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December 27, 2023

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

**Re: Sacramento County Employees' Retirement System (SCERS)
Seven-Year Projection of Employer Contribution Rates**

Dear Eric:

As requested, we have prepared a seven-year projection of estimated employer contribution rates for SCERS. This projection is generally derived from the June 30, 2023 actuarial valuation report. Other key assumptions and methods are detailed below. **It is important to understand that these results are entirely dependent on those assumptions used in preparing the June 30, 2023 valuation being met and remaining unchanged in the next six years. Actual results as determined in future actuarial valuations will differ from these results. In particular, actual investment returns, actual salary levels for actives and actual cost-of-living-adjustments (especially for Tier 1 retirees and beneficiaries¹) different than assumed can have a significant impact on future contribution rates.**

Results

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

- 1) recognition of deferred investment gains and losses under the actuarial asset smoothing methodology;²
- 2) losses due to investment income not earned on the excess of the Actuarial Value of Assets (AVA) over the Market Value of Assets (MVA) (and gains when the opposite situation occurs, i.e., when the AVA is less than the MVA);
- 3) contribution gains and losses which occur from the scheduled delay in the implementation of new rates until 12 months after the actuarial valuation date; and

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

² As of June 30, 2023, there were \$59.8 million in net deferred investment losses made up of gains to be recognized in each of the next four years followed by losses to be recognized in years five and six.

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

In preparing the above rate changes for the next several years, we have neither taken into account on an employer-by-employer basis nor on a System-wide basis the gradual savings in Normal Cost that would become available as active members in the legacy tiers are replaced by new members in the CalPEPRA tiers. Also, we have not taken into account the full impact of the California Supreme Court ruling in the Alameda Decision (see additional discussion in the Other Considerations section of this letter) as the System continues to make adjustments to employee contributions and benefit payments for certain affected members after June 30, 2023.

Employer Rate Changes for Total Plan

The following table provides the year-to-year rate changes from each of the above components and the cumulative rate change over the seven-year projection period. Again, due to the scheduled delay in implementing new rates, these rate changes will become effective 12 months following the actuarial valuation date shown in the table. To obtain the estimated average employer contribution rate at each successive valuation date (such as those provided for the “Total Plan” projection in Exhibit B4), these cumulative rate changes should be added to the average employer rate as found in our June 30, 2023 actuarial valuation report.

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

Table One

Change in average rate as of valuation date (6/30)							
Rate Change Component	2024	2025	2026	2027	2028	2029	2030
(1) Investment (Gains)/Losses ¹	-0.31%	-0.13%	-0.11%	-0.40%	1.10% ²	0.09% ²	0.00%
(2) (Gain)/Loss of Investment Income on Difference Between MVA and AVA ³	0.02%	0.05%	0.05%	0.06%	0.08%	0.00%	0.00%
(3) 12-Month Rate Delay	-0.08%	-0.02%	-0.01%	0.00%	-0.02%	0.08%	0.02%
(4) County Safety Item	<u>0.02%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Incremental Rate Change	-0.35%	-0.10%	-0.07%	-0.34%	1.16%	0.17%	0.02%
Cumulative Rate Change	-0.35%	-0.45%	-0.52%	-0.86%	0.30%	0.47%	0.49%

¹ Assumes no resmoothing of the net deferred investment losses of \$59.8 million (see Other Considerations).

² Before considering application of \$370.9 million in the Contingency Reserve as of June 30, 2023 (see Key Assumptions and Methods).

³ In preparing the above projections, we have not taken into consideration the expected return on the \$370.9 million in the Contingency Reserve after June 30, 2023.

Employer Rate Changes for Each of the Cost Groups

Exhibit A shows the rate change due to these generally investment related gains and losses as provided in items (1), (2) and (3) of Table One on this page for each individual cost group. We have estimated the rate change due to investment related gains and losses for each individual cost group by allocating the investment related gains and losses based on each cost group's proportional share of the Actuarial Value of Assets as of the June 30, 2023 valuation. The actual rate changes by group may differ from those shown in the exhibit if there are changes to their proportional share of the Actuarial Value of Assets in future valuations. The rate change for item (4) of Table One was allocated entirely to County Safety. These estimated rate changes for each cost group are shown in Exhibit A. Finally, the cumulative rate impact of the changes for each of the cost groups are provided in Exhibits B1 through B3.

In developing the rates for the Miscellaneous cost group in Exhibits A and B, we have expanded the rates for that cost group to delineate between the different rates paid by the County, Superior Court and other District employers as those rates are presented in the June 30, 2023 valuation.

Key Assumptions and Methods

The projection is based upon the following assumptions and methods:

- June 30, 2023 non-economic assumptions remain unchanged.
- June 30, 2023 retirement benefit formulas remain unchanged.
- June 30, 2023 1937 Act and CalPEPRA statutes remain unchanged.
- UAAL amortization method remains unchanged (i.e., 20-year layers, level percent of pay).
- June 30, 2023 economic assumptions remain unchanged, including the 6.75% investment earnings assumption.
- We have assumed that returns of 6.75% are actually earned on a market value basis for each of the next seven plan years beginning July 1, 2023.
- Active payroll grows at 2.75% per annum.
- Deferred investment gains and losses are recognized per the asset smoothing schedule shown on page 23 of the June 30, 2023 actuarial valuation report. Deferred investment gains and losses are funded as a level percentage of the System's total active payroll.

- The amount in the Contingency Reserves remains unchanged (i.e., the Contingency Reserve will not be increased above 3% of the market value of assets as of June 30, 2023 nor will it be used to offset any future actuarial losses).

As we point out in our June 30, 2023 valuation report, if the \$370.9 million in the Contingency Reserve were utilized to determine the employer's contribution rate in that valuation, the aggregate employer contribution rate in that valuation would decrease by about 2.2% of payroll.

In practice, this means that after the amount in the Contingency Reserve is taken into account in the June 30, 2028 and 2029 valuations, the 1.10% and the 0.09% increases, respectively, in the employer's aggregate rate in Table One¹ that are caused by the recognition of the deferred investment losses would be fully offset by the Contingency Reserve.

- All other actuarial assumptions used in the June 30, 2023 actuarial valuation report are realized.
- The projections do not reflect any changes in the employer contribution rates that could result due to future changes in the demographics of SCERS' active members or decreases in the employer contribution rates that might be due to new hires going into CalPEPRA tiers as applicable.

Other Considerations

It is important to note that the projection is based on plan assets as of June 30, 2023. The System's funded status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. Moreover, this actuarial valuation does not include any possible short-term or long-term impacts on mortality of the covered population that may emerge after June 30, 2023 due to COVID-19. Segal is available to prepare projections of potential outcomes upon request.

On July 30, 2020, the California Supreme Court issued a decision in the Alameda County Deputy Sheriffs' Assn. et al. v. Alameda County Employees' Retirement Assn. litigation that affected the benefits paid by SCERS to its members and/or the contributions received by SCERS from its members. In particular, the June 30, 2023 valuation reflected refunding member contributions to active and deferred vested members associated with the excluded premium pays under the Alameda Decision, and reduced retiree and beneficiary benefits as the result of reduced final average salary calculations caused by the excluded premium pays. However, when preparing the financial and membership data provided for the June 30, 2023 valuation, SCERS had not completely finished refunding member contributions and reducing retiree and beneficiary benefits for all members affected by the Alameda Decision.

¹ The same is also true with respect to the increase in the employer's rate provided in the Exhibits in the June 30, 2028 and 2029 valuations.

Under the asset smoothing schedule shown on page 23 of the June 30, 2023 actuarial valuation report, \$59.8 million in net deferred losses will be recognized in the next six years, but in a very non-level (uneven) pattern. In particular there will be gains of \$55.9 million, \$22.5 million, \$20.2 million, and \$77.0 million recognized in the next four years, followed by offsetting losses of \$218.3 million and \$17.1 million in the two years after that, so as to ultimately recognize all of the current total net deferred losses of \$59.8 million. This means that, absent any new gains or losses in the future, there will be four years of decreases in the employer contribution rate followed by two years of increases before the \$59.8 million in net deferred losses are fully recognized.

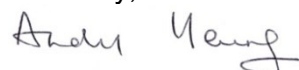
In keeping with model actuarial practice for this situation as well as Section B of the Board's Actuarial Funding Policy, and similar to what was proposed and adopted for the June 30, 2014 valuation, the asset smoothing method could be modified, effective July 1, 2024, by combining the net deferred loss of \$59.8 million from the current valuation into a single six-year smoothing "layer" and thereby recognizing that loss over the next six years in six level amounts of approximately \$9.97 million in each year. This would reduce the volatility associated with the current pattern of deferred gain/loss recognition and thereby result in both more stable funded ratios (on an actuarial value basis) and more level employer contribution rates. While the Board has directed Segal to prepare an analysis to illustrate such impact, we have not reflected such resmoothing as no action has been taken by the Board.

Finally, we emphasize that projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Unless otherwise noted, all of the above calculations are based on the June 30, 2023 actuarial valuation results including the participant data and actuarial assumptions on which that valuation was based. That valuation and these projections were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions.

Sincerely,



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

ST/hy
Enclosures

cc: Margo Allen

Sacramento County Employees' Retirement System
 Estimated Employer Contribution Rate Changes by Cost Group (CG)
 based on June 30, 2023 Valuation

	Miscellaneous County	Court	Districts	Miscellaneous Total	Safety County	Total Plan
Rate Change due to (1), (2), (3) as shown in Table One						
Estimated Incremental Rate Change as of 6/30/2024	-0.32%	-0.32%	-0.32%	-0.32%	-0.56%	-0.37%
Estimated Incremental Rate Change as of 6/30/2025	-0.08%	-0.08%	-0.08%	-0.08%	-0.17%	-0.10%
Estimated Incremental Rate Change as of 6/30/2026	-0.06%	-0.06%	-0.06%	-0.06%	-0.11%	-0.07%
Estimated Incremental Rate Change as of 6/30/2027	-0.28%	-0.28%	-0.28%	-0.28%	-0.57%	-0.34%
Estimated Incremental Rate Change as of 6/30/2028	0.96%	0.96%	0.96%	0.96%	1.89%	1.16%
Estimated Incremental Rate Change as of 6/30/2029	0.14%	0.14%	0.14%	0.14%	0.29%	0.17%
Estimated Incremental Rate Change as of 6/30/2030	0.01%	0.01%	0.01%	0.01%	0.02%	0.02%
Rate Change due to (4) as shown in Table One						
Estimated Incremental Rate Change as of 6/30/2024	0.00%	0.00%	0.00%	0.00%	0.08%	0.02%
Estimated Incremental Rate Change as of 6/30/2025	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%
Estimated Incremental Rate Change as of 6/30/2026	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%
Estimated Incremental Rate Change as of 6/30/2027	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%
Estimated Incremental Rate Change as of 6/30/2028	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Estimated Incremental Rate Change as of 6/30/2029	0.00%	0.00%	0.00%	0.00%	-0.01%	0.00%
Estimated Incremental Rate Change as of 6/30/2030	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%

Sacramento County Employees' Retirement System
 Estimated Employer Contribution Rate Changes by Cost Group (CG)
 based on June 30, 2023 Valuation

Cumulative Rate Change	Miscellaneous County	Court	Districts	Miscellaneous Total	Safety County	Total Plan
Cumulative Rate Change as of 6/30/2024	-0.32%	-0.32%	-0.32%	-0.32%	-0.48%	-0.35%
Cumulative Rate Change as of 6/30/2025	-0.40%	-0.40%	-0.40%	-0.40%	-0.63%	-0.45%
Cumulative Rate Change as of 6/30/2026	-0.46%	-0.46%	-0.46%	-0.46%	-0.72%	-0.52%
Cumulative Rate Change as of 6/30/2027	-0.74%	-0.74%	-0.74%	-0.74%	-1.27%	-0.86%
Cumulative Rate Change as of 6/30/2028	0.22%	0.22%	0.22%	0.22%	0.63%	0.30%
Cumulative Rate Change as of 6/30/2029	0.36%	0.36%	0.36%	0.36%	0.91%	0.47%
Cumulative Rate Change as of 6/30/2030	0.37%	0.37%	0.37%	0.37%	0.95%	0.49%

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

Valuation Date	June 30, 2022	June 30, 2023	June 30, 2024	June 30, 2025	June 30, 2026	June 30, 2027	June 30, 2028	June 30, 2029	June 30, 2030
Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Miscellaneous County Tier 1 Members	23.95%	24.86%	24.54%	24.46%	24.40%	24.12%	25.08%	25.22%	25.23%
Miscellaneous County Tier 2 Members	20.55%	20.28%	19.96%	19.88%	19.82%	19.54%	20.50%	20.64%	20.65%
Miscellaneous County Tier 3 Members	24.13%	23.27%	22.95%	22.87%	22.81%	22.53%	23.49%	23.63%	23.64%
Miscellaneous County Tier 4 Members	23.75%	22.83%	22.51%	22.43%	22.37%	22.09%	23.05%	23.19%	23.20%
Miscellaneous County Tier 5 Members	22.71%	21.96%	21.64%	21.56%	21.50%	21.22%	22.18%	22.32%	22.33%
All Miscellaneous County Categories Combined	23.41%	22.60%	22.28%	22.20%	22.14%	21.86%	22.82%	22.96%	22.97%
Safety County Tier 1 Members	69.13%	62.52%	66.46%	68.07%	66.60%	65.93%	67.51%	66.43%	65.00%
Safety County Tier 2 Members	58.48%	57.70%	57.26%	57.17%	57.19%	56.74%	58.74%	59.10%	59.42%
Safety County Tier 3 Members	58.20%	57.24%	56.68%	56.51%	56.40%	55.83%	57.72%	58.01%	58.03%
Safety County Tier 4 Members	52.27%	51.29%	50.73%	50.56%	50.45%	49.88%	51.77%	52.06%	52.08%
All Safety County Categories Combined	55.71%	54.77%	54.29%	54.14%	54.05%	53.50%	55.40%	55.68%	55.72%

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

Valuation Date	June 30, 2022	June 30, 2023	June 30, 2024	June 30, 2025	June 30, 2026	June 30, 2027	June 30, 2028	June 30, 2029	June 30, 2030
Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Miscellaneous Court Tier 1 Members	27.01%	30.25%	29.93%	29.85%	29.79%	29.51%	30.47%	30.61%	30.62%
Miscellaneous Court Tier 2 Members	24.18%	24.06%	23.74%	23.66%	23.60%	23.32%	24.28%	24.42%	24.43%
Miscellaneous Court Tier 3 Members	29.22%	28.00%	27.68%	27.60%	27.54%	27.26%	28.22%	28.36%	28.37%
Miscellaneous Court Tier 5 Members	22.67%	21.93%	21.61%	21.53%	21.47%	21.19%	22.15%	22.29%	22.30%
All Miscellaneous Court Categories Combined	26.23%	25.24%	24.92%	24.84%	24.78%	24.50%	25.46%	25.60%	25.61%

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

Valuation Date	June 30, 2022	June 30, 2023	June 30, 2024	June 30, 2025	June 30, 2026	June 30, 2027	June 30, 2028	June 30, 2029	June 30, 2030
Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Galt Arno Cemetery District and Fair Oaks Cemetery District Tier 3 Members	33.18%	31.62%	31.30%	31.22%	31.16%	30.88%	31.84%	31.98%	31.99%
Galt Arno Cemetery District and Fair Oaks Cemetery District Tier 5 Members	26.63%	25.55%	25.23%	25.15%	25.09%	24.81%	25.77%	25.91%	25.92%
Orangevale Recreation and Parks District Tier 3 Members	31.92%	31.17%	30.85%	30.77%	30.71%	30.43%	31.39%	31.53%	31.54%
Orangevale Recreation and Parks District Tier 5 Members	30.50%	29.86%	29.54%	29.46%	29.40%	29.12%	30.08%	30.22%	30.23%
Rio Linda Elverta Recreation and Parks District Tier 5 Members	11.37%	11.63%	11.31%	11.23%	11.17%	10.89%	11.85%	11.99%	12.00%
All Other Districts Tier 3 Members	37.05%	35.93%	35.61%	35.53%	35.47%	35.19%	36.15%	36.29%	36.30%
All Other Districts Tier 5 Members	30.50%	29.86%	29.54%	29.46%	29.40%	29.12%	30.08%	30.22%	30.23%
All Miscellaneous District Categories Combined	32.87%	32.04%	31.72%	31.64%	31.58%	31.30%	32.26%	32.40%	32.41%

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

Valuation Date	June 30, 2022	June 30, 2023	June 30, 2024	June 30, 2025	June 30, 2026	June 30, 2027	June 30, 2028	June 30, 2029	June 30, 2030
Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total Plan	30.87%	30.02%	29.67%	29.57%	29.50%	29.16%	30.32%	30.49%	30.51%