year);
- e. Averaging these annual increases over the experience period; and
- f. Modifying current assumptions to reflect some portion of these measured increases reflective of their “credibility.”

To be consistent with the other economic assumptions, these merit and promotion assumptions should be used in combination with the total 2.75% assumed inflation and real “across the board” increases recommended in this study.

Due to the high variability of the actual salary increases, we have analyzed this assumption using data for the past six years. We believe that when the experience from the current and prior studies is combined, it provides a more reasonable representation of potential future merit and promotion salary increases over the long term.

In the past, assumed salary increases have been applied based on the member’s service at the beginning of the year. We recommend a refinement to this assumption where salary increases are applied based on the member’s current service at the end of a fiscal year, which is more consistent with the timing of the actual pensionable compensation we receive to perform the annual valuations.

The following table shows the Miscellaneous members' actual average merit and promotion increases by years of service over the current three-year period from July 1, 2019 through June 30, 2022, along with the average increases over the six-year period from July 1, 2016 through June 30, 2022 (combining the current three-year period with the three-year period from the prior experience study). The current and proposed assumptions are also shown. The actual increases were reduced by the actual average inflation plus "across the board" increase (i.e., wage inflation, estimated as the increase in average salaries) for each year during the experience period (2.19% on average for the current three-year period, 2.87% on average for the prior three-year period).

Miscellaneous Rate (%)

Years of Service	Current Assumption	Actual Average Increase from Current Study (Last 3 Years)	Actual Average Increase from Current and Prior Studies (Last 6 Years)	Proposed Assumption
Less than 1	5.00	4.53	4.56	6.00
1 – 2	5.00	6.81	7.02	6.00
2 – 3	5.00	5.88	6.08	5.50
3 – 4	5.00	5.31	5.38	5.25
4 – 5	4.00	4.57	4.34	4.25
5 – 6	3.00	3.27	3.26	3.25
6 – 7	2.50	2.91	2.86	2.75
7 – 8	2.25	2.58	2.62	2.50
8 – 9	2.00	2.44	2.56	2.25
9 – 10	1.80	2.53	2.42	2.10
10 – 11	1.70	2.23	2.10	2.00
11 – 12	1.60	1.67	1.84	1.70
12 – 13	1.50	1.55	1.71	1.50
13 – 14	1.45	1.92	1.93	1.50
14 – 15	1.35	2.04	1.86	1.50
15 & Over	1.25	1.65	1.44	1.50

Based on this experience, overall we recommend increasing the merit and promotion salary increase assumptions for Miscellaneous members. The overall salary increase assumptions will increase slightly for Miscellaneous members after taking into account the lower inflation component of the salary increase assumption.

Chart 1 that follows later in the section compares the actual merit and promotion increase experience with the current and proposed assumptions for Miscellaneous members.

The following table shows the Safety members' actual average merit and promotion increases by years of service over the current three-year period from July 1, 2019 through June 30, 2022, along with the average increases over the six-year period from July 1, 2016 through June 30, 2022 (combining the current three-year period with the three-year period from the prior experience study). The current and proposed assumptions are also shown. The actual increases were reduced by the actual average inflation plus "across the board" increase (i.e., wage inflation, estimated as the increase in average salaries) for each year during the experience period (1.36% on average for the current three-year period, 2.17% on average for the prior three-year period).

Safety Rate (%)

Years of Service	Current Assumption	Actual Average Increase from Current Study (Last 3 Years)	Actual Average Increase from Current and Prior Studies (Last 6 Years)	Proposed Assumption
Less than 1	7.50	6.25	6.73	7.00
1 – 2	6.50	5.93	5.84	6.25
2 – 3	6.25	5.62	5.70	6.00
3 – 4	5.50	6.46	5.82	5.75
4 – 5	5.00	5.71	4.68	5.25
5 – 6	4.25	4.38	4.26	4.25
6 – 7	4.00	3.96	4.16	4.00
7 – 8	3.50	4.09	3.74	3.75
8 – 9	3.25	3.98	4.35	3.50
9 – 10	3.00	4.23	3.73	3.25
10 – 11	2.50	4.16	3.43	3.00
11 – 12	2.50	3.26	3.44	3.00
12 – 13	2.50	4.20	3.47	3.00
13 – 14	2.50	4.54	3.92	3.00
14 – 15	2.50	4.24	3.87	3.00
15 & Over	2.50	4.19	3.64	2.75

Based on this experience, overall we recommend increasing the merit and promotion salary increase assumptions for Safety members. The overall salary increase assumptions will decrease slightly for Safety members after taking into account the lower inflation component of the salary increase assumption.

Chart 2 compares the actual merit and promotion increase experience with the current and proposed assumptions for Safety members.

Active Member Payroll

Projected active member payrolls are used to develop the UAAL contribution rate. Future values are determined as a product of the number of employees in the workforce and the average pay for all employees. The average pay for all employees increases only by inflation and real “across the board” pay increases. The merit and promotion increases are not an influence, because this average pay is not specific to an individual.

Under the Board’s current practice, the UAAL contribution rate is developed by assuming that the total payroll for all active members will increase annually over the amortization periods at the same assumed rates of inflation plus real “across the board” salary increase assumptions as are used to project the members’ future benefits.

Consistent with the combined recommended inflation and real “across the board” salary increase assumptions, we recommend reducing the payroll growth assumption from 3.00% to 2.75% annually.

Chart 1: Merit and Promotion Salary Increase Rates
Miscellaneous Members

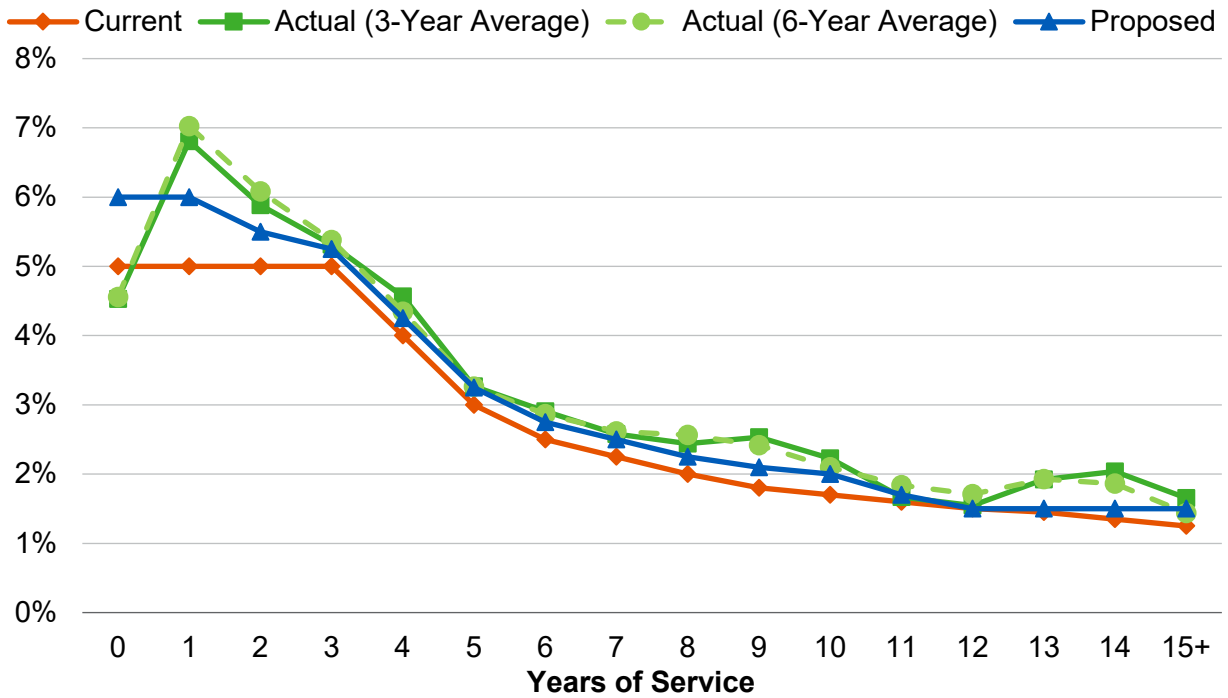
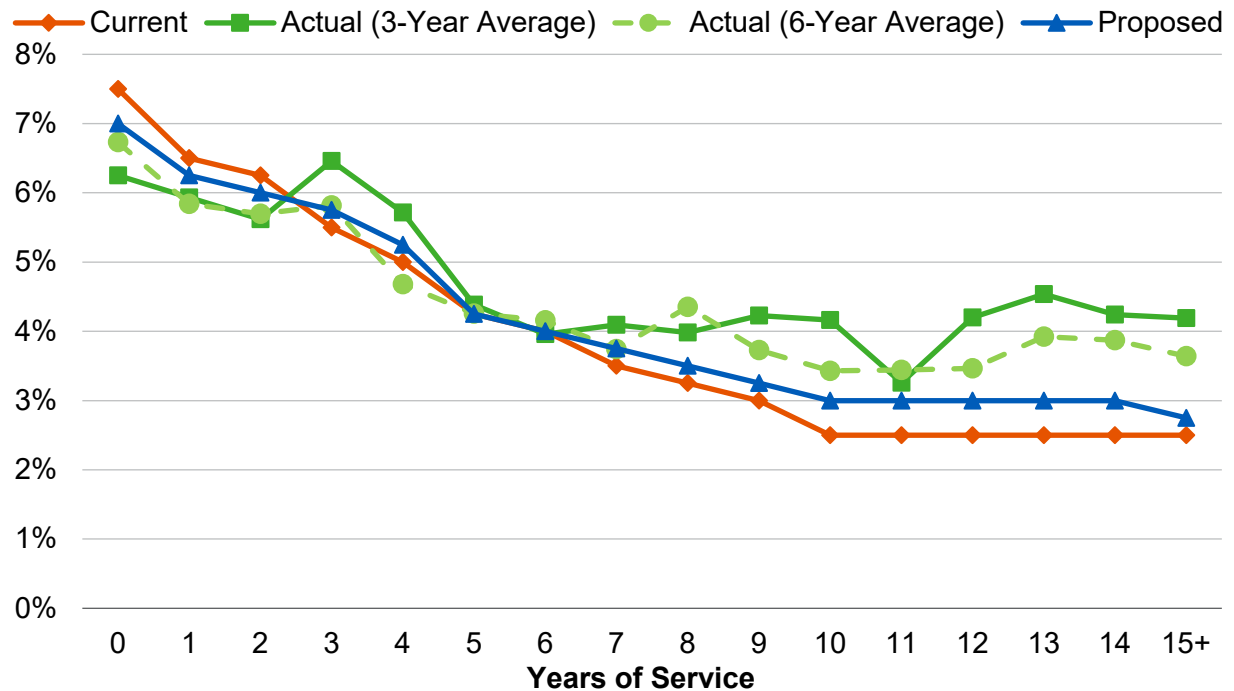


Chart 2: Merit and Promotion Salary Increase Rates
Safety Members



4. Demographic Assumptions

A. Retirement Rates

The age at which a member retires from service (i.e., who did not retire on a disability pension) will affect both the amount of the benefits that will be paid to that member as well as the period over which funding must take place.

The retirement experience during the current three-year period indicated that there were fewer actual retirements than expected from the Miscellaneous Tiers 2 and 3 member categories and more actual retirements than expected from the Safety Tiers 1 and 2 member categories. For Miscellaneous Tiers 4 and 5, we are recommending lowering the retirement rates consistent with the adjustments made for Miscellaneous Tiers 2 and 3. For Miscellaneous Tier 1 and Safety Tiers 3 and 4, we are not recommending a change in the retirement assumptions because there is insufficient data to support a change.

Currently, the assumed retirement rates for Miscellaneous Tiers 2 and 3 and Safety Tiers 1 and 2 are a function of both age and years of service. With this year's experience study, we recommend that retirement rates be structured as a function of both age and years of service for Miscellaneous Tier 5. For Miscellaneous Tier 5, the new structure of retirement assumptions will apply different sets of age-based retirement assumptions for those with less than 30 years of service and those with 30 or more years of service.

For Miscellaneous Tiers 1 and 4 and Safety Tier 3 that are closed to new entrants and have relatively fewer active members, we will continue to recommend that retirement rates be structured as a function of only age. However, for Safety Tier 4 that is still open to new entrants, we will wait until more data on actual retirement experience is available to allow a review of the retirement rates based on both age and service.

The following table shows the observed service retirement rates for Miscellaneous Tier 1 members based on the actual experience over the past three years. The actual service retirement rates were determined by comparing those members who actually retired from service to those eligible to retire from service. This same methodology is followed throughout this report and was described in Section 2. Also shown are the current assumed rates and the rates we propose.

Miscellaneous Tier 1
Rate of Retirement (%)

Age	Current Rate	Actual Rate	Proposed Rate
50	6.00	N/A	6.00
51	4.50	N/A	4.50
52	4.50	N/A	4.50
53	4.50	N/A	4.50
54	5.50	N/A	5.50
55	12.00	N/A	12.00
56	18.00	N/A	18.00
57	18.00	0.00	18.00
58	18.00	0.00	18.00
59	20.00	83.33	20.00
60	28.00	25.00	28.00
61	35.00	12.50	35.00
62	35.00	30.00	35.00
63	35.00	28.57	35.00
64	35.00	0.00	35.00
65	35.00	33.33	35.00
66	40.00	25.00	40.00
67	40.00	0.00	40.00
68	50.00	20.00	50.00
69	60.00	25.00	60.00
70 & Over	100.00	50.00	100.00

As shown above, we recommend maintaining the current retirement rate assumptions for Miscellaneous Tier 1 members as there are only 13 active members left as of June 30, 2022.

Chart 3 that follows later in this section compares actual to expected retirements over the past three years for both the current and proposed assumptions for all Miscellaneous and Safety members.

Chart 4 compares the actual retirement experience with the current and proposed assumptions for Miscellaneous Tier 1 members.

The following table shows the observed service retirement rates for Miscellaneous Tiers 2 and 3 members based on the actual experience over the past three years, separately for those with less than 30 years of service and more than 30 years of service. Also shown are the current assumed rates and the rates we propose.

Miscellaneous Tiers 2 and 3 Rate of Retirement (%)

Age	Less than 30 Years of Service			30 or More Years of Service		
	Current Rate	Actual Rate	Proposed Rate	Current Rate	Actual Rate	Proposed Rate
50	2.50	2.53	2.50	2.50	0.00	2.50
51	1.75	2.29	2.00	1.75	0.00	2.00
52	2.00	2.19	2.00	2.00	14.29	2.00
53	2.50	1.96	2.00	2.50	3.57	2.00
54	3.00	4.26	3.50	3.00	10.00	9.00
55	4.00	4.99	4.50	8.00	12.90	12.00
56	5.00	6.52	5.50	10.00	13.33	12.00
57	8.00	7.53	7.50	16.00	13.46	15.00
58	9.00	6.19	8.00	18.00	22.92	20.00
59	9.00	7.82	8.00	18.00	25.61	25.00
60	9.00	9.43	9.00	18.00	27.50	25.00
61	15.00	13.56	15.00	30.00	30.49	30.00
62	18.00	23.43	20.00	18.00	32.79	31.00
63	18.00	16.52	18.00	18.00	26.00	25.00
64	20.00	18.59	20.00	20.00	26.19	25.00
65	35.00	23.51	30.00	35.00	24.24	30.00
66	35.00	39.13	35.00	35.00	33.33	35.00
67	35.00	28.18	30.00	35.00	8.33	30.00
68	35.00	31.71	30.00	35.00	22.22	30.00
69	35.00	25.81	30.00	35.00	80.00	30.00
70	100.00	22.64	30.00	100.00	0.00	30.00
71	100.00	27.50	30.00	100.00	0.00	30.00
72	100.00	32.00	30.00	100.00	0.00	30.00
73	100.00	23.53	30.00	100.00	0.00	30.00
74	100.00	28.57	30.00	100.00	0.00	30.00
75 & Over	100.00	10.81	100.00	100.00	60.00	100.00

Based on this experience, we recommend decreasing the retirement rate assumption at certain ages while increasing the retirement rate assumption at other ages. Overall, the proposed rates represent a decrease from the current rates for Miscellaneous Tiers 2 and 3 members.

Chart 5 compares the actual retirement experience with the current and proposed assumptions for Miscellaneous Tiers 2 and 3 members with less than 30 years of service.

Chart 6 compares the actual retirement experience with the current and proposed assumptions for Miscellaneous Tiers 2 and 3 members with 30 or more years of service.

The following table shows the observed service retirement rates for Miscellaneous Tier 4 members based on the actual experience over the past three years. Also shown are the current assumed rates and the rates we propose.

Miscellaneous Tier 4
Rate of Retirement (%)

Age	Current Rate	Actual Rate	Proposed Rate
50	2.50	0.00	2.50
51	1.75	0.00	2.00
52	2.00	50.00	2.00
53	1.75	N/A	2.00
54	2.25	100.00	2.50
55	3.00	N/A	3.50
56	4.50	N/A	5.00
57	6.50	N/A	6.00
58	7.00	0.00	6.00
59	7.00	100.00	6.00
60	7.50	N/A	7.50
61	12.00	0.00	12.00
62	13.00	75.00	13.00
63	12.00	0.00	12.00
64	13.00	N/A	13.00
65	25.00	N/A	25.00
66	18.00	100.00	21.00
67	18.00	N/A	21.00
68	21.00	100.00	21.00
69	23.00	N/A	23.00
70	100.00	0.00	30.00
71	100.00	N/A	30.00
72	100.00	N/A	30.00
73	100.00	N/A	30.00
74	100.00	N/A	30.00
75 & Over	100.00	N/A	100.00

Based on this experience, we recommend decreasing the retirement rate assumption at certain ages while increasing the retirement rate assumption at other ages. Overall, the proposed rates represent a decrease from the current rates for Miscellaneous Tier 4 members. We are not recommending that the retirement rate assumption be structured as a function of both age and service as there are only 308 active members as of June 30, 2022.

Chart 7 compares the actual retirement experience with the current and proposed assumptions for Miscellaneous Tier 4 members.

The following table shows the observed service retirement rates for Miscellaneous Tier 5 members based on the actual experience over the past three years, separately for those with less than 30 years of service and more than 30 years of service. Also shown are the current assumed rates and the rates we propose.

Miscellaneous Tier 5 *Rate of Retirement (%)*

Age	Less than 30 Years of Service			30 or More Years of Service		
	Current Rate	Actual Rate	Proposed Rate	Current Rate	Actual Rate	Proposed Rate
52	4.00	3.45	3.50	4.00	N/A	4.00
53	1.25	4.00	1.25	1.25	N/A	2.50
54	1.75	1.89	1.50	1.75	N/A	3.00
55	2.50	0.00	1.75	2.50	N/A	3.50
56	4.00	0.00	2.00	4.00	N/A	4.00
57	6.00	4.17	4.00	6.00	N/A	6.00
58	6.50	6.25	4.50	6.50	N/A	6.50
59	6.50	5.26	4.50	6.50	N/A	6.50
60	7.00	8.33	5.00	7.00	N/A	7.00
61	11.00	6.25	8.00	11.00	N/A	11.00
62	12.00	9.09	10.00	12.00	N/A	12.00
63	11.00	8.33	9.00	11.00	N/A	11.00
64	13.00	8.70	11.00	13.00	N/A	13.00
65	24.00	19.23	22.00	24.00	N/A	24.00
66	18.00	30.00	18.00	18.00	N/A	18.00
67	18.00	15.38	18.00	18.00	N/A	18.00
68	21.00	36.36	21.00	21.00	N/A	21.00
69	23.00	11.11	23.00	23.00	N/A	23.00
70	100.00	0.00	30.00	100.00	N/A	30.00
71	100.00	10.00	30.00	100.00	N/A	30.00
72	100.00	25.00	30.00	100.00	N/A	30.00
73	100.00	25.00	30.00	100.00	N/A	30.00
74	100.00	100.00	30.00	100.00	N/A	30.00
75 & Over	100.00	0.00	100.00	100.00	N/A	100.00

Based on this experience, we recommend decreasing the retirement rate assumption at certain ages while increasing the retirement rate assumption at other ages. Overall, the proposed rates represent a decrease from the current rates for Miscellaneous Tier 5 members. We are recommending that the retirement rate assumption be structured as a function of both age and service similar to the structure set for the Miscellaneous Tiers 2 and 3 legacy plans before the introduction of Miscellaneous Tier 5 as a result of CalPEPRA.

Chart 8 compares the actual retirement experience with the current and proposed assumptions for Miscellaneous Tier 5 members with less than 30 years of service.

Chart 9 compares the actual retirement experience with the current and proposed assumptions for Miscellaneous Tier 5 members with 30 or more years of service.

The following table shows the observed service retirement rates for Safety Tiers 1 and 2 members based on the actual experience over the past three years, separately for those with less than 25 years of service and more than 25 years of service. Also shown are the current assumed rates and the rates we propose.

Safety Tiers 1 and 2 *Rate of Retirement (%)*

Age	Less than 25 Years of Service			25 or More Years of Service		
	Current Rate	Actual Rate	Proposed Rate	Current Rate	Actual Rate	Proposed Rate
45	2.50	2.47	2.50	2.50	0.00	2.50
46	2.50	3.60	3.00	2.50	0.00	3.00
47	2.50	5.11	4.50	2.50	11.76	4.50
48	2.50	10.22	7.00	2.50	20.00	10.00
49	10.00	21.68	16.00	10.00	42.86	35.00
50	18.00	38.10	25.00	36.00	53.66	50.00
51	15.00	27.72	20.00	30.00	35.48	40.00
52	18.00	27.40	22.00	36.00	57.89	45.00
53	16.00	22.22	16.00	32.00	53.33	45.00
54	18.00	16.33	18.00	27.00	46.67	35.00
55	18.00	28.13	20.00	27.00	80.00	30.00
56	20.00	24.24	20.00	30.00	20.00	30.00
57	20.00	17.86	20.00	30.00	36.36	30.00
58	20.00	18.52	20.00	30.00	45.45	35.00
59	30.00	21.05	30.00	30.00	33.33	30.00
60	45.00	41.67	45.00	45.00	60.00	45.00
61	55.00	27.27	50.00	55.00	0.00	50.00
62	70.00	33.33	70.00	70.00	50.00	70.00
63	70.00	28.57	70.00	70.00	0.00	70.00
64	70.00	66.67	70.00	70.00	50.00	70.00
65 & Over	100.00	30.77	100.00	100.00	N/A	100.00

Based on this experience, we recommend increasing the retirement rate assumption at certain ages while decreasing the retirement rate assumption at other ages. Overall, the proposed rates represent an increase from the current rates for Safety Tiers 1 and 2 members.

Chart 10 compares the actual retirement experience with the current and proposed assumptions for Safety Tiers 1 and 2 members with less than 25 years of service.

Chart 11 compares the actual retirement experience with the current and proposed assumptions for Safety Tiers 1 and 2 members with 25 or more years of service.

The following table shows the observed service retirement rates for Safety Tier 3 members based on the actual experience over the past three years. Also shown are the current assumed rates and the rates we propose.

Safety Tier 3
Rate of Retirement (%)

Age	Current Rate	Actual Rate	Proposed Rate
45	1.50	0.00	1.50
46	1.50	0.00	1.50
47	1.50	0.00	1.50
48	1.50	0.00	1.50
49	4.00	0.00	4.00
50	10.00	0.00	10.00
51	12.00	0.00	12.00
52	14.00	0.00	14.00
53	16.00	33.00	16.00
54	18.00	0.00	18.00
55	50.00	50.00	50.00
56	25.00	N/A	25.00
57	25.00	N/A	25.00
58	25.00	N/A	25.00
59	30.00	N/A	30.00
60	45.00	0.00	45.00
61	55.55	0.00	55.55
62	70.00	N/A	70.00
63	70.00	N/A	70.00
64	70.00	N/A	70.00
65 & Over	100.00	N/A	100.00

As shown above, we recommend maintaining the current retirement rate assumptions for Safety Tier 3 members. We are not recommending that the retirement rate assumption be structured as a function of both age and service as there are only 123 active members as of June 30, 2022.

Chart 12 compares the actual retirement experience with the current and proposed assumptions for Safety Tier 3 members.

The following table shows the observed service retirement rates for Safety Tier 4 members based on the actual experience over the past three years. Also shown are the current assumed rates and the rates we propose.

Safety Tier 4
Rate of Retirement (%)

Age	Current Rate	Actual Rate	Proposed Rate
50	15.00	0.00	15.00
51	10.50	0.00	10.50
52	12.00	14.29	12.00
53	14.00	0.00	14.00
54	15.50	16.67	15.50
55	40.00	33.33	40.00
56	25.00	0.00	25.00
57	25.00	28.57	25.00
58	25.00	20.00	25.00
59	25.00	16.67	25.00
60	45.00	50.00	45.00
61	55.00	50.00	55.00
62	70.00	33.33	70.00
63	70.00	50.00	70.00
64	70.00	100.00	70.00
65 & Over	100.00	100.00	100.00

As shown above, we recommend maintaining the current retirement rate assumptions for Safety Tier 4 members. We will wait until more data of actual retirement experience is available to set the retirement rate assumption as a function of both age and service.

Chart 13 compares the actual retirement experience with the current and proposed assumptions for Safety Tier 4 members.

Deferred Vested Members

Under the current assumptions, deferred vested Miscellaneous members are assumed to retire at age 59 and Safety members are assumed to retire at age 52.

The following table shows the observed deferred vested retirement age for Miscellaneous non-reciprocal, Miscellaneous reciprocal, Safety non-reciprocal, and Safety reciprocal members based on the actual experience over the past three years. Also shown are the current assumed retirement ages and the retirement ages we propose.

Deferred Vested Retirement Age

	Miscellaneous Non-Reciprocal Members	Miscellaneous Reciprocal Members	Safety Non-Reciprocal Members	Safety Reciprocal Members
Current Assumption	59.0	59.0	52.0	52.0
Actual Average Age	58.7	60.7	51.4	55.1
Proposed Assumption	59.0	61.0	52.0	55.0

Based on this experience, we recommend maintaining the deferred vested retirement age assumption for Miscellaneous non-reciprocal members at age 59, increasing the deferred vested retirement age for Miscellaneous reciprocal members from age 59 to age 61, maintaining the deferred vested retirement age assumption for Safety non-reciprocal members at age 52, and increasing the deferred vested retirement age for Safety reciprocal members from age 52 to age 55.

Reciprocity

Under current assumptions, it is assumed that 30% of Miscellaneous and 40% of Safety future deferred vested members will be covered under a reciprocal retirement system and receive salary increases of 4.25% and 5.50% from termination until retirement for Miscellaneous and Safety, respectively.

As of June 30, 2022, about 21% of the total Miscellaneous deferred vested members and 30% of the total Safety deferred vested members went on to be covered by a reciprocal retirement system. The actual reciprocal percentages shown above are as of June 30, 2022 instead of an average over three years.

Based on this experience, we recommend decreasing the future reciprocal assumption for Miscellaneous members from 30% to 25% and decreasing the future reciprocal assumption for Safety members from 40% to 35%. This recommendation takes into account the experience of all deferred vested members as of June 30, 2022 instead of just new deferred vested members during the three-year period. This is because there is a lag between a member's date of termination and the time that it is known if they have reciprocity with a reciprocal retirement system.

In addition, we recommend 4.25% and 5.50% annual salary increase assumptions for Miscellaneous and Safety members, respectively, be utilized to anticipate salary increases from the date of termination from SCERS to the expected date of retirement for deferred members covered by a reciprocal employer. These assumptions are based on the

ultimate 1.50% and 2.75% merit and promotion salary increase assumptions for Miscellaneous and Safety members, respectively, together with the 2.50% inflation and 0.25% real “across the board” salary increase assumptions that are recommended earlier in Section 3 of this report.

Survivor Continuance Under the Unmodified Option

In prior valuations, it was assumed that all members would select the unmodified option at retirement. Actual experience for recent new retirees shows that around 81% select the unmodified option. **We recommend maintaining the assumption that all members will elect the unmodified option at retirement.**

Under current assumptions, it is assumed that 80% of all active and inactive male members and 55% of all active and inactive female members would be married or have an eligible domestic partner at the time of their retirement or pre-retirement death. We reviewed experience for new retirees during the three-year period and determined the actual percentage of these new retirees electing the unmodified option that had an eligible spouse or eligible domestic partner at the time of retirement. The results of that analysis are shown below.

New Retirees – Actual Percent Electing the Unmodified Option with Eligible Spouse or Domestic Partner

Year Ending June 30	Male	Female
2020	82%	57%
2021	83%	61%
2022	80%	57%
Total	82%	58%

According to experience of members who retired during the last three years, about 82% of all male members and 58% of all female members who selected the unmodified option were married or had a domestic partner at retirement.

Based on this experience, we recommend maintaining the percent married assumption for male members at 80%, and increasing the percent married assumption for female members from 55% to 60%.

Since the present value of the survivor’s automatic continuance benefit is dependent on the survivor’s age and sex, we must also have assumptions for the age and sex of the survivor. Based on the experience for members who retired during the most recent three-year period (results shown in the table below) and studies done for other retirement systems, **we recommend the following:**

1. Since most of the actual survivors are of the opposite sex, even with the inclusion of domestic partners, **we will continue to assume that all active and inactive members have a survivor of the opposite sex.**
2. **Based on the experience over three years, we recommend maintaining the spouse age difference assumption that male retirees are three years older than their spouses and maintaining the spouse age difference assumption that female**

retirees are two years younger than their spouses. These assumptions will continue to be monitored in future experience studies.

Member's Age as Compared to Spouse's Age

	Male Retiree	Female Retiree
Current Assumption	3 years older	2 years younger
Actual Experience	2.44 years older	1.94 years younger
Proposed Assumption	3 years older	2 years younger

Chart 3: Actual Number of Retirements
 Compared to Expected for Miscellaneous and Safety
 (July 1, 2019 through June 30, 2022)

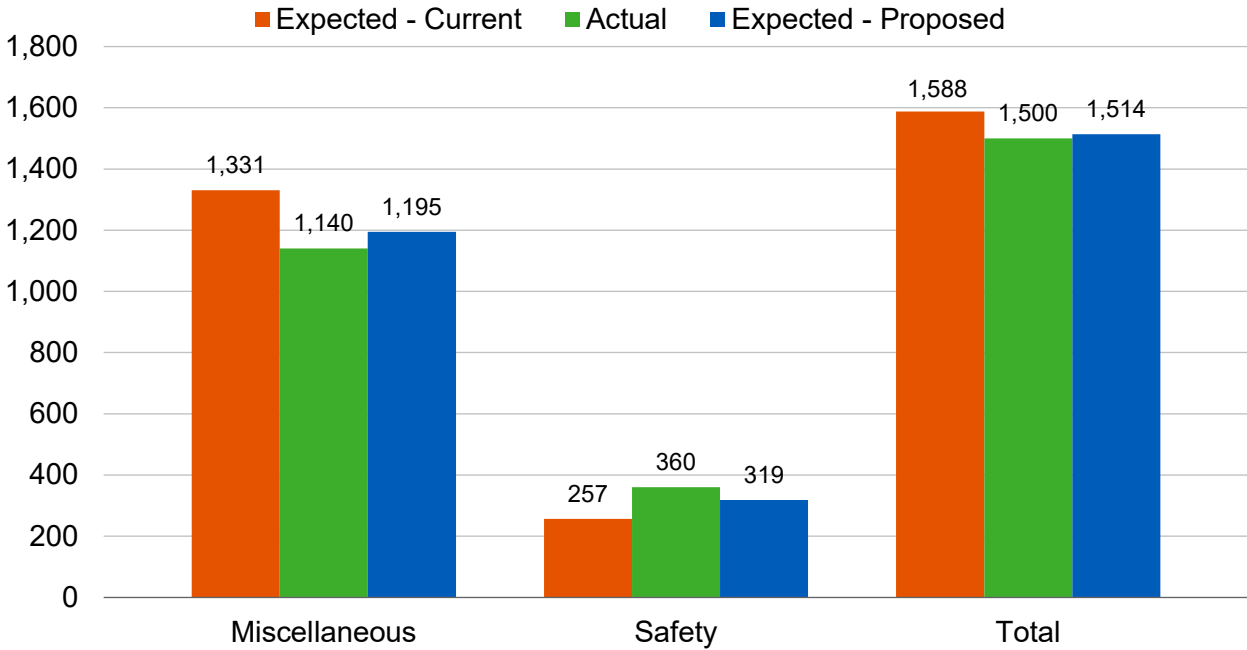


Chart 4: Retirement Rates
 Miscellaneous Tier 1 Members

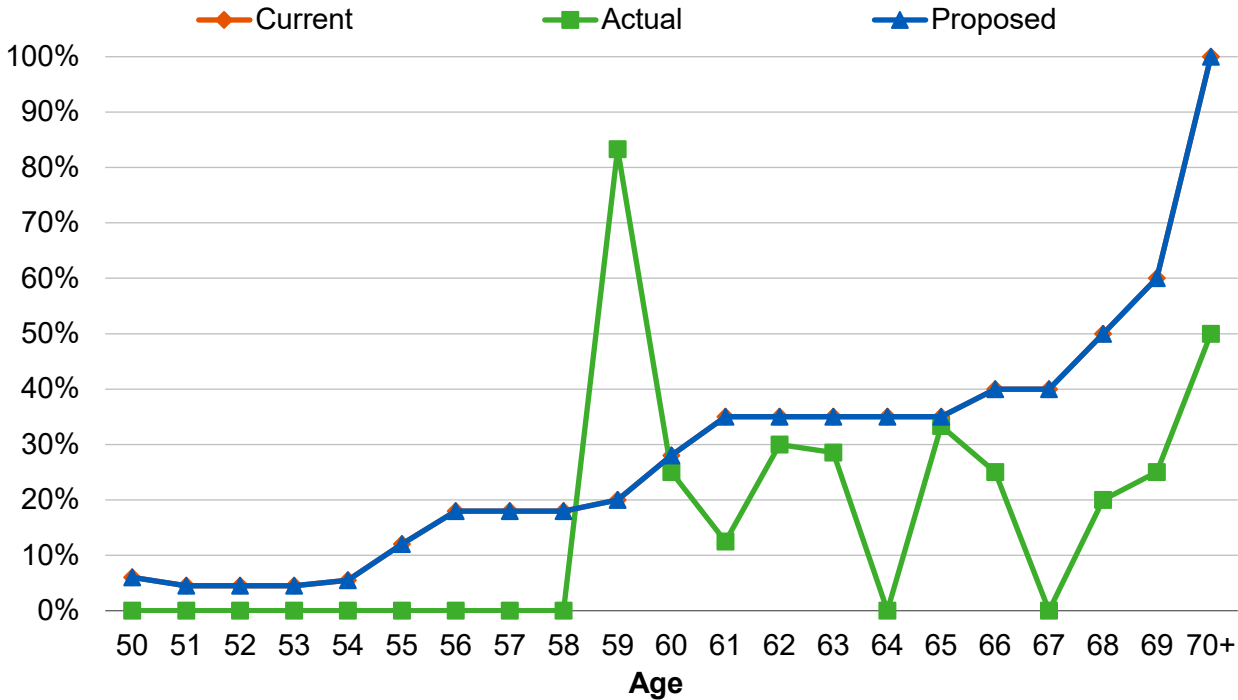


Chart 5: Retirement Rates
Miscellaneous Tiers 2 and 3 Members with Less than 30 Years of Service

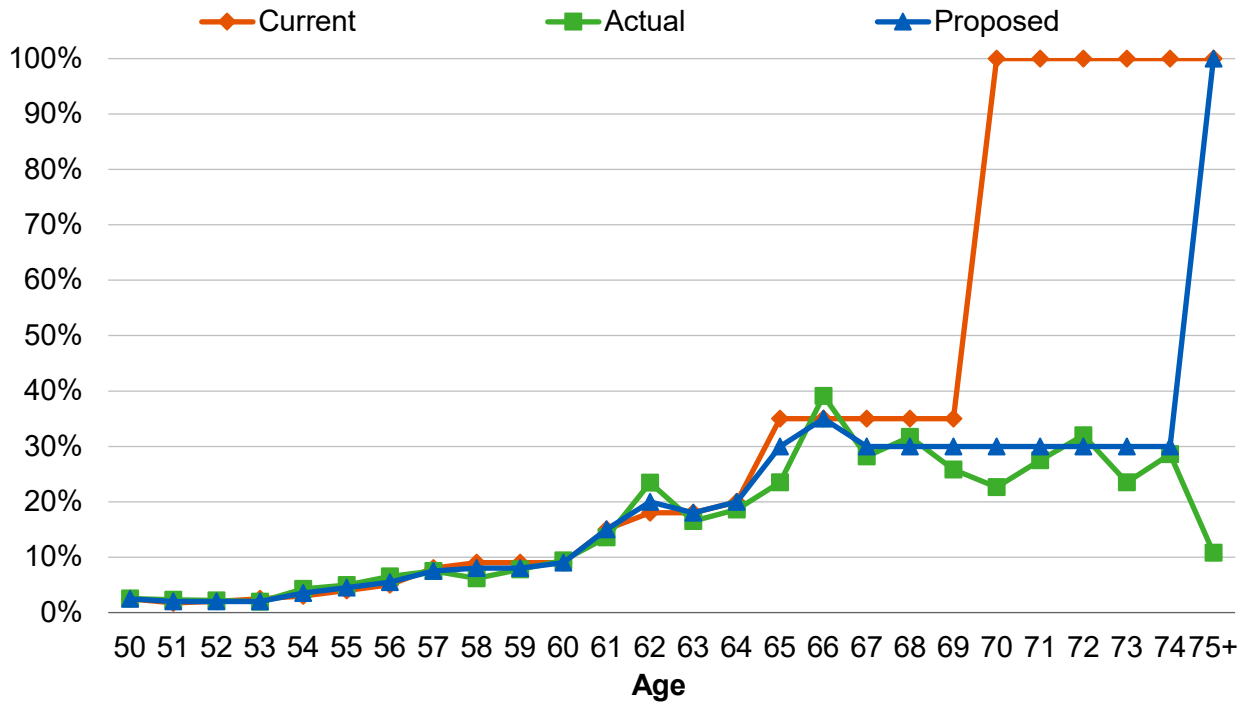


Chart 6: Retirement Rates
Miscellaneous Tiers 2 and 3 Members with 30 or More Years of Service

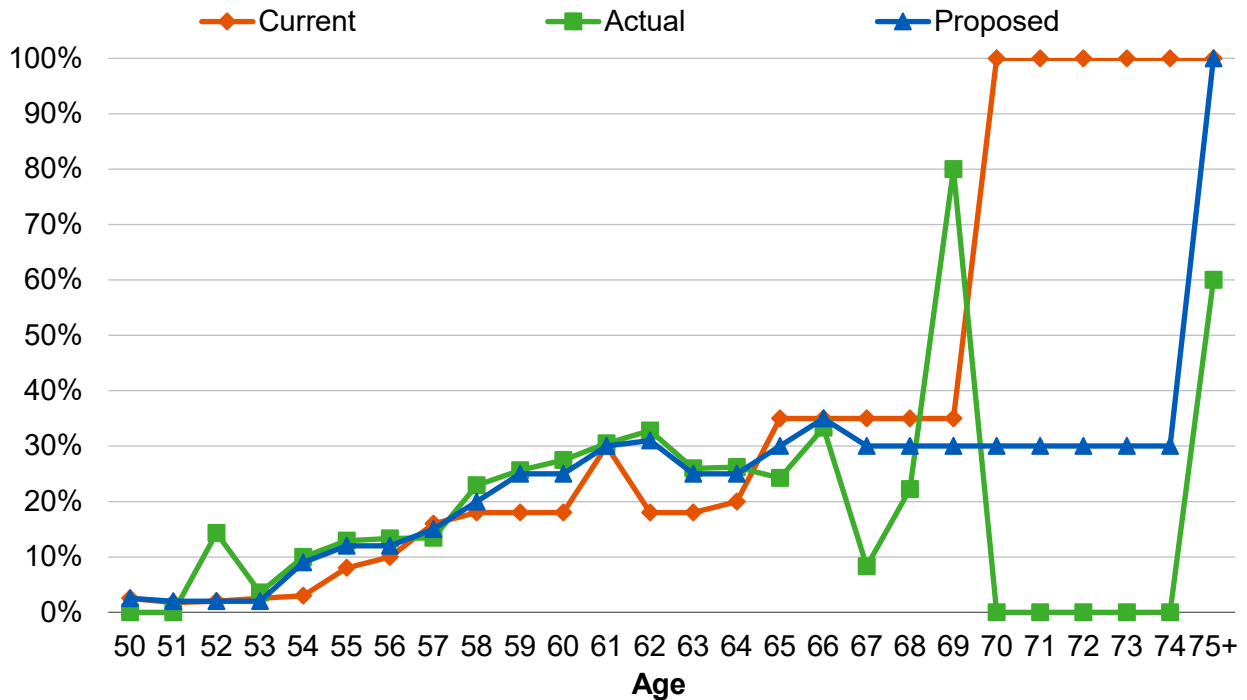


Chart 7: Retirement Rates
Miscellaneous Tier 4 Members

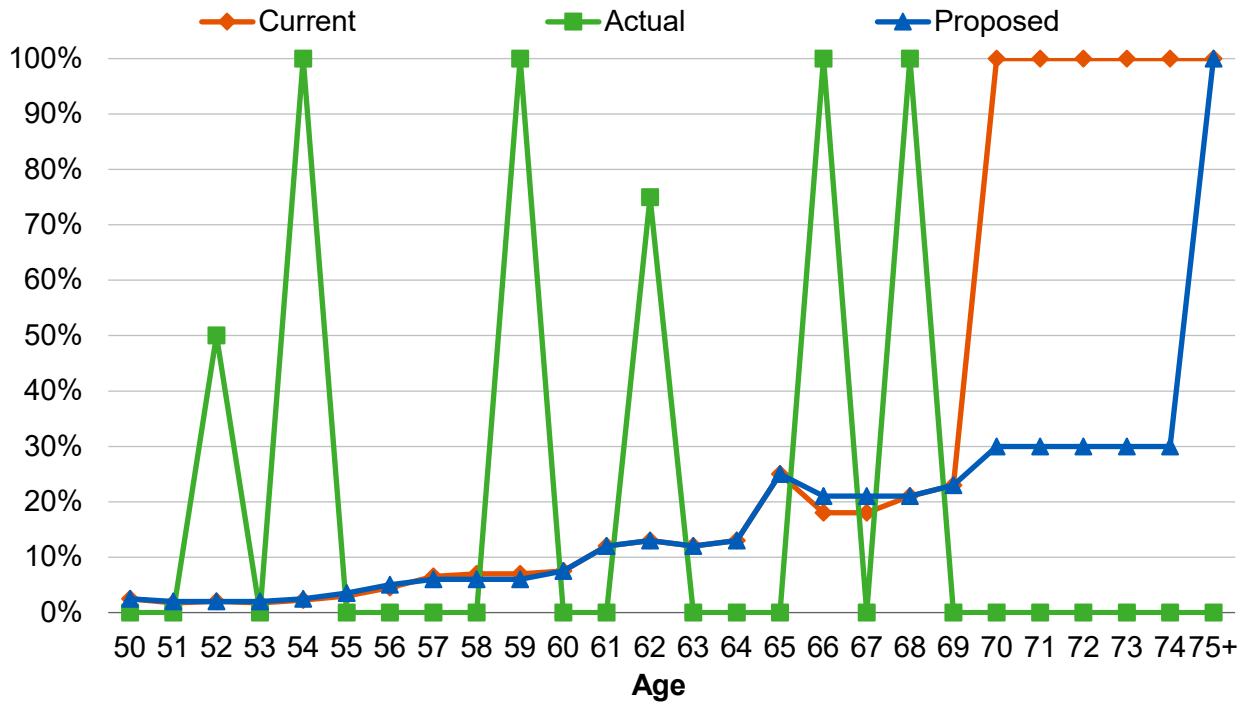


Chart 8: Retirement Rates
Miscellaneous Tier 5 Members with Less than 30 Years of Service

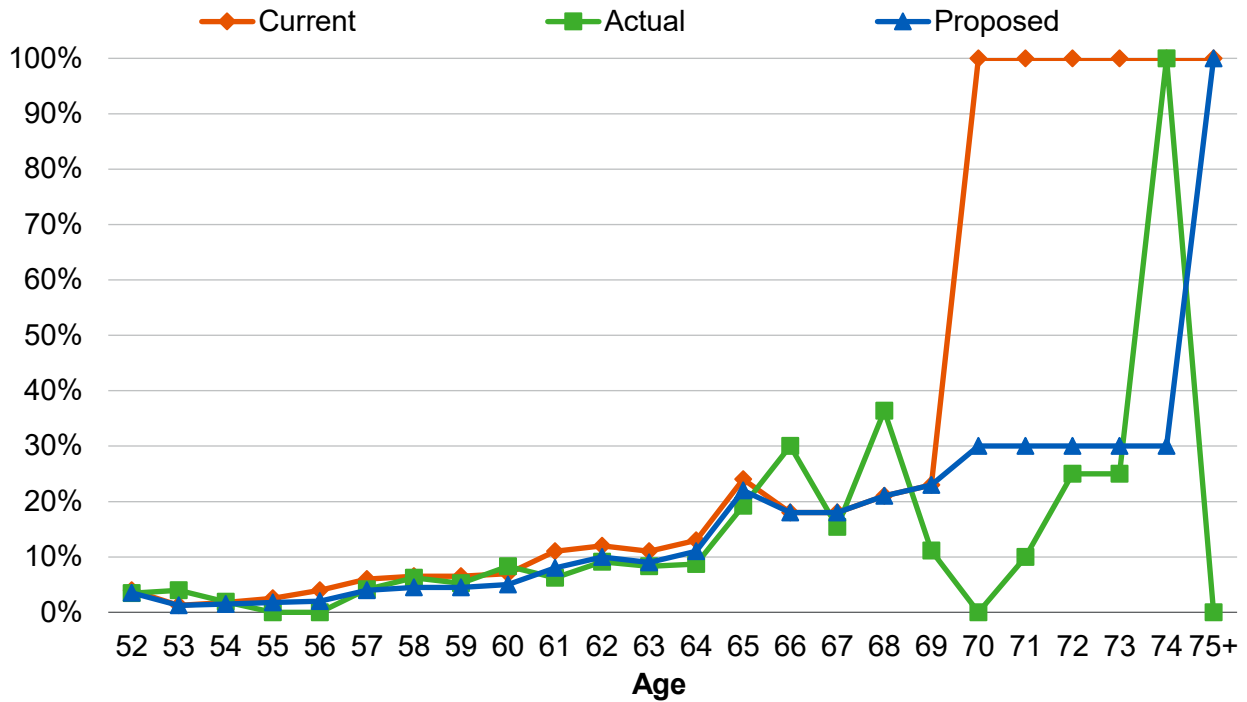


Chart 9: Retirement Rates
Miscellaneous Tier 5 Members with 30 or More Years of Service

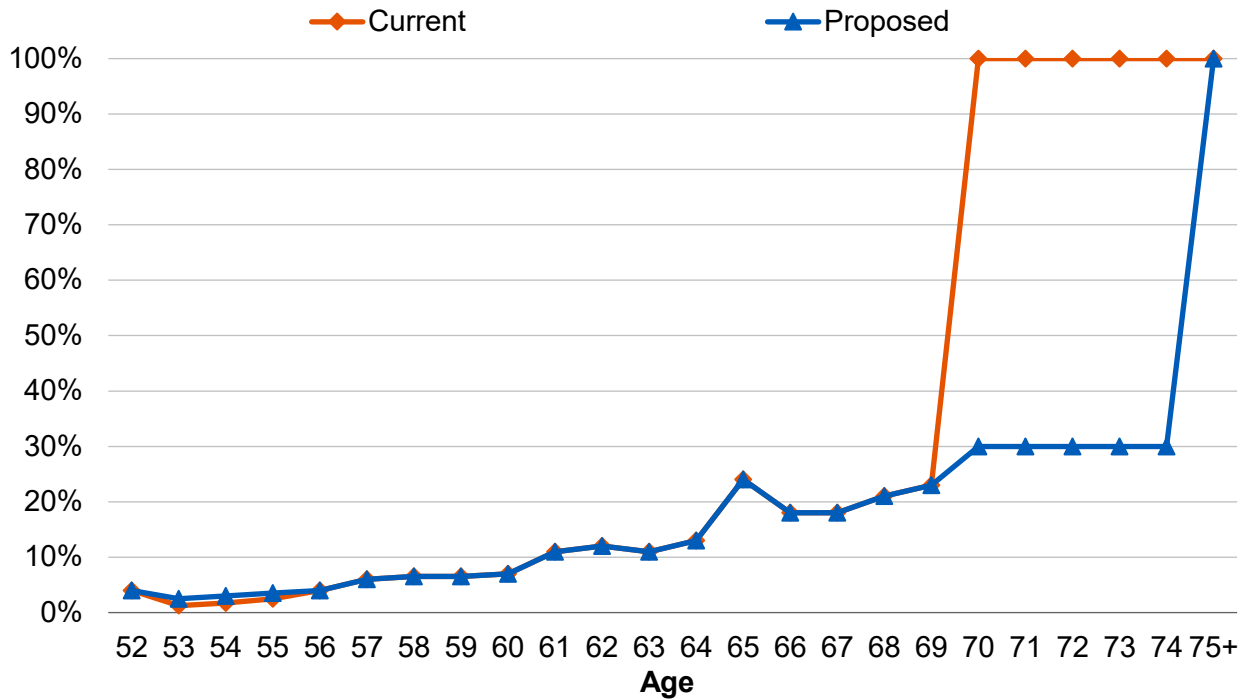


Chart 10: Retirement Rates
Safety Tiers 1 and 2 Members with Less than 25 Years of Service

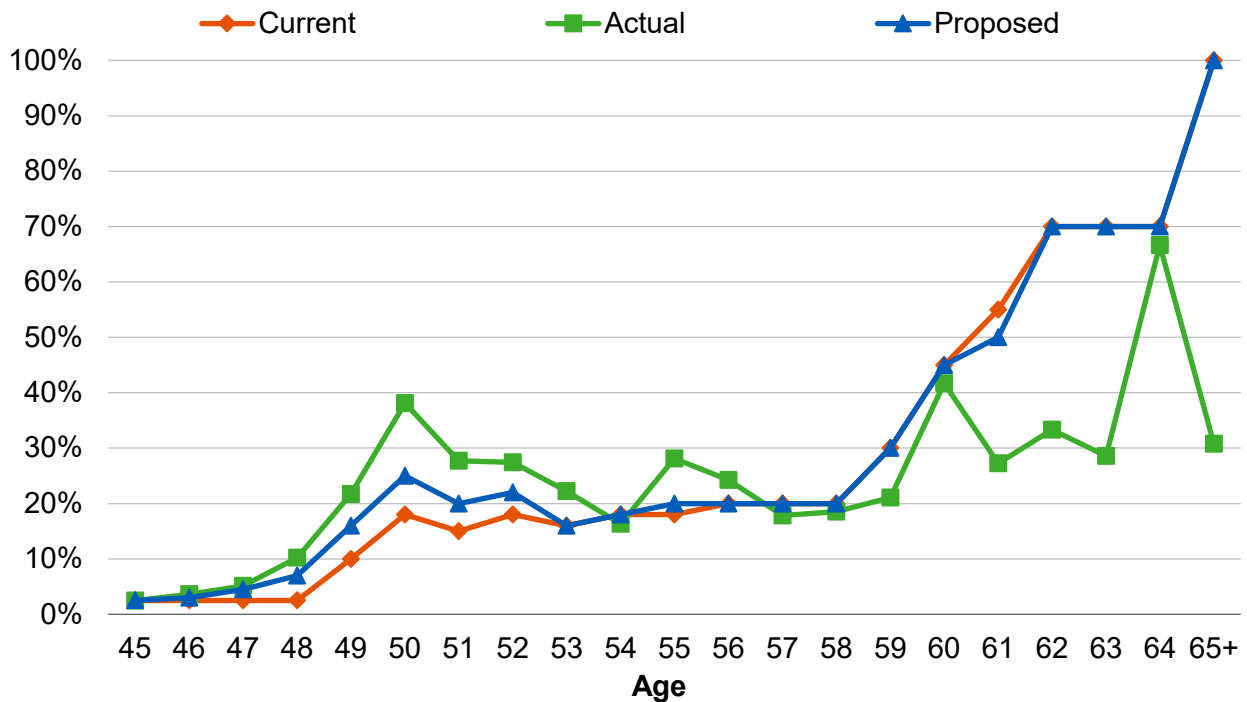


Chart 11: Retirement Rates
 Safety Tiers 1 and 2 Members with 25 or More Years of Service

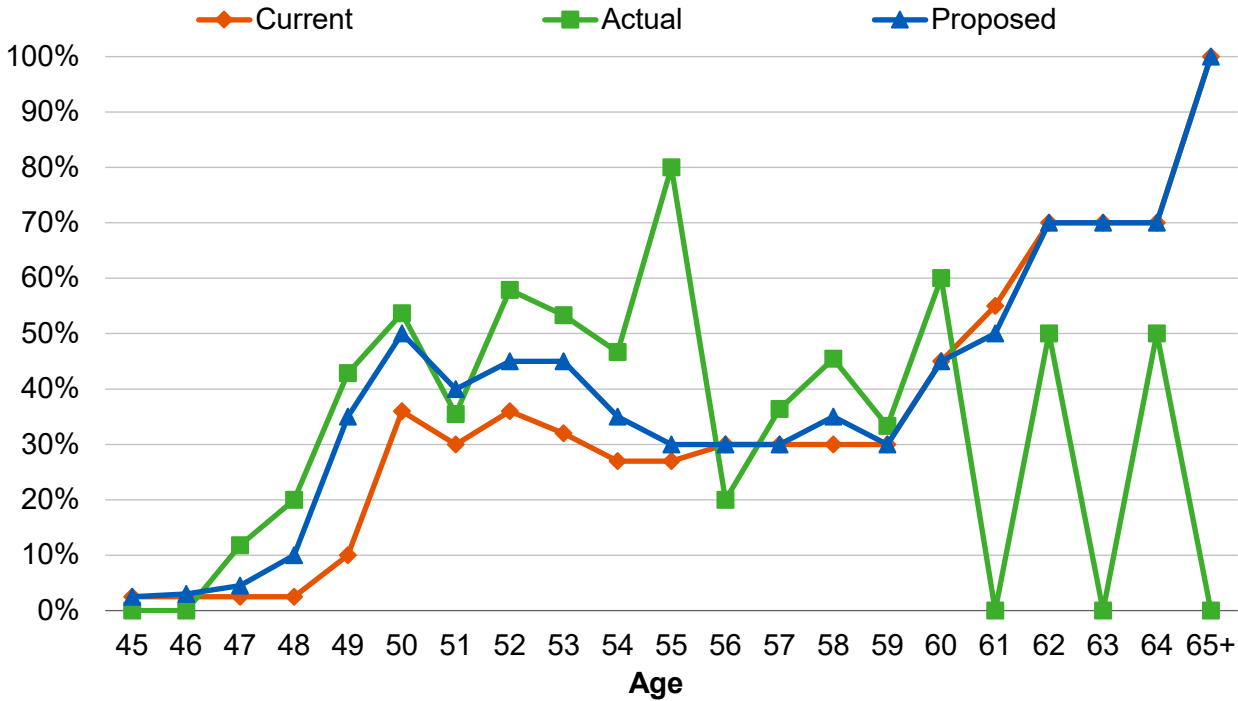


Chart 12: Retirement Rates
 Safety Tier 3 Members

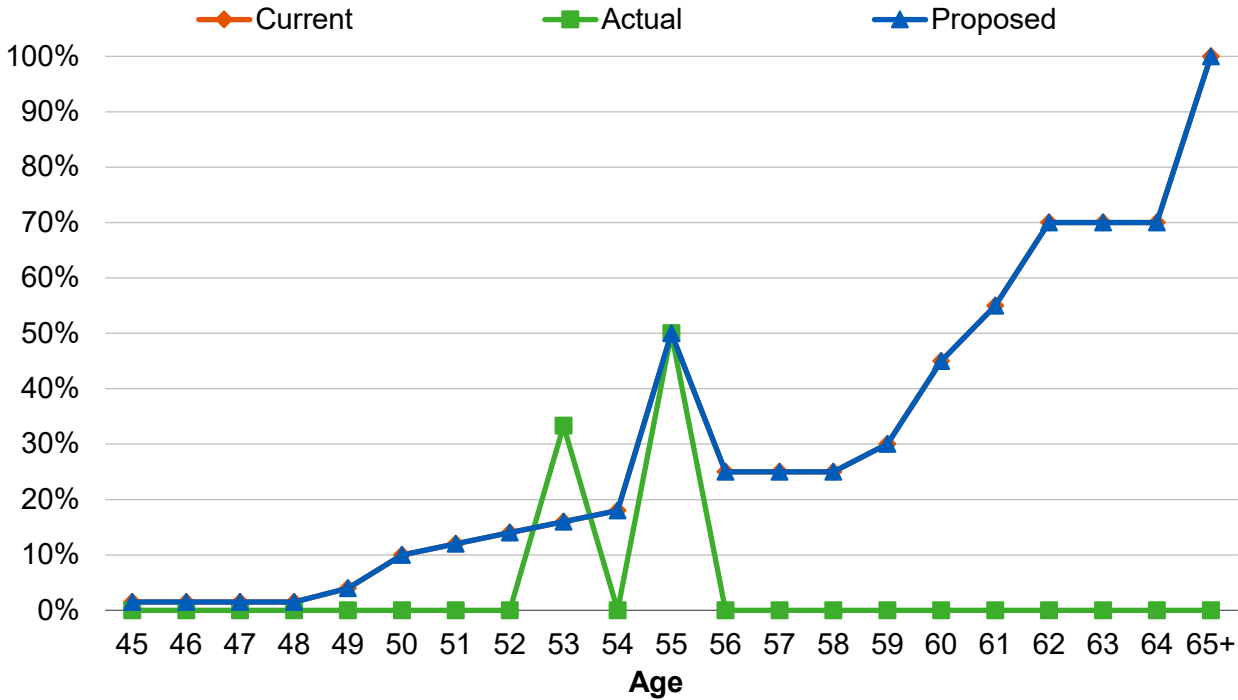
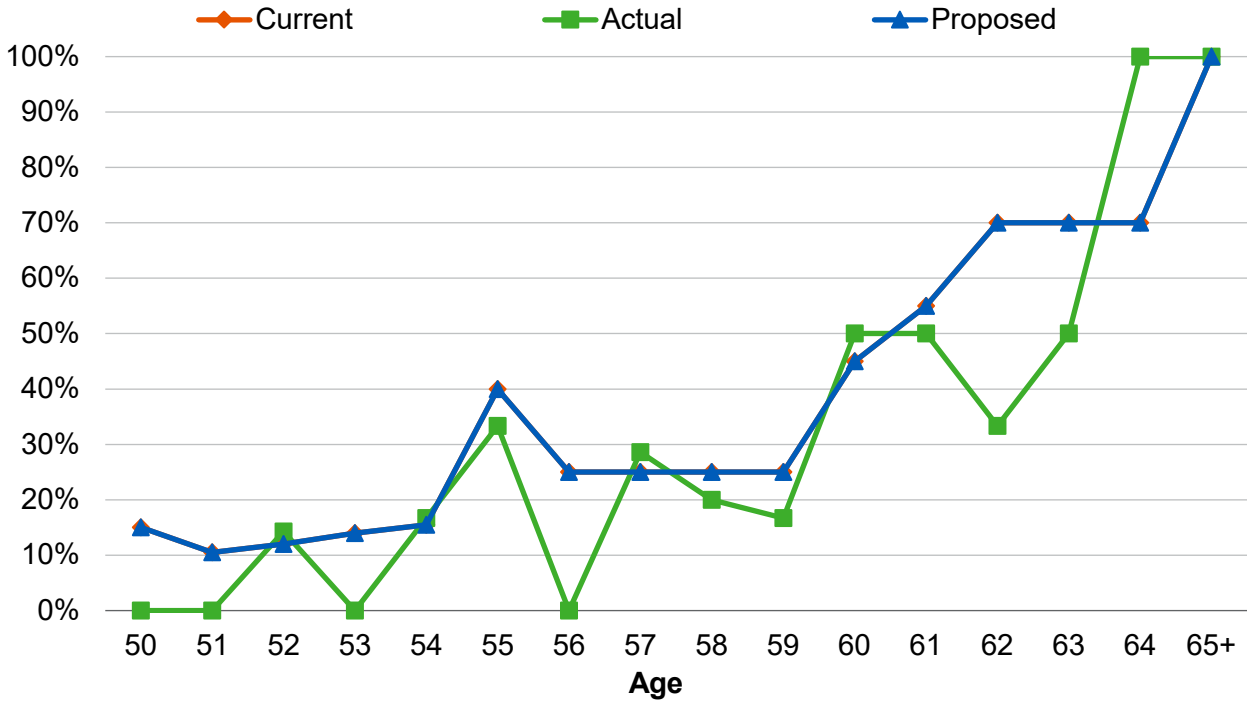


Chart 13: Retirement Rates Safety Tier 4 Members



B. Mortality Rates - Healthy

The “healthy” mortality rates project the life expectancy of a member who retires from service (i.e., who did not retire on a disability pension). Also, the “healthy” pre-retirement mortality rates project what proportion of members will die before retirement. For Miscellaneous members, the table currently being used for post-service retirement mortality rates is the Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019. For Safety members, the table currently being used for post-service retirement mortality rates is the Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2019. For all beneficiaries, the table currently being used is the Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

The Public Retirement Plans Mortality tables (Pub-2010) were published by the Retirement Plans Experience Committee (RPEC) of the SOA in 2019. For the first time, the published mortality tables are based exclusively on public sector pension plan experience in the United States. Within the Pub-2010 family of mortality tables, there are separate tables by job categories of General, Safety and Teachers. Included with the mortality tables is the analysis prepared by RPEC that continues to observe that benefit amount for healthy retirees and salary for employees are the most significant predictors of mortality differences within the job categories. Therefore, Pub-2010 includes mortality rates developed for annuitants on a “benefit” weighted basis, with higher credibility assigned to experience from annuitants receiving larger benefits. We continue to recommend using the “amount weighted” above-median version of the Pub-2010 mortality tables for Miscellaneous and Safety (adjusted for SCERS experience as discussed herein).

We also continue to recommend that the mortality improvement scale be applied generationally where each future year has its own mortality table that reflects the forecasted improvements, using the published improvement scales. The “generational” approach is now the established practice within the actuarial profession.

A generational mortality table provides dynamic projections of mortality experience for each cohort of retirees. For example, the mortality rate for someone who is 65 next year will be slightly less than for someone who is 65 this year. In general, using generational mortality anticipates increases in the cost of the Plan over time as participants’ life expectancies are projected to increase.

We understand that RPEC intends to publish annual updates to their mortality improvement scales. Improvement scale MP-2021 is the latest improvement scale available as RPEC decided not to release an updated projection scale in 2022. According to RPEC, they have been relying on the most recent population mortality experience in their model to project future mortality trends. In 2022, if they were to follow their past practice, they would have relied on the newest mortality data available from 2020 to prepare their “MP-2022” mortality improvement scale. However, population data from 2020 was severely affected by the COVID-19 pandemic. They believed it would not be appropriate to incorporate, without adjustment, the substantially

higher rates of population mortality experience from 2020 into their graduation and projection models used to forecast future mortality. As a result, they elected not to release a new mortality improvement scale for 2022. We recommend that the Board adopt the Amount-Weighted Above-Median Pub-2010 mortality tables for Miscellaneous and Safety members (adjusted for SCERS experience as discussed herein), and project the mortality improvement generationally using the MP-2021 mortality improvement scale.

In order to reflect more SCERS experience in our analysis, we have used experience for a twelve-year period by using data from the current (from July 1, 2019 through June 30, 2022 and the last three (from July 1, 2016 through June 30, 2019; from July 1, 2013 to June 30, 2016; and from July 1, 2010 to June 30, 2013) experience study periods in order to analyze this assumption. While we did not have information on the number of COVID-19 related deaths during the current three-year period, we did not notice a spike in the number of deaths for 2020-2021 or 2021-2022. While the long-term impact of COVID-19 is still unknown, we have included the mortality data from 2020-2021 and 2021-2022 in setting our proposed mortality assumptions. However, based on our understanding that beneficiary deaths may have been under-reported for 2021-2022 in the data provided for our June 30, 2022 valuation, we have excluded the mortality data from 2021-2022 in setting our proposed mortality assumptions for beneficiaries.

Even with the use of twelve years of experience (eleven for beneficiaries), based on standard statistical theory the data is only partially credible especially under the recommended amount-weighted basis when dispersion of retirees' benefit amounts is taken into account. In 2008 the SOA published an article recommending that mortality assumptions include an adjustment for credibility. Under this approach, the number of deaths needed for full credibility for a headcount-weighted mortality table is just over 1,000, where full credibility means a 90% confidence that the actual experience will be within 5% of the expected value. Therefore, in our recommended assumptions, we have only partially adjusted the Pub-2010 mortality tables to fit SCERS' experience. In future experience studies, more data will be available which may further increase the credibility of the SCERS experience.

Post-Retirement Mortality (Service Retirements)

Among all retired members, the actual deaths weighted by benefit amounts under the current assumptions for the twelve-year period are shown in the table below. We also show the deaths weighted by benefit amount under the proposed assumptions. We continue to recommend the use of a generational mortality table, which incorporates a more explicit assumption for future mortality improvement. Accordingly, the goal is to start with a mortality table that closely matches the current experience (without a margin for future mortality improvement), and then reflect mortality improvement by projecting lower mortality rates in future years.

The proposed mortality table also reflects current experience to the extent that the experience is credible based on standard statistical theory. For SCERS, the volume of Safety member data is much less than the Miscellaneous member data, which makes the Safety group substantially less credible. As shown in the table below, the proposed mortality tables have actual to expected ratios of 104% and 97% for Miscellaneous and Safety, respectively, after adjustments for partial credibility. In future years the ratio should remain around 104% and 97% for Miscellaneous and Safety, respectively, as long as actual mortality improves at the same rates as anticipated by the generational mortality tables. The number of actual deaths compared to

the number expected under the current and proposed assumptions weighted by benefit amounts for the twelve-year period are as follows:

Healthy Retiree Mortality Experience – Benefit Weighted (Dollars in millions)

Gender	Miscellaneous Members			Safety Members		
	Current Expected Weighted Deaths	Actual Weighted Deaths	Proposed Expected Weighted Deaths	Current Expected Weighted Deaths	Actual Weighted Deaths	Proposed Expected Weighted Deaths
Male	\$35.51	\$36.59	\$35.45	\$14.35	\$14.95	\$15.07
Female	<u>23.94</u>	<u>23.71</u>	<u>22.76</u>	<u>1.69</u>	<u>1.35</u>	<u>1.68</u>
Total	\$59.45	\$60.30	\$58.20	\$16.04	\$16.29	\$16.75
Actual / Expected	101%		104%¹	102%		97%

Notes:

1. Experience shown above is weighted by annual benefit amounts for deceased members.
2. Expected amounts under the proposed generational mortality table are based on mortality rates from the base year projected with mortality improvements to the experience study period.
3. Results may not add due to rounding.

For Miscellaneous members, we recommend updating the post-retirement mortality to follow the Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

For Safety members, we recommend updating the post-retirement mortality to follow the Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021.

Chart 14 that follows later in this section compares the number of actual to expected deaths on a benefit-weighted basis over the twelve-year period for the current and proposed assumptions for service retirement Miscellaneous members.

Chart 15 compares the number of actual to expected deaths on a benefit-weighted basis over the twelve-year period for the current and proposed assumptions for service retirement Safety members.

Chart 16 shows the life expectancies (i.e., expected future lifetime) under the current and the proposed tables for Miscellaneous members on a benefit-weighted basis. Life expectancies under the proposed generational mortality rates are based on age as of 2023. In practice, assumed life expectancies will increase as a result of the mortality improvement scale.

¹ If we used the benchmark Pub-2010 General Healthy Retiree table without any adjustment, the proposed actual to expected ratio would be 112%.

Chart 17 shows the life expectancies (i.e., expected future lifetime) under the current and the proposed tables for Safety members on a benefit-weighted basis. Life expectancies under the proposed generational mortality rates are based on age as of 2023. In practice, assumed life expectancies will increase as a result of the mortality improvement scale.

Beneficiary Mortality

The Pub-2010 Contingent Survivors Table is developed based only on contingent survivor data after the death of the retirees. This is consistent with the mortality experience that we have available for beneficiaries. The Pub-2010 Contingent Survivor mortality rates are comparable to SCERS' actual mortality experience for beneficiaries. However, in contrast to service retirees, there is less beneficiary data, so it is given less credibility when adjusting the base table. As shown in the table below, the proposed mortality tables have an actual to expected ratio of 114%, after adjustments for partial credibility. In future years the ratio should remain around 114% as long as actual mortality improves at the same rates as anticipated by the generational mortality tables. The number of actual deaths compared to the number expected under the current and proposed assumptions weighted by benefit amounts for the eleven-year period are as follows:

Beneficiary Mortality Experience – Benefit Weighted (Dollars in millions)

Gender	Current Expected Weighted Deaths	Actual Weighted Deaths	Proposed Expected Weighted Deaths
Male	\$1.79	\$2.02	\$1.88
Female	9.32	11.79	10.23
Total	\$11.11	\$13.81	\$12.10
Actual / Expected	124%		114%¹

Notes:

1. Experience shown above is weighted by annual benefit amounts for deceased beneficiaries.
2. Expected amounts under the proposed generational mortality table are based on mortality rates from the base year projected with mortality improvements to the experience study period.
3. Results may not add due to rounding.

For all beneficiaries, we recommend updating the beneficiary mortality to follow the Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 5% for males and increased by 10% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

As noted above, the Contingent Survivor mortality tables are developed based on contingent survivor data only after the death of the retirees (i.e., it does not reflect any contingent survivor

¹ If we used the benchmark Pub-2010 Contingent Survivor table without any adjustment, the proposed actual to expected ratio would be 125%.

data before the death of the retirees). In the last experience study, we recommended that the Board applied the Contingent Survivor mortality tables to predict the mortality rates for the beneficiaries both before and after the death of the retirees. According to analysis provided by RPEC, the mortality rates for the beneficiaries could be somewhat overstated before the death of the retirees as the Contingent Survivor mortality tended to be higher than retiree mortality and the difference was statistically significant. Based on this analysis, for the purposes of the actuarial valuations (for funding and financial reporting), when calculating the liability for the continuance to a beneficiary of a surviving member, we recommend that the Miscellaneous Healthy Retiree mortality tables be used for beneficiary mortality both before and after the expected death of the Miscellaneous or Safety member. Upon the actual death of the member (i.e., for all beneficiaries in pay status as of the valuation date), we recommend for the purposes of the actuarial valuations that we use the Contingent Survivor mortality tables as stated above. We note that the use of different mortality tables (before and after the death of the member) has been found by the RPEC to be reasonable.

Pre-Retirement Mortality

For Miscellaneous members, the table currently being used for pre-retirement mortality rates is the Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional scale MP-2019. For Safety members, the table currently being used for pre-retirement mortality rates is the Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional scale MP-2019. When analyzing pre-retirement mortality, there is much less data available, so it is given little credibility when adjusting the base table.

For Miscellaneous members, we recommend maintaining the assumption that the pre-retirement mortality follow the Pub-2010 General Employee Amount-Weighted Mortality Table (separate tables for males and females), projected generationally. We recommend updating the two-dimensional mortality improvement scale used for the generational projection from MP-2019 to MP-2021.

For Safety members, we recommend maintaining the assumption that the pre-retirement mortality follow the Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally. We recommend updating the two-dimensional mortality improvement scale used for the generational projection from MP-2019 to MP-2021.

As there is limited data on actual duty versus non-duty mortality experience during the three-year experience study period, we also recommend maintaining the current assumption for pre-retirement mortality of 100% non-duty for Miscellaneous and 50% non-duty for Safety members.¹

¹ While it is possible that COVID-19 deaths for members in certain industries may be considered duty, we do not recommend a change in our assumption to reflect this possible short-term increase in duty deaths.

Mortality Table for Member Contributions, Optional Forms of Payments, and Reserves

There are administrative reasons why a generational mortality table is more difficult to implement for determining member contributions for legacy tiers (i.e., Miscellaneous Tiers 1, 2, 3 and 4 and Safety Ties 1, 2 and 3), optional forms of payment, and reserves. One emerging practice is to approximate the use of a generational mortality table by the use of a static table with projection of the mortality improvement from the measurement year over a period that is close to the duration of the benefit payments for active members. We would recommend the use of this approximation for determining member contributions for employees in the legacy tiers.

For Miscellaneous members, we recommend that the mortality table used for determining contributions be updated to a blended table based on the Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and 5% for females, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2021, weighted 40% male and 60% female.

For Safety members, we recommend that the mortality table used for determining contributions be updated to a blended table based on the Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2021, weighted 75% male and 25% female.

SCERS has implemented the use of a generational mortality table for determining optional forms of payment and reserves since the last experience study. We will provide the recommended mortality assumptions to SCERS in a separate letter at a later date similar to prior years.

Chart 14: Post-Retirement Benefit-Weighted Deaths (\$ in Millions)
 Service Retirement Miscellaneous Members
 (July 1, 2010 through June 30, 2022)

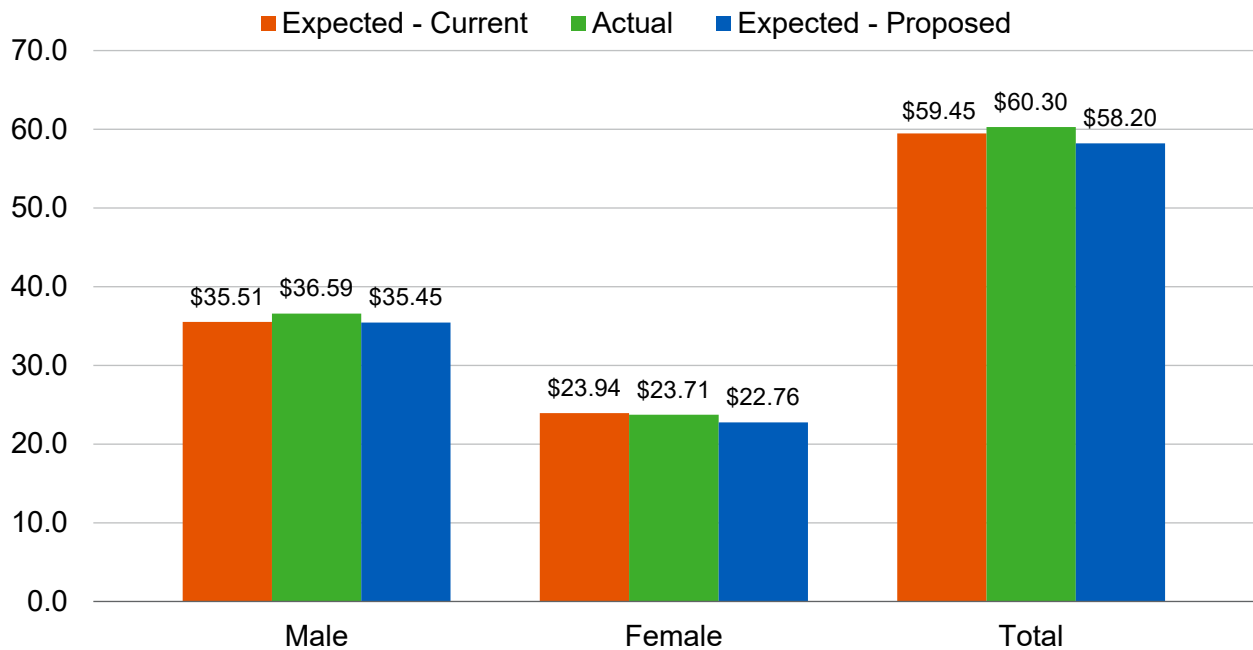


Chart 15: Post-Retirement Benefit-Weighted Deaths (\$ in Millions)
 Service Retirement Safety Members
 (July 1, 2010 through June 30, 2022)

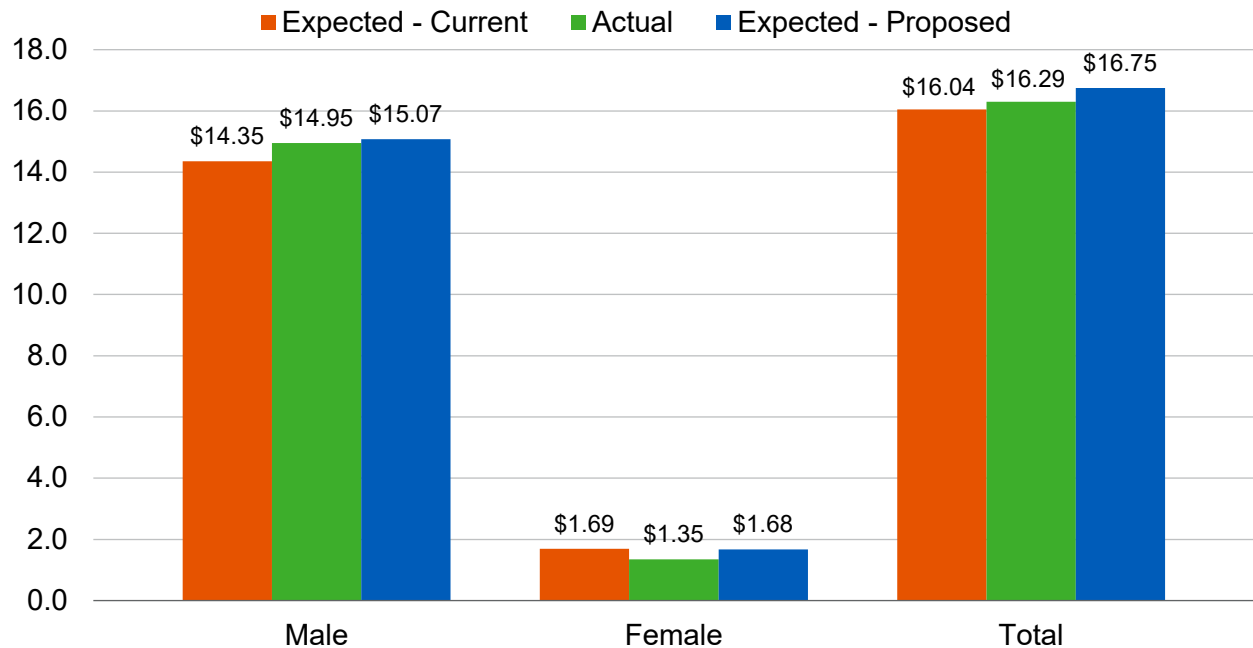


Chart 16: Benefit-Weighted Life Expectancies
Service Retirement Miscellaneous Members

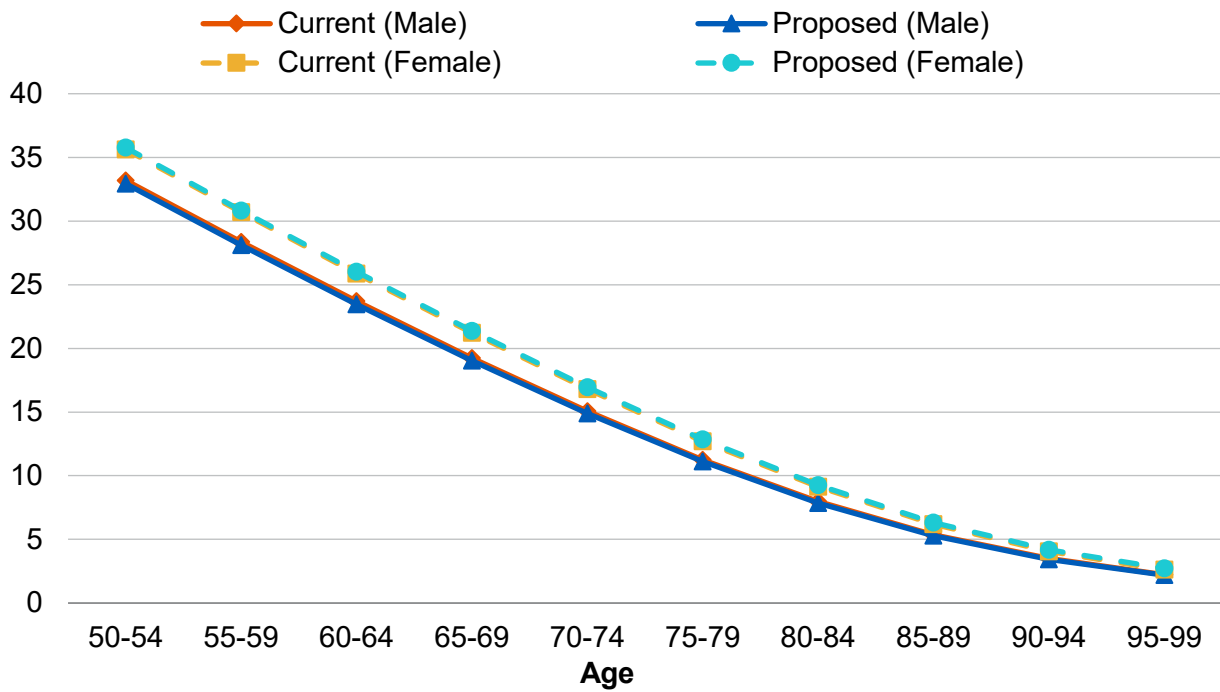
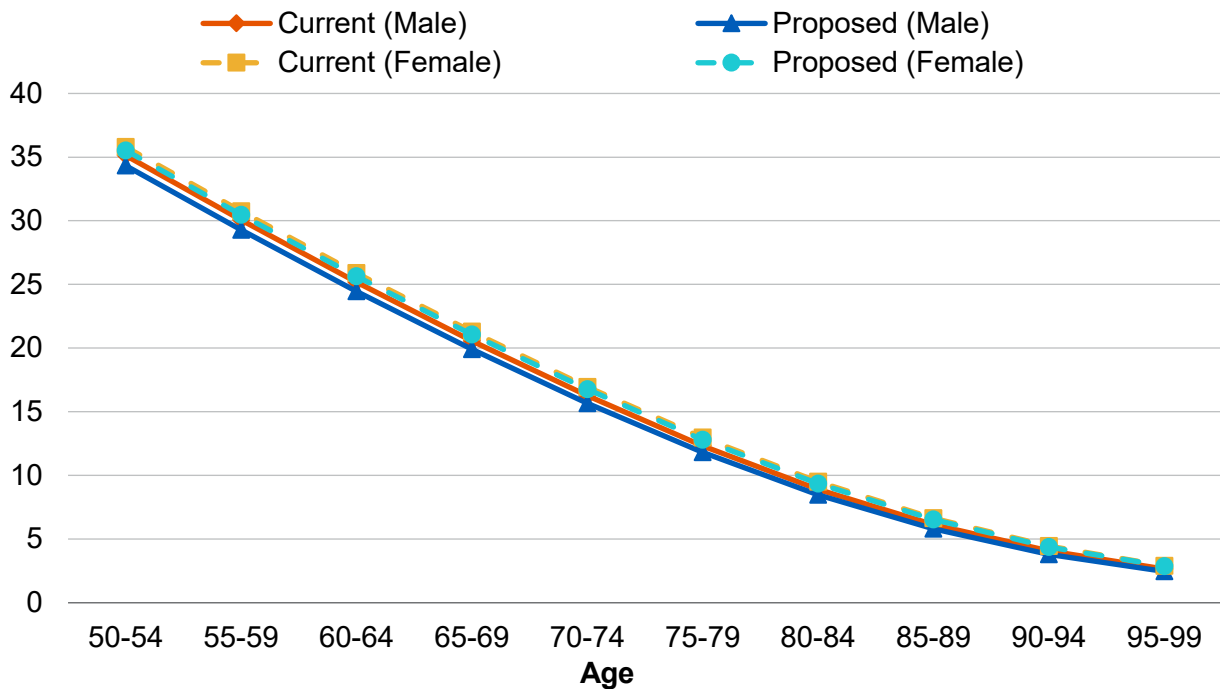


Chart 17: Benefit-Weighted Life Expectancies
Service Retirement Safety Members



C. Mortality Rates - Disabled

Since mortality rates for disabled members can vary from those of healthy members, a different mortality assumption is often used. For Miscellaneous members the table currently being used is the Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019. For Safety members, the table currently being used is the Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

Similar to mortality rates for service retirees, the proposed mortality table reflects current experience to the extent that the experience is credible based on standard statistical theory. For SCERS, there is far less data for disabled retirees, so it is given little credibility, even using experience for a twelve-year period. As shown in the table below, the proposed mortality tables have actual to expected ratios of 106% and 124% for Miscellaneous and Safety respectively, after adjustments for partial credibility. In future years the ratio should remain around 106% and 124% for Miscellaneous and Safety, respectively, as long as actual mortality improves at the same rates as anticipated by the generational mortality tables. The number of actual deaths compared to the number expected under the current and proposed assumptions weighted by benefit amounts for the twelve-year period are as follows:

Disabled Retiree Mortality Experience – Benefit Weighted (Dollars in millions)

Gender	Miscellaneous Members			Safety Members		
	Current Expected Weighted Deaths	Actual Weighted Deaths	Proposed Expected Weighted Deaths	Current Expected Weighted Deaths	Actual Weighted Deaths	Proposed Expected Weighted Deaths
Male	\$2.78	\$2.77	\$2.77	\$2.36	\$3.04	\$2.47
Female	<u>2.31</u>	<u>2.75</u>	<u>2.42</u>	<u>0.28</u>	<u>0.38</u>	<u>0.27</u>
Total	\$5.09	\$5.52	\$5.19	\$2.63	\$3.41	\$2.74
Actual / Expected	108%		106%¹	130%		124%²

Notes:

1. Experience shown above is weighted by annual benefit amounts for deceased members.
2. Expected amounts under the proposed generational mortality table are based on mortality rates from the base year projected with mortality improvements to the experience study period.
3. Results may not add due to rounding.

For Miscellaneous disabled members, we recommend updating the disabled mortality to follow the Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table

¹ If we use the benchmark Pub-2010 Non-Safety Disabled table without any adjustment, the proposed actual to expected ratio would be 109%.

² If we use the benchmark Pub-2010 Safety Disabled table without any adjustment, the proposed actual to expected ratio would be 130%.

(separate tables for males and females) with rates unadjusted for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

For Safety disabled members, we recommend updating the disabled mortality to follow the Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) with rates increased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

Chart 18 compares the number of actual to expected deaths on a benefit-weighted basis over the twelve-year period for the current and proposed assumptions for disabled Miscellaneous members.

Chart 19 compares the number of actual to expected deaths on a benefit-weighted basis over the twelve-year period for the current and proposed assumptions for disabled Safety members.

Chart 20 shows the life expectancies (i.e., expected future lifetime) under the current and the proposed tables for disabled Miscellaneous members on a benefit-weighted basis. Life expectancies under the current and proposed generational mortality rates are based on age as of 2023. In practice, life expectancies will be assumed to increase as a result of the mortality improvement scale.

Chart 21 shows the life expectancies (i.e., expected future lifetime) under the current and the proposed tables for disabled Safety members on a benefit-weighted basis. Life expectancies under the current and proposed generational mortality rates are based on age as of 2023. In practice, life expectancies will be assumed to increase as a result of the mortality improvement scale.

Chart 18: Post-Retirement Benefit-Weighted Deaths (\$ in Millions)
 Disabled Miscellaneous Members
 (July 1, 2010 through June 30, 2022)

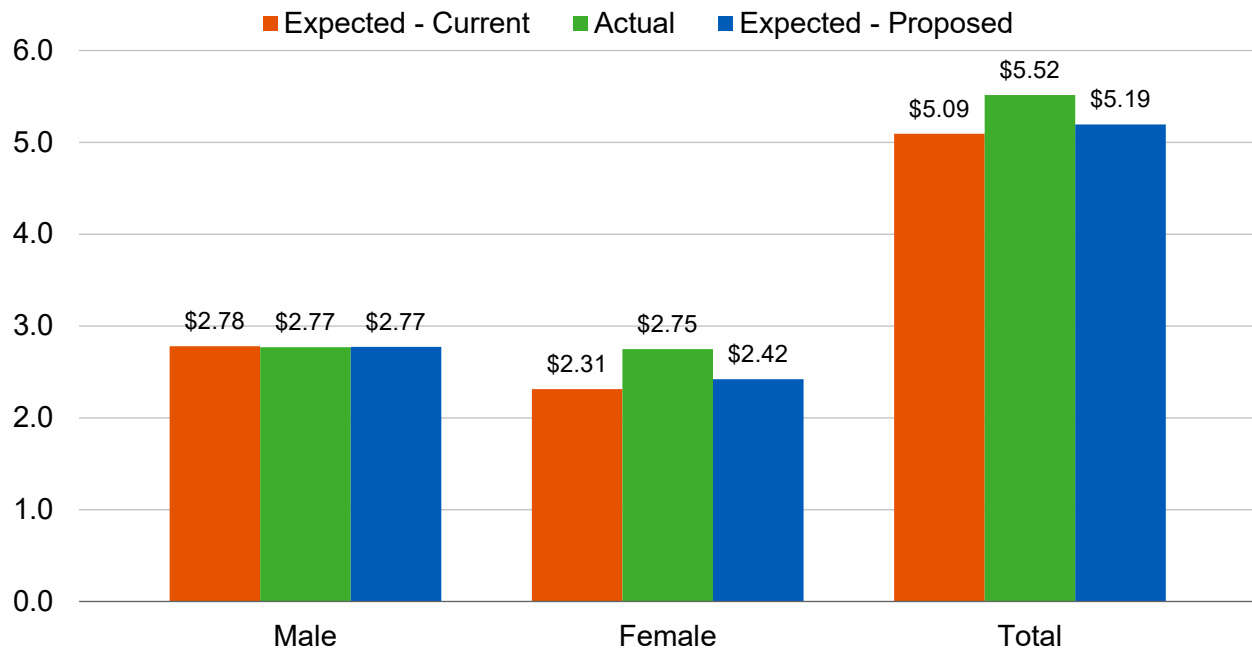


Chart 19: Post-Retirement Benefit-Weighted Deaths (\$ in Millions)
 Disabled Safety Members
 (July 1, 2010 through June 30, 2022)

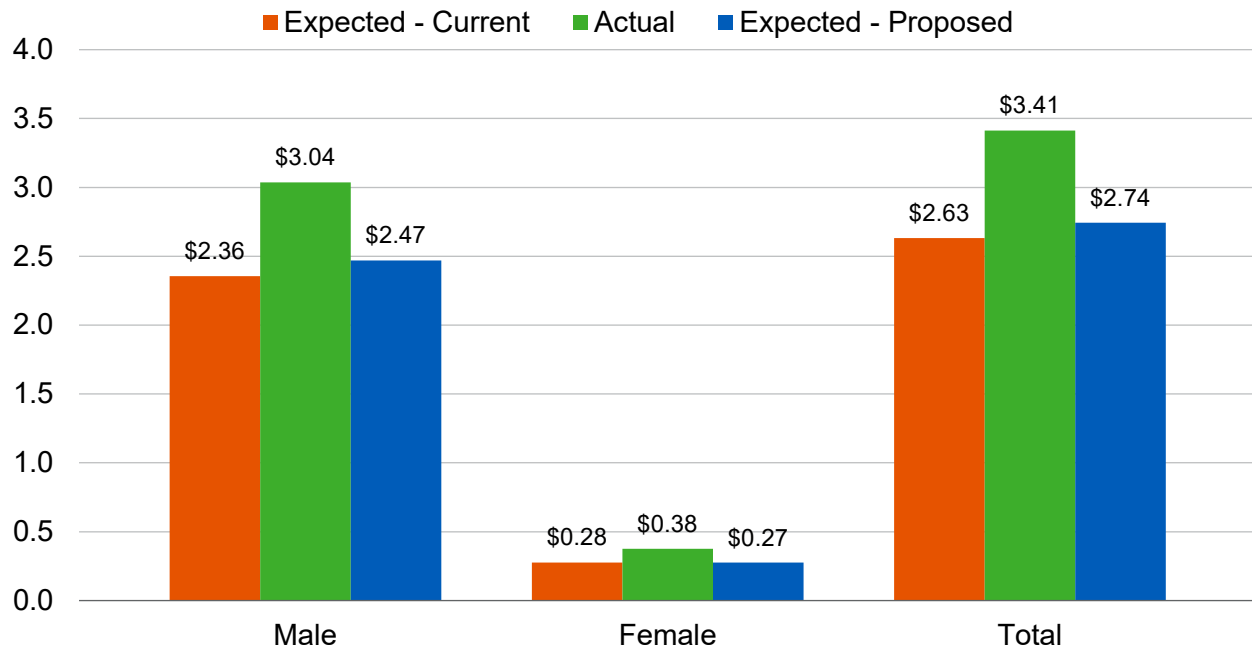


Chart 20: Benefit-Weighted Life Expectancies
Disabled Miscellaneous Members

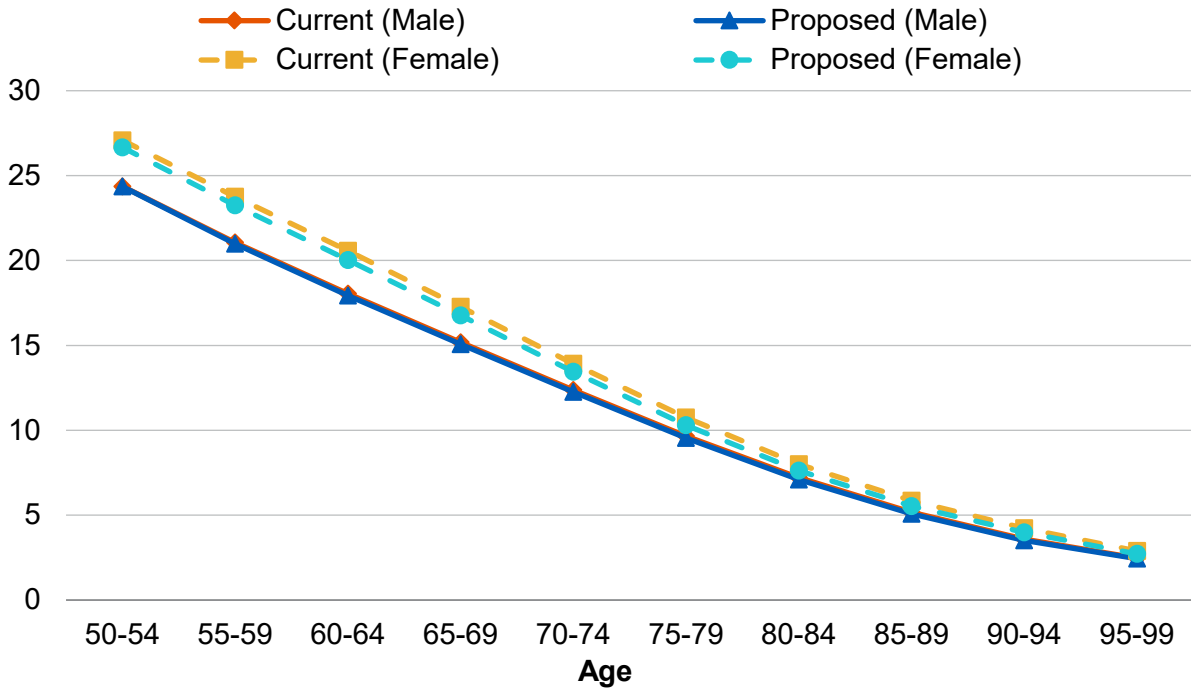
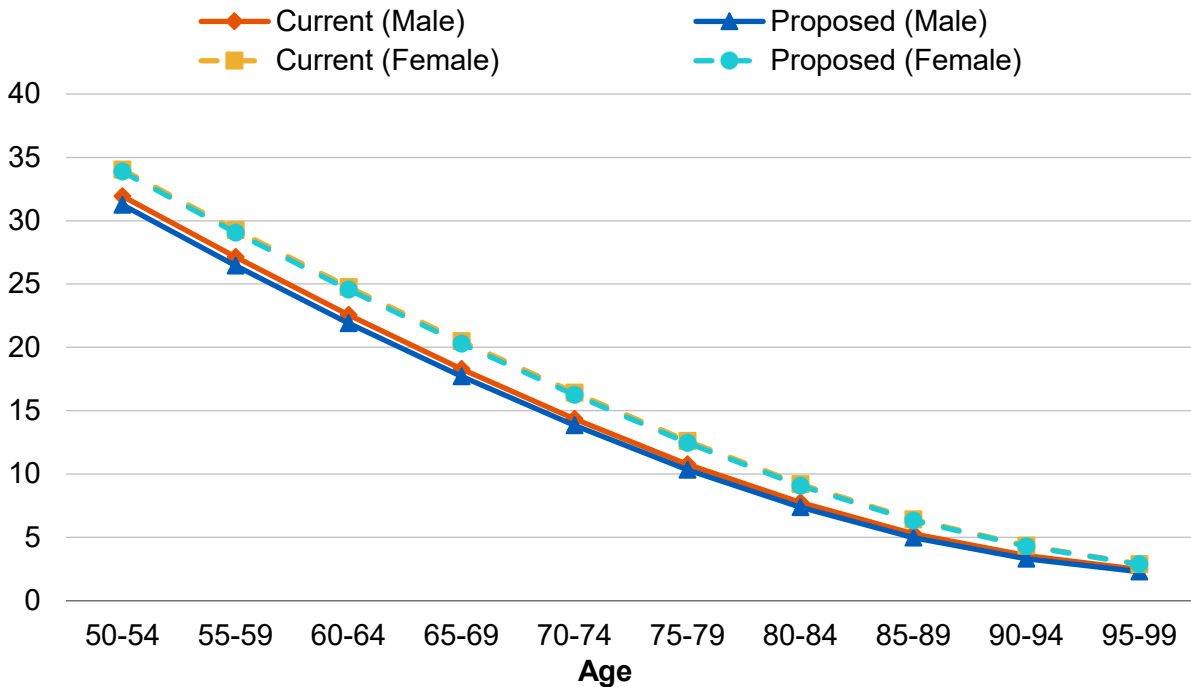


Chart 21: Benefit-Weighted Life Expectancies
Disabled Safety Members



D. Termination Rates

Termination rates include all terminations for reasons other than death, disability, or retirement. Under the current assumptions there is an overall incidence of total termination assumed, combined with a separate assumption for the percentage of members who would be expected to elect a refund of contributions versus a deferred retirement benefit. Under the current assumptions, termination rates are service based for the first five years of service and age based after the first five years of service. With this study, we recommend that all the termination rates be based on a function of the member's years of service.

For members who terminate employment with less than five years of service, it is anticipated under the current assumptions that 55% of Miscellaneous members and 50% of Safety members would elect a refund while the remaining 45% and 50% of Miscellaneous and Safety members, respectively, would elect a deferred retirement benefit.

For members with five or more years of service, it is anticipated under the current assumptions that 30% of Miscellaneous members and 15% of Safety members would elect a refund of contributions while the remaining 70% and 85% of Miscellaneous and Safety members, respectively, would elect a deferred retirement benefit.

The termination experience over the last three years for Miscellaneous and Safety members is shown by years of service in the following tables. We have also included six years of experience in order to improve the credibility of SCERS' termination experience. Also shown are the current assumed rates and the rates we propose. Please note that we have excluded any members that were eligible for retirement.

Termination Rates (%)

Service	Miscellaneous				Safety			
	Current Rate	Actual Rate (6 Years)	Actual Rate (3 Years)	Proposed Rate	Current Rate	Actual Rate (6 Years)	Actual Rate (3 Years)	Proposed Rate
Less than 1	13.00	13.11	13.85	13.00	5.00	4.20	4.67	4.75
1 – 2	8.00	9.77	11.27	9.50	4.50	2.19	2.54	4.00
2 – 3	6.50	7.01	7.87	7.00	4.00	3.70	4.05	4.00
3 – 4	5.50	5.37	5.81	5.75	2.50	1.24	1.59	2.50
4 – 5	5.25	5.44	5.66	5.50	2.50	2.65	3.56	2.50
5 – 6	3.79	6.17	6.86	5.50	1.67	3.20	2.67	2.50
6 – 7	3.53	4.99	5.35	5.25	1.59	3.37	3.85	2.50
7 – 8	3.34	5.15	4.93	5.00	1.49	1.57	2.42	2.25
8 – 9	3.10	4.95	5.28	4.75	1.38	1.18	0.85	1.25
9 – 10	2.94	3.64	2.49	4.50	1.30	0.78	0.00	1.00
10 – 11	3.39	4.20	5.24	4.25	1.22	0.41	0.00	1.00
11 – 12	3.31	3.51	4.17	3.50	1.20	1.61	0.00	1.00
12 – 13	3.24	3.21	3.77	3.25	1.15	0.82	1.55	1.00
13 – 14	3.13	2.77	2.59	2.75	1.13	0.26	0.00	1.00
14 – 15	3.07	2.84	3.73	2.50	1.12	2.00	2.67	1.00
15 – 16	2.97	2.10	2.10	2.00	1.09	1.19	0.48	0.75
16 – 17	2.86	2.05	2.33	2.00	1.06	0.64	0.51	0.75
17 – 18	2.79	1.35	1.26	2.00	1.03	0.63	0.87	0.75
18 – 19	2.77	2.32	2.58	2.00	1.02	0.21	0.00	0.75
19 – 20	2.72	2.36	1.60	1.75	1.01	0.67	0.88	0.75
20 – 21	2.67	0.79	0.85	1.75	1.01	N/A	N/A	0.00
21 & Over	2.58	1.66	1.55	1.50	0.00	N/A	N/A	0.00

It is important to note that not every service category has enough exposures and/or decrements such that the results in that category are statistically credible even if we look at six years' worth of experience. This is mainly the case for those members in the highest service categories because most members in those categories are eligible to retire and have been excluded from our review of this termination experience as mentioned above. It is also the case in the tables that follow due to the even more limited experience regarding actual terminations.

Based on this experience, we recommend decreasing the termination rate assumption for certain service groups while increasing the termination rate assumption for other service groups. Overall, the proposed rates represent an increase from the current rates for Miscellaneous members and a slight decrease from the current rates for Safety members.

We also continue to recommend that no termination is assumed after a member is first assumed to retire. In other words, at those ages, members will either retire in accordance with

the retirement rate assumptions or continue working, rather than terminate and defer their benefit.

Chart 22 compares the number of actual to expected terminations over the past three years for the current and proposed assumptions.

Chart 23 compares the actual termination experience with the current and proposed assumptions for Miscellaneous members.

Chart 24 compares the actual termination experience with the current and proposed assumptions for Safety members.

In addition, among the terminations, we recommend the following assumptions for the percentage of members who would elect a refund of contributions versus those who would elect to leave their contributions on deposit and receive a deferred vested benefit.

Because there is often a lag between when a member terminates employment and when that member makes an election to receive either a refund of contributions or a deferred retirement benefit, we tracked the election made by all members who terminated during 2019/2020 from the date of termination through the end of the experience study period (June 30, 2022) to determine the proportion of members that elect to leave their contributions on deposit.

The table below shows the proportion of members assumed to elect a refund of contributions separately for members with less than five years of service and members with five or more years of service as well as Miscellaneous and Safety members.

Proportion of Total Termination Assumed to Elect a Refund of Contributions Rates (%)

	Less than Five Years of Service			Five or More Years of Service		
	Current Rate	Actual Rate	Proposed Rate	Current Rate	Actual Rate	Proposed Rate
Miscellaneous	55.00	34.27	45.00	30.00	18.60	20.00
Safety	50.00	35.94	45.00	15.00	14.29	15.00

For both Miscellaneous and Safety members, the overall actual rates for electing a refund of contributions are generally lower than the current assumptions for the past three years. **Based on this experience, for Miscellaneous members we recommend decreasing the rates of electing a refund of contributions. For Safety members we recommend decreasing the rate of electing a refund of contribution for members with less than five years of service and maintaining the rates of electing a refund of contributions for members with five or more years of service.**

Chart 22: Actual Number of Terminations
Compared to Expected
(July 1, 2019 through June 30, 2022)

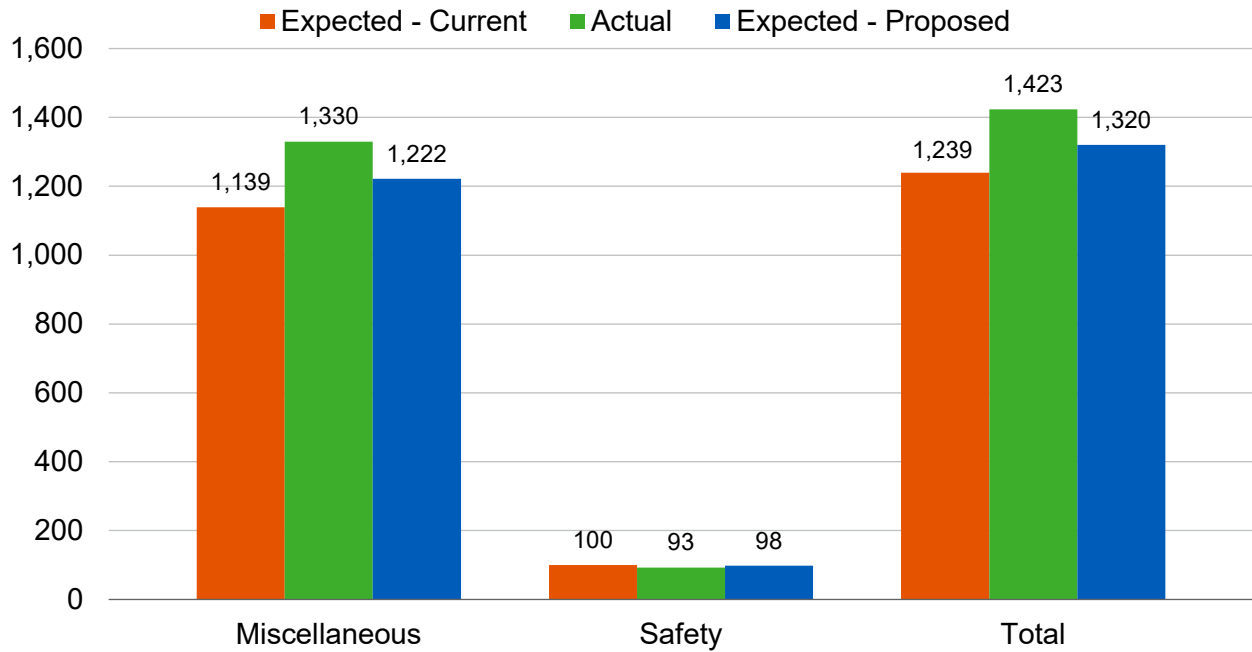


Chart 23: Termination Rates for Miscellaneous Members

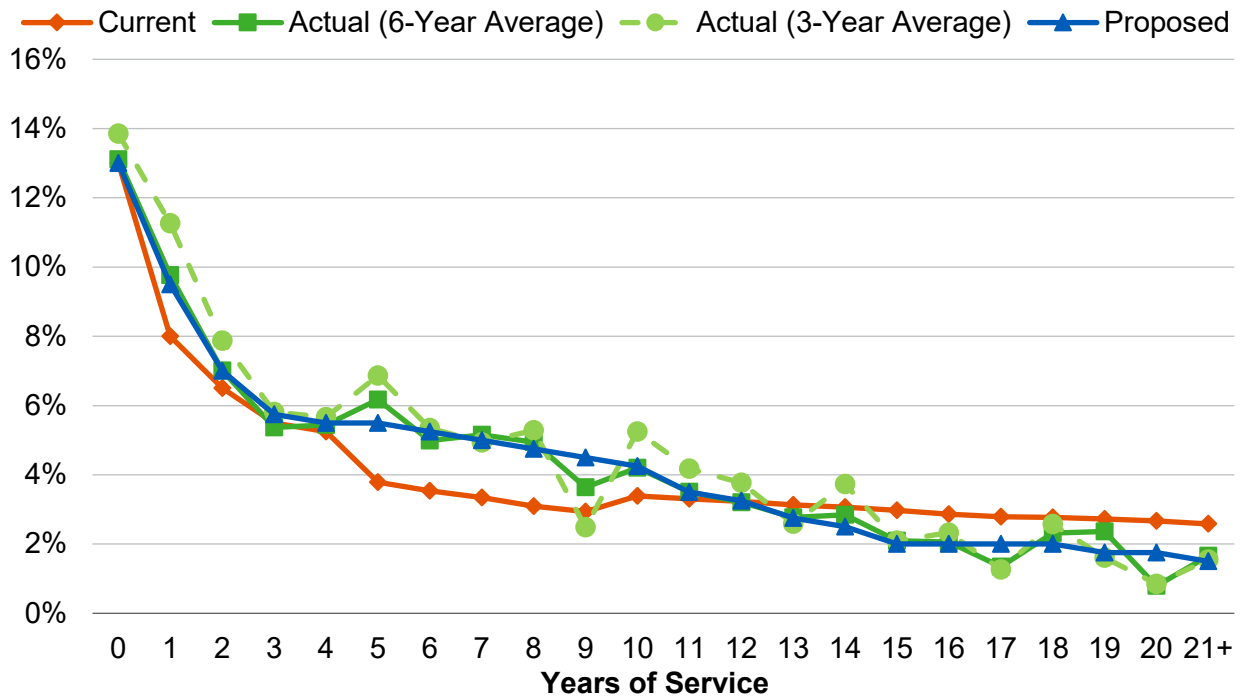
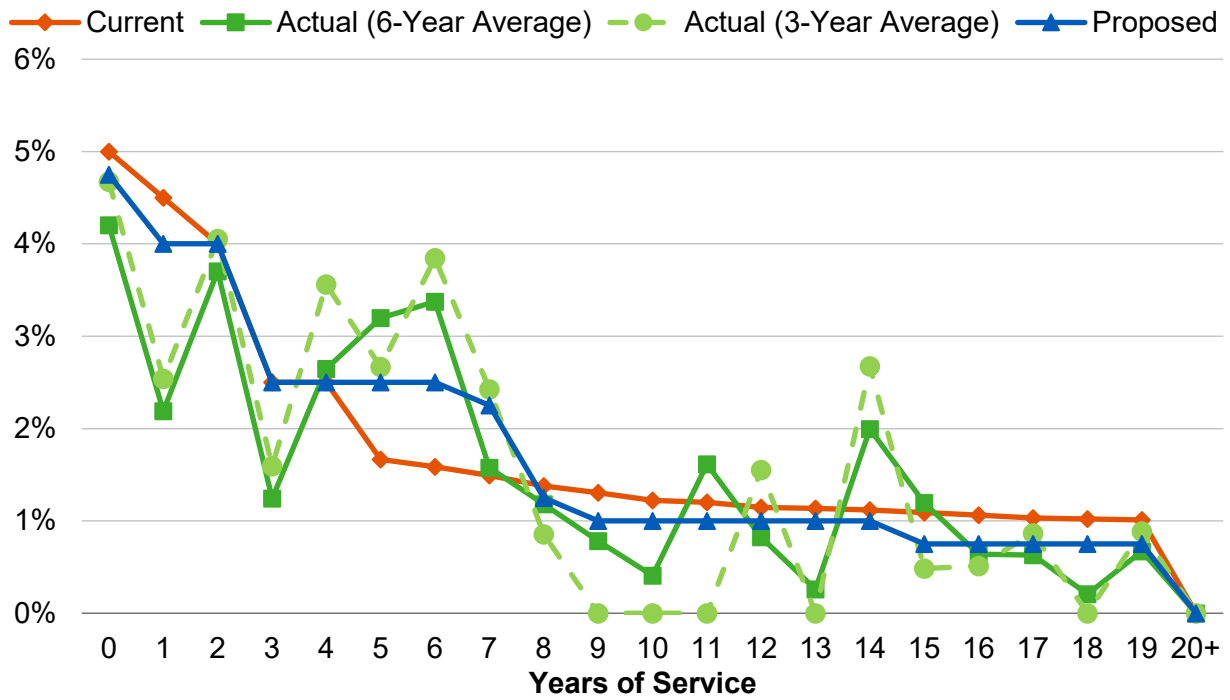


Chart 24: Termination Rates for Safety Members



E. Disability Incidence Rates

When a member becomes disabled, he or she may be entitled to at least a 50% of pay pension (duty disability), or a pension that depends upon the member's years of service (non-duty disability).

The following table shows the observed disability incidence rates based on the actual experience over the past three years. We have also included six years of experience in order to improve the credibility of SCERS' disability experience. Also shown are the current assumed rates and the rates we propose. Please note that we have combined duty and non-duty disability incidence in the table below.

Disability Incidence¹ Rates (%)

Age	Miscellaneous				Safety			
	Current Rate	Actual Rate (3 Years)	Actual Rate (6 Years)	Proposed Rate	Current Rate	Actual Rate (3 Years)	Actual Rate (6 Years)	Proposed Rate
20 – 24	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.05
25 – 29	0.01	0.00	0.00	0.01	0.05	0.00	0.00	0.05
30 – 34	0.02	0.00	0.00	0.02	0.10	0.00	0.00	0.10
35 – 39	0.06	0.00	0.03	0.05	0.30	0.11	0.17	0.25
40 – 44	0.10	0.09	0.05	0.10	0.40	0.34	0.34	0.35
45 – 49	0.20	0.11	0.21	0.20	0.50	0.30	0.34	0.45
50 – 54	0.25	0.15	0.17	0.22	0.80	1.58	1.15	1.00
55 – 59	0.35	0.31	0.31	0.30	1.00	2.13	1.61	1.50
60 – 64	0.45	0.23	0.33	0.35	1.20	1.11	0.56	1.20
65 – 69	0.75	0.29	0.35	0.55	0.00	0.00	0.00	0.00
70 – 74	0.00	0.49	1.09	0.75	0.00	0.00	0.00	0.00

Based on this experience, we recommend decreasing the disability incidence rate assumption for Miscellaneous members and slightly increasing the disability incidence rate assumption for Safety members.

Chart 25 that follows later in this section compares the number of actual to expected duty and non-duty disabilities over the past three years for the current and proposed assumptions.

Chart 26 compares the actual disability incidence experience with the current and proposed assumptions for Miscellaneous members.

Chart 27 compares the actual disability incidence experience with the current and proposed assumptions for Safety members.

¹ Total rate for duty and non-duty connected disabilities.

The following table shows the observed percentage of members that received a duty versus non-duty disability based on the actual experience over the past three years. Also shown are the current assumed percentages and the percentages we propose.

Duty vs. Non-Duty Disability

Duty %	Miscellaneous	Safety
Current Assumption	40%	90%
Actual Experience	57%	96%
Proposed Assumption	50%	90%

Based on this experience, we recommend increasing the current assumption that 40% of Miscellaneous disabilities will be duty disabilities to 50%. The remaining 50% will be assumed to be non-duty disabilities. We recommend maintaining the current assumption that 90% of Safety disabilities will be duty disabilities, with the remaining 10% assumed to be non-duty disabilities.

Chart 22: Actual Number of Disabilities Compared to Expected (July 1, 2019 through June 30, 2022)

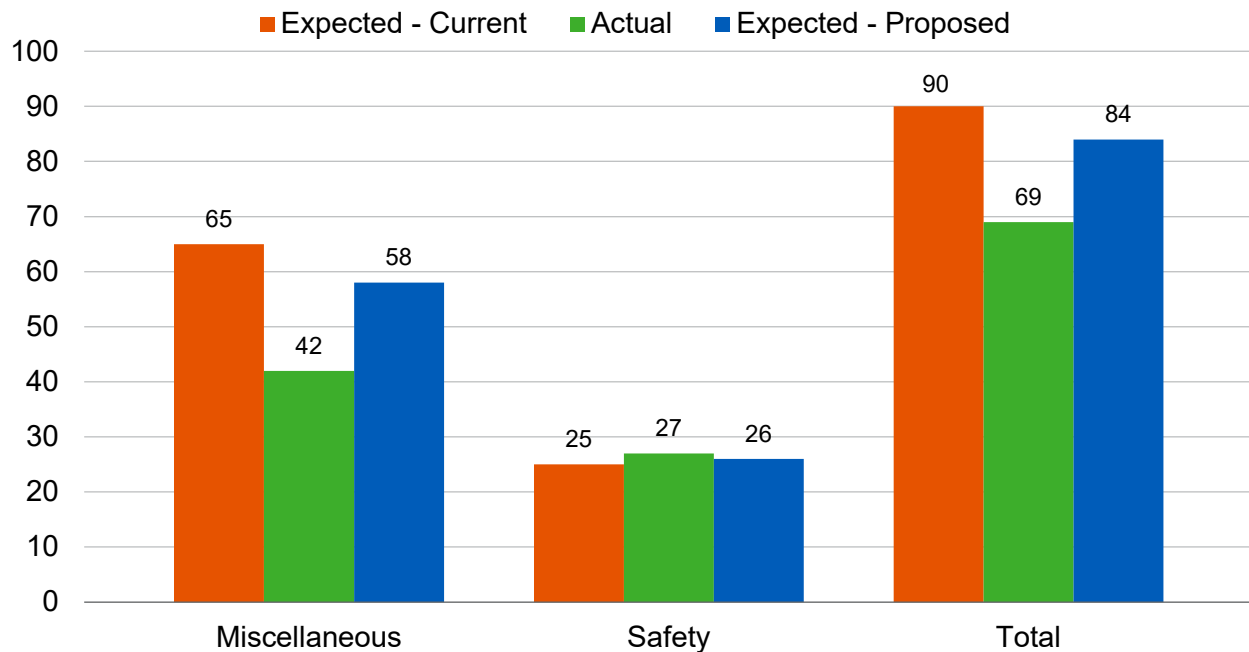


Chart 23: Disability Incidence Rates
for Miscellaneous Members

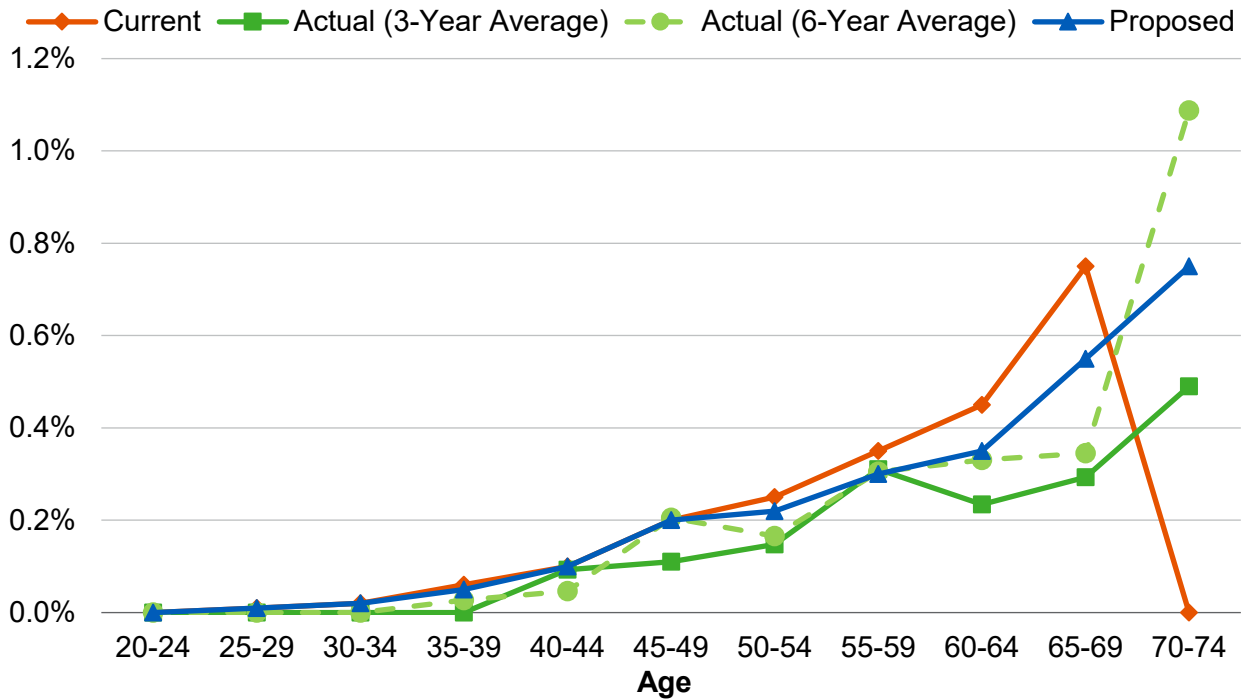
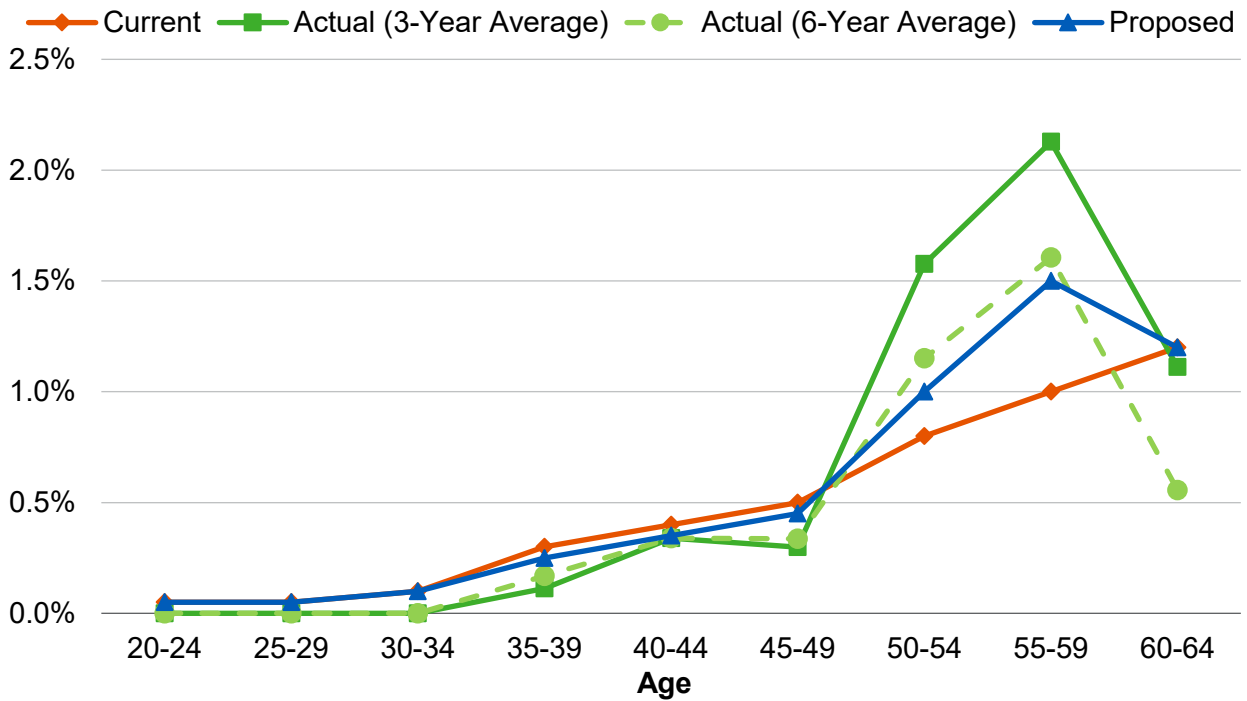


Chart 24: Disability Incidence Rates
for Safety Members



F. Service from Unused Sick Leave Conversions

At retirement, members can convert their unused sick leave to increase the service credit used in the calculation of their retirement benefit. The actuarial valuation anticipates this additional benefit using an assumption to estimate the proportional increase in service that will occur due to unused sick leave conversions.

We collected information on the actual amount of sick leave converted to service credit for retirees during the three-year period studied. Consistent with the format of the current assumption, the actual converted sick leave was expressed as a percentage of members' total service credit (before using the unused sick leave credit).

The table below shows the actual sick leave converted to service credit as a percentage of total service credit (before including the sick leave converted to service credit) at retirement separately for Miscellaneous and Safety members as well as for non-disabled and disabled members.

Service from Unused Sick Leave Conversion (% of Total Service Credit)

	New Retirees (Non-Disabled)			New Retirees (Disabled)		
	Current Rate	Actual Rate	Proposed Rate	Current Rate	Actual Rate	Proposed Rate
Miscellaneous	1.50	1.34	1.50	0.25	0.00	0.00
Safety	2.25	2.12	2.25	0.25	0.03	0.00

Based on the data in the above table, we are recommending no change in the sick leave conversion assumption for new non-disabled Miscellaneous or Safety retirees. We are recommending eliminating the sick leave conversion assumption for new disabled Miscellaneous and Safety retirees.

G. Average Entry Ages

SCERS members who entered Miscellaneous Tiers 1, 2, 3 and 4 and Safety Tiers 1, 2 and 3 after January 1, 1975 and prior to January 1, 2013 pay member contribution rates based on average entry age of all members in the Miscellaneous or Safety plan.

Based on average entry age of 34.5 and 28.9 for Miscellaneous and Safety, respectively, we recommend no change in the assumed average entry age of 35 for Miscellaneous and we recommend no change in the assumed average entry age of 29 for Safety.

5. Cost Impact

We have estimated the impact of all the recommended demographic and economic assumptions as if they were applied to the June 30, 2022 actuarial valuation. The table below shows the changes in the employer and member contribution rates due to the proposed assumption changes separately for the recommended economic assumption changes including the recommended merit and promotion salary increases (as recommended in Section 3 of this report) and the recommended demographic assumption changes (as recommended in Section 4 of this report).

Note that the cost impact shown is after reflecting the impact of some active members in the legacy tiers who have already agreed to pay a higher normal cost on a 50:50 cost-sharing basis, while the remaining active members continue to have agreed only to pay the full rate as defined by statute.

Cost Impact of the Recommended Assumptions Based on June 30, 2022 Actuarial Valuation

Assumption	Impact on Average Employer Contribution Rates	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Increase due to changes in economic assumptions	3.31%	0.11%
Decrease due to changes in demographic assumptions	<u>(0.16%)</u>	<u>(0.16%)</u>
Total increase/(decrease) in average employer rate	3.15%	(0.05%)
Total estimated increase/(decrease) in annual dollar amount (\$000s)¹	\$35,108	\$(1,008)

Assumption	Impact on Average Member Contribution Rates	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Increase/(decrease) due to changes in economic assumptions	0.59%	(0.18%)
Decrease due to changes in demographic assumptions	<u>(0.06%)</u>	<u>(0.06%)</u>
Total increase/(decrease) in average member rate	0.53%	(0.24%)
Total estimated increase/(decrease) in annual dollar amount (\$000s)¹	\$5,850	\$(2,854)

¹ Based on June 30, 2022 projected annual payroll as determined under each set of assumptions. These annual amounts are expected to change in the future in proportion to future payroll.

Assumption	Impact on UAAL ¹ (\$000s)	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Increase due to changes in economic assumptions	\$427,067	\$2,497
Decrease due to changes in demographic assumptions	(14,950)	(14,950)
Total increase/(decrease) in UAAL (\$000s)	\$412,117	\$(12,453)

	Impact on Funded Percentage	
	With Recommended 6.50% Investment Return Assumption	With Alternative 6.75% Investment Return Assumption
Change in Funded Percentage on VVA basis	83.1% to 80.6%	83.1% to 83.1%

Of the various assumption changes, the most significant rate increase is due to the investment return assumption under the recommended 6.50% investment return assumption.

The tables below show the average employer and member contribution rate impacts for each cost group due to the recommended assumption changes as if they were applied to the June 30, 2022 actuarial valuation.

¹ UAAL stands for the Unfunded Actuarial Accrued Liability, which is the excess, if any, of the Actuarial Accrued Liability over the Valuation Value of Assets.

Employer Contribution Rate Increases/(Decreases)
With Recommended 6.50% Investment Return Assumption
(% of Payroll)

	Normal Cost	UAAL	Total	Annual Amount ¹ (\$000s)
Miscellaneous County	0.41%	2.21%	2.62%	\$20,599
Miscellaneous Court	0.57%	2.21%	2.78%	1,460
Miscellaneous District	0.47%	2.21%	2.68%	1,031
Safety County	1.00%	3.98%	4.98%	12,018
All Categories Combined	0.56%	2.59%	3.15%	\$35,108

Employer Contribution Rate Increases/(Decreases)
With Alternative 6.75% Investment Return Assumption
(% of Payroll)

	Normal Cost	UAAL	Total	Annual Amount ¹⁴⁴ (\$000s)
Miscellaneous County	(0.26%)	0.27%	0.01%	\$(81)
Miscellaneous Court	(0.36%)	0.28%	(0.08%)	(49)
Miscellaneous District	(0.36%)	0.38%	0.02%	6
Safety County	(0.19%)	(0.02%)	(0.21%)	(884)
All Categories Combined	(0.25%)	0.20%	(0.05%)	\$(1,008)

¹ Based on June 30, 2022 projected annual payroll as determined under each set of assumptions. These annual amounts are expected to change in the future in proportion to future payroll.

Impact on Member Rates for Members in Legacy Tiers Paying Full Rates
With Recommended 6.50% Investment Return Assumption
(% of Payroll)

	Total	Annual Amount ¹
Miscellaneous Tier 1	0.64%	\$599
Miscellaneous Tier 2	0.22%	183
Miscellaneous Tier 3	0.40%	371

Note: We are only showing the impact on member rates for those tiers with actives as of June 30, 2022 paying the full rate (Miscellaneous Tiers 1, 2, and 3). All the actives in the other tiers pay 50:50 rates.

Impact on Member Rates for Members in Legacy Tiers Paying
50:50 Rates and in CalPEPRA Tiers
With Recommended 6.50% Investment Return Assumption
(% of Payroll)

	Total	Annual Amount ¹
Miscellaneous Tier 1	1.47%	\$1,369
Miscellaneous Tier 2	0.66%	548
Miscellaneous Tier 3	0.55%	513
Miscellaneous Tier 4	0.20%	205
Miscellaneous Tier 5	0.26%	183
Safety Tier 1	1.40%	2,415
Safety Tier 2	1.41%	2,076
Safety Tier 3	0.89%	1,209
Safety Tier 4	0.48%	461

¹ Based on the average June 30, 2022 projected annual compensation for members in each respective tier, as determined under the recommended set of assumptions. These annual amounts are expected to change in the future in proportion to future payroll.

Impact on Member Rates for Members in Legacy Tiers Paying Full Rates
With Alternative 6.75% Investment Return Assumption
(% of Payroll)

	Total	Annual Amount ¹
Miscellaneous Tier 1	0.00%	\$0
Miscellaneous Tier 2	0.01%	8
Miscellaneous Tier 3	0.01%	6

Note: We are only showing the impact on member rates for those tiers with actives as of June 30, 2022 paying the full rate (Miscellaneous Tiers 1, 2, and 3). All the actives in the other tiers pay 50:50 rates.

Impact on Member Rates for Members in Legacy Tiers Paying
50:50 Rates and in CalPEPRA Tiers
With Alternative 6.75% Investment Return Assumption
(% of Payroll)

	Total	Annual Amount ¹
Miscellaneous Tier 1	0.69%	\$643
Miscellaneous Tier 2	0.08%	66
Miscellaneous Tier 3	(0.22%)	(205)
Miscellaneous Tier 4	(0.44%)	(450)
Miscellaneous Tier 5	(0.32%)	(225)
Safety Tier 1	(0.30%)	(517)
Safety Tier 2	0.01%	15
Safety Tier 3	(0.33%)	(448)
Safety Tier 4	(0.43%)	(413)

¹ Based on the average June 30, 2022 projected annual compensation for members in each respective tier, as determined under the recommended set of assumptions. These annual amounts are expected to change in the future in proportion to future payroll.

Appendix A: Current Actuarial Assumptions

Economic Assumptions

Net Investment Return:	6.75%, net of administrative and investment expenses.
Consumer Price Index (CPI):	2.75%
Member Contribution Crediting Rate:¹	2.75% (assumed rate of inflation), compounded semi-annually.
Cost of Living Adjustment:	Miscellaneous and Safety Tier 1 benefits are assumed to increase at 2.75% per year (for Tier 1 members with a sufficient COLA bank, withdrawals from the bank can be made to increase the retiree COLA up to 4% per year). Miscellaneous Tier 3, Tier 4 and Tier 5 and Safety Tier 2, Tier 3 and Tier 4 benefits are assumed to increase at 2.00% per year. Miscellaneous Tier 2 receive no COLA increases.
Payroll Growth:	Inflation of 2.75% per year plus “across the board” real salary increases of 0.25% per year, used to amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll.
Increase in Section 7522.10 Compensation Limit:	Increase of 2.75% per year from the valuation date.

¹ Current policy is to credit the member contribution account with interest up to the current 5-year Treasury rate, if such earnings are available. However, the difference in earnings between the 5-year Treasury rate and the target crediting rate will be applied to the other valuation reserves so that the overall reserve target crediting rate is maintained at 6.75%.

Salary Increases:

The annual rate of compensation increase includes:

- Inflation at 2.75%, plus
- “Across the board” salary increases of 0.25% per year, plus
- The following merit and promotion increases:

Years of Service	Rate (%)	
	Miscellaneous	Safety
Less than 1	5.00	7.50
1 – 2	5.00	6.50
2 – 3	5.00	6.25
3 – 4	5.00	5.50
4 – 5	4.00	5.00
5 – 6	3.00	4.25
6 – 7	2.50	4.00
7 – 8	2.25	3.50
8 – 9	2.00	3.25
9 – 10	1.80	3.00
10 – 11	1.70	2.50
11 – 12	1.60	2.50
12 – 13	1.50	2.50
13 – 14	1.45	2.50
14 – 15	1.35	2.50
15 & Over	1.25	2.50

Demographic Assumptions

Post-Retirement Mortality Rates:

Healthy

- **Miscellaneous Members:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected generationally with the two-dimensional mortality improvement scale MP-2019.
- **Safety Members:** Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

Disabled

- **Miscellaneous Members:** Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
- **Safety Members:** Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

Beneficiary

- **All Beneficiaries:** Pub-2010 General Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

The Pub-2010 mortality tables and adjustments as shown above reasonably reflect the mortality experience as of the measurement date. These mortality tables were adjusted to future years using the generational projection to reflect future mortality improvement between the measurement date and those years.

Pre-Retirement Mortality Rates:

- **Miscellaneous Members:** Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
- **Safety Members:** Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

Age	Rate (%)			
	Miscellaneous		Safety	
	Male	Female	Male	Female
20	0.04	0.01	0.04	0.01
25	0.02	0.01	0.03	0.02
30	0.03	0.01	0.04	0.02
35	0.04	0.02	0.04	0.03
40	0.06	0.03	0.05	0.04
45	0.09	0.05	0.07	0.06
50	0.13	0.08	0.10	0.08
55	0.19	0.11	0.15	0.11
60	0.28	0.17	0.23	0.14
65	0.41	0.27	0.35	0.20

Note that generational projections beyond the base year (2010) are not reflected in the above mortality rates.

Miscellaneous pre-retirement deaths are assumed to be non-duty.

For Safety, 50% of pre-retirement deaths are assumed to be non-duty and the rest as assumed to be duty.

Mortality Rates for Member Contributions:

- **Miscellaneous Members:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 40% male and 60% female.
- **Safety Members:** Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 75% male and 25% female.

Assumptions for Optional Form of Benefits:

- **Miscellaneous Service Retirees:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected generationally with the two-dimensional mortality improvement scale MP-2019, weighted 40% male and 60% female.
- **Safety Service Retirees:** Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019, weighted 75% male and 25% female.
- **Miscellaneous Disabled Retirees:** Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019, weighted 40% male and 60% female.
- **Safety Disabled Retirees:** Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019, weighted 75% male and 25% female.
- **All Miscellaneous Beneficiaries:** Pub-2010 General Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019, weighted 60% male and 40% female.
- **All Safety Beneficiaries:** Pub-2010 General Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019, weighted 25% male and 75% female.

Note that for optional form of benefits, a 6.75% per annum interest rate with a 0.00% COLA is used.

Disability Incidence Rates:

Age	Rate (%)	
	Miscellaneous	Safety
20	0.000	0.050
25	0.006	0.050
30	0.016	0.080
35	0.044	0.220
40	0.084	0.360
45	0.160	0.460
50	0.230	0.680
55	0.310	0.920
60	0.410	1.120
65	0.630	0.000

40% of Miscellaneous disabilities are assumed to be duty disabilities. The other 60% are assumed to be non-duty disabilities.

90% of Safety disabilities are assumed to be duty disabilities. The other 10% are assumed to be non-duty disabilities.

Termination Rates:*Less Than Five Years of Service*

Years of Service	Rate (%)	
	Miscellaneous	Safety
Less than 1	13.00	5.00
1 – 2	8.00	4.50
2 – 3	6.50	4.00
3 – 4	5.50	2.50
4 – 5	5.25	2.50

55% of the Miscellaneous terminated members and 50% of the Safety terminated members with less than five years of service are assumed to choose a refund of contributions. The other 45% and 50% of Miscellaneous and Safety terminated members, respectively, are assumed to choose a deferred vested benefit.

Five or More Years of Service

Age	Rate (%)	
	Miscellaneous	Safety
20	5.25	2.00
25	5.25	2.00
30	5.10	2.00
35	4.40	1.55
40	3.40	1.10
45	2.70	1.00
50	2.44	1.00
55	2.34	1.00
60	2.24	1.00
65	1.48	0.00

30% of the Miscellaneous terminated members and 15% of the Safety terminated members with five or more years of service are assumed to choose a refund of contributions. The other 70% and 85% of Miscellaneous and Safety terminated members, respectively, are assumed to choose a deferred vested benefit.

No termination is assumed after a member is assumed to retire.

Retirement Rates:

Rate (%)					
Miscellaneous					
Tiers 2 & 3					
Age	Tier 1	Less than 30 Years of Service	30 or More Years of Service	Tier 4	Tier 5
50	6.00	2.50	2.50	2.50	0.00
51	4.50	1.75	1.75	1.75	0.00
52	4.50	2.00	2.00	2.00	4.00
53	4.50	2.50	2.50	1.75	1.25
54	5.50	3.00	3.00	2.25	1.75
55	12.00	4.00	8.00	3.00	2.50
56	18.00	5.00	10.00	4.50	4.00
57	18.00	8.00	16.00	6.50	6.00
58	18.00	9.00	18.00	7.00	6.50
59	20.00	9.00	18.00	7.00	6.50
60	28.00	9.00	18.00	7.50	7.00
61	35.00	15.00	30.00	12.00	11.00
62	35.00	18.00	18.00	13.00	12.00
63	35.00	18.00	18.00	12.00	11.00
64	35.00	20.00	20.00	13.00	13.00
65	35.00	35.00	35.00	25.00	24.00
66	40.00	35.00	35.00	18.00	18.00
67	40.00	35.00	35.00	18.00	18.00
68	50.00	35.00	35.00	21.00	21.00
69	60.00	35.00	35.00	23.00	23.00
70 & Over	100.00	100.00	100.00	100.00	100.00

The retirement rates only apply to members who are eligible to retire at the age shown.

**Retirement Rates
(continued):**

Age	Rate (%)			
	Safety			
	Tiers 1 & 2		Tier 3	Tier 4
	Less than 25 Years of Service	25 or More Years of Service		
45	2.50	2.50	1.50	0.00
46	2.50	2.50	1.50	0.00
47	2.50	2.50	1.50	0.00
48	2.50	2.50	1.50	0.00
49	10.00	10.00	4.00	0.00
50	18.00	36.00	10.00	15.00
51	15.00	30.00	12.00	10.50
52	18.00	36.00	14.00	12.00
53	16.00	32.00	16.00	14.00
54	18.00	27.00	18.00	15.50
55	18.00	27.00	50.00	40.00
56	20.00	30.00	25.00	25.00
57	20.00	30.00	25.00	25.00
58	20.00	30.00	25.00	25.00
59	30.00	30.00	30.00	25.00
60	45.00	45.00	45.00	45.00
61	55.00	55.00	55.00	55.00
62	70.00	70.00	70.00	70.00
63	70.00	70.00	70.00	70.00
64	70.00	70.00	70.00	70.00
65 & Over	100.00	100.00	100.00	100.00

The retirement rates only apply to members who are eligible to retire at the age shown.

Retirement Age and Benefit for Deferred Vested Members:	<p>For current and future deferred vested members, retirement assumptions are as follows:</p> <p style="margin-left: 40px;">Miscellaneous Retirement Age: 59 Safety Retirement Age: 52</p> <p>Current and future deferred vested non-reciprocal members who terminate with less than five years of service and are not vested are assumed to retire at age 70 for both Miscellaneous and Safety if they decide to leave their contributions on deposit.</p> <p>We assume that 30% of future Miscellaneous and 40% of future Safety deferred vested members will continue to work for a reciprocal employer. For reciprocal members, we assume 4.25% and 5.50% compensation increases per annum for Miscellaneous and Safety members, respectively.</p>									
Future Benefit Accruals:	<p>1.0 year of service per year for the full-time employees. Continuation of current partial service accrual for part-time employees.</p>									
Unknown Data for Members:	<p>Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male. If not provided, salary is assumed to be equal to the average salary of the membership group and tier.</p>									
Definition of Active Members:	<p>All active members of SCERS as of the valuation date.</p>									
Form of Payment:	<p>All active and inactive members are assumed to elect the unmodified option at retirement.</p>									
Percent Married:	<p>For all active and inactive members, 80% of male members and 55% of female members are assumed to be married at pre-retirement death or retirement.</p>									
Age and Gender of Spouse:	<p>For all active and inactive members, male members are assumed to have a female spouse who is 3 years younger than the member and female members are assumed to have a male spouse who is 2 years older than the member.</p>									
Service from Unused Sick Leave Conversion:	<p>The following assumptions for service converted from unused sick leave as a percentage of service at retirement are used:</p> <table border="1" data-bbox="613 1150 1333 1297" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Service Retirement</th> <th style="text-align: center;">Disability Retirement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Miscellaneous</td> <td style="text-align: center;">1.50%</td> <td style="text-align: center;">0.25%</td> </tr> <tr> <td style="text-align: center;">Safety</td> <td style="text-align: center;">2.25%</td> <td style="text-align: center;">0.25%</td> </tr> </tbody> </table> <p>Pursuant to Section 31,641.01, the cost of this benefit will be charged only to employers and will not affect member contribution rates.</p>		Service Retirement	Disability Retirement	Miscellaneous	1.50%	0.25%	Safety	2.25%	0.25%
	Service Retirement	Disability Retirement								
Miscellaneous	1.50%	0.25%								
Safety	2.25%	0.25%								

Appendix B: Proposed Actuarial Assumptions

Economic Assumptions

Net Investment Return Recommended:	6.50%, net of administrative and investment expenses.
Net Investment Return Alternative:	6.75%, net of administrative and investment expenses.
Consumer Price Index (CPI):	2.50%
Member Contribution Crediting Rate:¹	2.50% (assumed rate of inflation), compounded semi-annually.
Cost of Living Adjustment:	Miscellaneous and Safety Tier 1 benefits are assumed to increase at 2.75% per year (for Tier 1 members with a sufficient COLA bank, withdrawals from the bank can be made to increase the retiree COLA up to 4% per year). Miscellaneous Tier 3, Tier 4 and Tier 5 and Safety Tier 2, Tier 3 and Tier 4 benefits are assumed to increase at 2.00% per year. Miscellaneous Tier 2 receive no COLA increases.
Payroll Growth:	Inflation of 2.50% per year plus “across the board” real salary increases of 0.25% per year, used to amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll.
Increase in Section 7522.10 Compensation Limit:	Increase of 2.50% per year from the valuation date.

¹ Current policy is to credit the member contribution account with interest up to the current 5-year Treasury rate, if such earnings are available. However, the difference in earnings between the 5-year Treasury rate and the target crediting rate will be applied to the other valuation reserves so that the overall reserve target crediting rate is maintained at 6.50% (6.75%, alternatively).

Salary Increases:

The annual rate of compensation increase includes:

- Inflation at 2.50%, plus
- “Across the board” salary increases of 0.25% per year, plus
- The following merit and promotion increases:

Years of Service	Rate (%)	
	Miscellaneous	Safety
Less than 1	6.00	7.00
1 – 2	6.00	6.25
2 – 3	5.50	6.00
3 – 4	5.25	5.75
4 – 5	4.25	5.25
5 – 6	3.25	4.25
6 – 7	2.75	4.00
7 – 8	2.50	3.75
8 – 9	2.25	3.50
9 – 10	2.10	3.25
10 – 11	2.00	3.00
11 – 12	1.70	3.00
12 – 13	1.50	3.00
13 – 14	1.50	3.00
14 – 15	1.50	3.00
15 & Over	1.50	2.75

Demographic Assumptions

Post-Retirement Mortality Rates:

Healthy

- **Miscellaneous Members:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.
- **Safety Members:** Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021.

Disabled

- **Miscellaneous Members:** Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) with rates unadjusted for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.
- **Safety Members:** Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) with rates increased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

Beneficiary

- **Beneficiaries not currently in Pay Status:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.
- **Beneficiaries in Pay Status:** Pub-2010 General Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 5% for males and increased by 10% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

The Pub-2010 mortality tables and adjustments as shown above reasonably reflect the mortality experience as of the measurement date. These mortality tables were adjusted to future years using the generational projection to reflect future mortality improvement between the measurement date and those years.

Pre-Retirement Mortality Rates:

- **Miscellaneous Members:** Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021.
- **Safety Members:** Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021.

Age	Rate (%)			
	Miscellaneous		Safety	
	Male	Female	Male	Female
20	0.04	0.01	0.04	0.01
25	0.02	0.01	0.03	0.02
30	0.03	0.01	0.04	0.02
35	0.04	0.02	0.04	0.03
40	0.06	0.03	0.05	0.04
45	0.09	0.05	0.07	0.06
50	0.13	0.08	0.10	0.08
55	0.19	0.11	0.15	0.11
60	0.28	0.17	0.23	0.14
65	0.41	0.27	0.35	0.20

Note that generational projections beyond the base year (2010) are not reflected in the above mortality rates.

Miscellaneous pre-retirement deaths are assumed to be non-duty.

For Safety, 50% of pre-retirement deaths are assumed to be non-duty and the rest as assumed to be duty.

Mortality Rates for Member Contributions:

- **Miscellaneous Members:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2021, weighted 40% male and 60% female.
- **Safety Members:** Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2021, weighted 75% male and 25% female.

Assumptions for Optional Form of Benefits:

- **Miscellaneous Service Retirees:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021, weighted 40% male and 60% female.
- **Safety Service Retirees:** Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021, weighted 75% male and 25% female.
- **Miscellaneous Disabled Retirees:** Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) with rates unadjusted for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021, weighted 40% male and 60% female.
- **Safety Disabled Retirees:** Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) with rates increased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2021, weighted 75% male and 25% female.
- **All Miscellaneous Beneficiaries:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021, weighted 60% male and 40% female.
- **All Safety Beneficiaries:** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021, weighted 25% male and 75% female.

Note that for optional form of benefits, a 6.50% (6.75%, alternatively) per annum interest rate with a 0.00% COLA is used.

Disability Incidence Rates:

Age	Rate (%)	
	Miscellaneous	Safety
20	0.000	0.050
25	0.006	0.050
30	0.016	0.080
35	0.038	0.190
40	0.080	0.310
45	0.160	0.410
50	0.212	0.780
55	0.268	1.300
60	0.330	1.320
65	0.470	0.000
70	0.670	0.000

50% of Miscellaneous disabilities are assumed to be duty disabilities. The other 50% are assumed to be non-duty disabilities.

90% of Safety disabilities are assumed to be duty disabilities. The other 10% are assumed to be non-duty disabilities.

Termination Rates:

Years of Service	Rate (%)	
	Miscellaneous	Safety
Less than 1	13.00	4.75
1 – 2	9.50	4.00
2 – 3	7.00	4.00
3 – 4	5.75	2.50
4 – 5	5.50	2.50
5 – 6	5.50	2.50
6 – 7	5.25	2.50
7 – 8	5.00	2.25
8 – 9	4.75	1.25
9 – 10	4.50	1.00
10 – 11	4.25	1.00
11 – 12	3.50	1.00
12 – 13	3.25	1.00
13 – 14	2.75	1.00
14 – 15	2.50	1.00
15 – 16	2.00	0.75
16 – 17	2.00	0.75
17 – 18	2.00	0.75
18 – 19	2.00	0.75
19 – 20	1.75	0.75
20 – 21	1.75	0.00
21 & Over	1.50	0.00

45% of the Miscellaneous terminated members with less than five years of service and 45% of the Safety terminated members with less than five years of service are assumed to choose a refund of contributions. The other 55% and 55% of Miscellaneous and Safety terminated members with less than five years of service, respectively, are assumed to choose a deferred vested benefit.

20% of the Miscellaneous terminated members with five or more years of service and 15% of the Safety terminated members with five or more years of service are assumed to choose a refund of contributions. The other 80% and 85% of Miscellaneous and Safety terminated members with five or more years of service, respectively, are assumed to choose a deferred vested benefit.

No termination is assumed after a member is assumed to retire.

Retirement Rates:

Age	Rate (%)					
	Miscellaneous					
	Tier 1	Tiers 2 & 3		Tier 4	Tier 5	
		Less than 30 Years of Service	30 or More Years of Service		Less than 30 Years of Service	30 or More Years of Service
50	6.00	2.50	2.50	2.50	0.00	0.00
51	4.50	2.00	2.00	2.00	0.00	0.00
52	4.50	2.00	2.00	2.00	3.50	4.00
53	4.50	2.00	2.00	2.00	1.25	2.50
54	5.50	3.50	9.00	2.50	1.50	3.00
55	12.00	4.50	12.00	3.50	1.75	3.50
56	18.00	5.50	12.00	5.00	2.00	4.00
57	18.00	7.50	15.00	6.00	4.00	6.00
58	18.00	8.00	20.00	6.00	4.50	6.50
59	20.00	8.00	25.00	6.00	4.50	6.50
60	28.00	9.00	25.00	7.50	5.00	7.00
61	35.00	15.00	30.00	12.00	8.00	11.00
62	35.00	20.00	31.00	13.00	10.00	12.00
63	35.00	18.00	25.00	12.00	9.00	11.00
64	35.00	20.00	25.00	13.00	11.00	13.00
65	35.00	30.00	30.00	25.00	22.00	24.00
66	40.00	35.00	35.00	21.00	18.00	18.00
67	40.00	30.00	30.00	21.00	18.00	18.00
68	50.00	30.00	30.00	21.00	21.00	21.00
69	60.00	30.00	30.00	23.00	23.00	23.00
70	100.00	30.00	30.00	30.00	30.00	30.00
71	100.00	30.00	30.00	30.00	30.00	30.00
72	100.00	30.00	30.00	30.00	30.00	30.00
73	100.00	30.00	30.00	30.00	30.00	30.00
74	100.00	30.00	30.00	30.00	30.00	30.00
75 & Over	100.00	100.00	100.00	100.00	100.00	100.00

The retirement rates only apply to members who are eligible to retire at the age shown.

**Retirement Rates
(continued):**

		Rate (%)			
		Safety			
		Tiers 1 & 2			
Age	Less than 25 Years of Service	25 or More Years of Service	Tier 3	Tier 4	
45	2.50	2.50	1.50	0.00	
46	3.00	3.00	1.50	0.00	
47	4.50	4.50	1.50	0.00	
48	7.00	10.00	1.50	0.00	
49	16.00	35.00	4.00	0.00	
50	25.00	50.00	10.00	15.00	
51	20.00	40.00	12.00	10.50	
52	22.00	45.00	14.00	12.00	
53	16.00	45.00	16.00	14.00	
54	18.00	35.00	18.00	15.50	
55	20.00	30.00	50.00	40.00	
56	20.00	30.00	25.00	25.00	
57	20.00	30.00	25.00	25.00	
58	20.00	35.00	25.00	25.00	
59	30.00	30.00	30.00	25.00	
60	45.00	45.00	45.00	45.00	
61	50.00	50.00	55.00	55.00	
62	70.00	70.00	70.00	70.00	
63	70.00	70.00	70.00	70.00	
64	70.00	70.00	70.00	70.00	
65 & Over	100.00	100.00	100.00	100.00	

The retirement rates only apply to members who are eligible to retire at the age shown.

Retirement Age and Benefit for Deferred Vested Members:	<p>For current and future deferred vested members, retirement assumptions are as follows:</p> <table data-bbox="516 220 1201 367"> <tr> <td>Miscellaneous Non-Reciprocal Retirement Age:</td> <td>59</td> </tr> <tr> <td>Miscellaneous Reciprocal Retirement Age:</td> <td>61</td> </tr> <tr> <td>Safety Non-Reciprocal Retirement Age:</td> <td>52</td> </tr> <tr> <td>Safety Reciprocal Retirement Age:</td> <td>55</td> </tr> </table> <p>Current and future deferred vested non-reciprocal members who terminate with less than five years of service and are not vested are assumed to retire at age 70 for both Miscellaneous and Safety if they decide to leave their contributions on deposit. We assume that 25% of future Miscellaneous and 35% of future Safety deferred vested members will continue to work for a reciprocal employer. For reciprocal members, we assume 4.25% and 5.50% compensation increases per annum for Miscellaneous and Safety members, respectively.</p>	Miscellaneous Non-Reciprocal Retirement Age:	59	Miscellaneous Reciprocal Retirement Age:	61	Safety Non-Reciprocal Retirement Age:	52	Safety Reciprocal Retirement Age:	55
Miscellaneous Non-Reciprocal Retirement Age:	59								
Miscellaneous Reciprocal Retirement Age:	61								
Safety Non-Reciprocal Retirement Age:	52								
Safety Reciprocal Retirement Age:	55								
Future Benefit Accruals:	<p>1.0 year of service per year for the full-time employees. Continuation of current partial service accrual for part-time employees.</p>								
Unknown Data for Members:	<p>Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male. If not provided, salary is assumed to be equal to the average salary of the membership group and tier.</p>								
Definition of Active Members:	<p>All active members of SCERS as of the valuation date.</p>								
Form of Payment:	<p>All active and inactive members are assumed to elect the unmodified option at retirement.</p>								
Percent Married:	<p>For all active and inactive members, 80% of male members and 60% of female members are assumed to be married at pre-retirement death or retirement.</p>								
Age and Gender of Spouse:	<p>For all active and inactive members, male members are assumed to have a female spouse who is 3 years younger than the member and female members are assumed to have a male spouse who is 2 years older than the member.</p>								
Service from Unused Sick Leave Conversion:	<p>The following assumptions for service converted from unused sick leave as a percentage of service at retirement are used:</p> <table data-bbox="706 1228 1234 1375"> <thead> <tr> <th colspan="2" style="text-align: center;">Service (Non-Disabled) Retirement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Miscellaneous</td> <td style="text-align: center;">1.50%</td> </tr> <tr> <td style="text-align: center;">Safety</td> <td style="text-align: center;">2.25%</td> </tr> </tbody> </table> <p>Pursuant to Section 31,641.01, the cost of this benefit will be charged only to employers and will not affect member contribution rates.</p>	Service (Non-Disabled) Retirement		Miscellaneous	1.50%	Safety	2.25%		
Service (Non-Disabled) Retirement									
Miscellaneous	1.50%								
Safety	2.25%								

5768407v4/05750.001

June 13, 2023

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)
Hypothetical Phase-ins of the Increase in Employer's UAAL Contribution Rate due
to Recommended Changes in 6.50% Investment Return and Other Actuarial
Assumptions in Triennial Experience Study**

Dear Eric:

We have been requested to provide information on hypothetical two-year and three-year "phase-ins" of the increase in employer's unfunded actuarial accrued liability (UAAL) contribution rate due to recommended changes in 6.50% investment return and other actuarial assumptions in our triennial experience study recommending assumptions for the June 30, 2023 valuation. This letter provides an illustration of the phased in contribution rate and discusses the impact of the phase-ins on the ultimate employer contribution rate after the phase-ins are over.

Background

In our experience study report dated June 13, 2023, we estimated that if all the recommended actuarial assumptions, including a 6.50% investment return assumption, were to be adopted by the Board, the aggregate employer contribution rate would increase by 3.15% of payroll and the aggregate member rate would increase by 0.53% of payroll.

Please note that the discussion in this letter reflects the general practice that, even when changes in employer rates are phased in, changes in the member rates due to assumption changes are not phased in. There are two main reasons for that practice. The principal reason is that, because the phase-in increases the UAAL and the UAAL is funded only by the employer, a phase-in of the member rates would in effect shift cost from the employees to the employers. In addition, because member contribution rates are based solely on normal cost and are unaffected by changes in the UAAL, the cost impact on member rates is generally smaller than the impact on employer rates.

Consistent with the action the Board took at the time of the last experience study, this letter illustrates only a phase-in of the UAAL amortization component of the employer rate increase. In practice, this is usually most of the cost impact. For example, of the 3.15% of rate impact noted above, 2.59% is due to UAAL amortization and 0.56% is due to normal cost.

Another reason behind the Board's decision to phase-in only the changes in the UAAL rate at the last experience study had to do with the fact that, under the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), the normal cost is split 50:50 between the employers and the members. Since, as noted earlier, changes in member rates due to assumption changes are not phased in, it may be considered more consistent with CalPEPRA to exclude the change in employer normal cost from the phase-in as well.

We would advise the Board of Retirement that phasing in of the employer's contribution rate impact of assumption changes is a common practice both nationally and especially here in California. Some systems routinely phase in such rate changes whenever assumptions are changed and the cost impact is above some threshold amount. Furthermore, guidance on actuarial funding policy from both the California Actuarial Advisory Panel and the Conference of Consulting Actuaries views this as an acceptable practice as long as the phase-in period is no longer than the time until the next experience study, just as is being illustrated here.

Impact of Two-Year Phase-in of Only the Employer UAAL Contribution Rate Change

For illustration purposes in this letter only, we have assumed that the effect of the changes in actuarial assumptions in the triennial experience study would be to increase the employer's UAAL contribution rate in the June 30, 2023 valuation by 2.59% of payroll, as estimated in the experience study based on the June 30, 2022 valuation.¹ Under this scenario, the 2.59% would be phased in over two years starting with the June 30, 2023 valuation, which establishes the employer and member contribution rates for the 2024/2025 fiscal year. The actual amount phased in would be determined as part of the June 30, 2023 annual valuation.

The following is a general description of how a two-year phase-in would work:

- The portion of the employer contribution to be phased in would be determined one time, as part of the June 30, 2023 valuation. That total fixed amount would not be redetermined in later valuations. In this illustration, that amount is 2.59% of payroll.
- In the June 30, 2023 valuation, the actual employer contribution rate would immediately increase by the full 0.56% of payroll due to the change in normal cost. The actual employer contribution rate would also reflect one-half of the impact of the change in the UAAL amortization rate. In this illustration, that amount is 1.30% of payroll ($1/2 \times 2.59\%$). In other words, the actual employer rates would defer recognition of one-half of the impact by subtracting 1.30% from the employer rate determined in the June 30, 2023 valuation.
- In the June 30, 2024 valuation, the employer contribution rate would reflect the full impact of the change in UAAL amortization rate shown above, or 2.59% of payroll. None of the original impact would be deferred and there would be no deduction from the employer rate determined in the June 30, 2024 valuation.

¹ The 3.15% increase in the total employer rate is made up of a 2.59% increase in the UAAL amortization rate and a 0.56% increase in the normal cost rate. These are aggregate impacts, and in practice, we would calculate a different rate to be phased in based on each of the Miscellaneous and Safety membership groups and by tier.

During the phase-in period, the plan is not receiving the full UAAL amortization payments. That means that in the next actuarial valuation, there will be an actuarial loss that will increase the future UAAL and future UAAL contributions. This contribution loss will be amortized and funded over a period of 20 years starting with the actuarial valuation that follows the contribution loss (i.e., following the year of the phased in contribution). In our experience, contribution losses due to phase-ins are usually relatively small and so are not identified separately, but simply become part of “other gains and losses”.

If the Board adopts the two-year phase-in only for the impact on UAAL amortization, the employer contribution rates would immediately increase by the full 0.56% due to the change in normal cost. The cumulative increase in only the aggregate employer UAAL amortization rates both before and after applying the phase-in is provided in the table below:

Cost Phase-in Applied Only to UAAL Amortization Rate		
Fiscal Year	Cumulative Increase in Employer UAAL Rates	
	Without Phase-in	With Phase-in
2024 / 2025	2.59%	1.30%
2025 and later	2.59%	2.68%

When we then add in the full increase in the employer rate of 0.56% due to the change in normal cost, the total increases in the total employer rate would be as follows:

Cost Phase-in Applied Only to UAAL Amortization Rate		
Fiscal Year	Cumulative Increase in Aggregate Employer Rates	
	Without Phase-in	With Phase-in
2024 / 2025	3.15%	1.86%
2025 and later	3.15%	3.24%

These tables show that, because of the contribution losses discussed earlier, the rate impact for the second year of the phase-in is somewhat higher than simply adding another one-half of the phased in amount to the contribution rates for the preceding year.

Impact of Three-Year Phase-in of Only the Employer UAAL Contribution Rate Change

As an alternative, we have shown below the impact of a three-year phase-in of the UAAL amortization rate for the employer. The structure is similar to a two-year phase in, except that one-third of the rate increase will be recognized each year, causing contribution losses in the next two actuarial valuations that will increase the future UAAL and future UAAL contributions.

If the Board adopts the three-year phase-in only for the impact on UAAL amortization, the employer contribution rates would immediately increase by the full 0.56% due to the change in normal cost. The cumulative increase in only the aggregate employer UAAL amortization rates both before and after applying the phase-in is provided in the table below:

Cost Phase-in Applied Only to UAAL Amortization Rate		
Fiscal Year	Cumulative Increase in Employer UAAL Rates	
	Without Phase-in	With Phase-in
2024 / 2025	2.59%	0.86%
2025 / 2026	2.59%	1.85%
2026 and later	2.59%	2.77%

When we then add in the full increase in the employer rate of 0.56% due to the change in normal cost, the total increases in the total employer rate would be as follows:

Cost Phase-in Applied Only to UAAL Amortization Rate		
Fiscal Year	Cumulative Increase in Aggregate Employer Rates	
	Without Phase-in	With Phase-in
2024 / 2025	3.15%	1.42%
2025 / 2026	3.15%	2.41%
2026 and later	3.15%	3.33%

These tables show that, because of the contribution losses discussed earlier, the rate impacts for the second and third years of the phase-in are somewhat higher than simply adding another one-third of the phased in amount to the contribution rates for the preceding year.

Eric Stern
June 13, 2023
Page 5

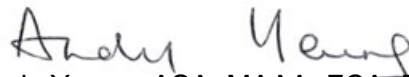
The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions, and we look forward to discussing this with you and your Board.

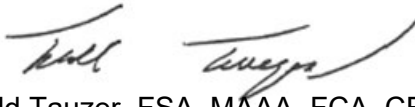
Sincerely,



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



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



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

ST/jl

cc: Margo Allen