

Stern. Eric

From: Frost. Sue
Sent: Thursday, May 14, 2020 10:19 AM
To: Stern. Eric
Cc: Hedges. Matt
Subject: RE: SCERS actuarial assumption changes

Hi Eric and SCERS Board Members,

I commend you all for your prudent management of our retirement system. I know these are challenging times and it's painful to lower assumptions, but it is important that we deliver on promises we make to our employees who have worked hard over time to earn a retirement.

Thank you for the heads up on this.

Sue Frost,
Sacramento County Supervisor – District 4

From: Stern. Eric <SternE@saccounty.net>
Sent: Wednesday, May 13, 2020 3:35 PM
To: Stern. Eric <SternE@saccounty.net>
Subject: SCERS actuarial assumption changes

Dear Valued SCERS Stakeholder:

At the May 20 Board of Retirement meeting, the Board will be adopting new actuarial assumptions that are used to set contribution rates to keep our plan's funding on track.

This is always a sensitive issue because assumption changes usually mean that contributions for both employers and employees will increase, and while the timing is never good, we are duty-bound under the state constitution and as fiduciaries to review our assumptions every three years to make sure we have a sustainable retirement system.

You can read the full [agenda item here](#), which includes an overview memo of the recommend changes and the Actuarial Experience Study. I also want to provide a high-level summary in this email:

- The new assumptions will be incorporated into contribution rates in the 2021-22 fiscal year, beginning July 2021. [Employer](#) and [member](#) contribution rates for the upcoming 2020-21 fiscal year have already been adopted.
- There are two main assumption changes: demographic and economic. The demographic assumption changes (such as mortality) are relatively minor. The significant change is economic – our actuaries are recommending reducing our inflation assumption, which in turn lowers the assumed investment return from 7.00% to 6.75%. When we assume that the fund will generate less investment revenue, we need to adjust contribution rates to make up the difference to support benefit payments in the long term.
- The magnitude of assumption changes is significantly less than the last time we went through this exercise in 2017. In 2017, the average employer rate increased by 7.6% of pay, and by 1.8% of pay for members. This time, the average rate impact on employers is 2.4% and 0.8% for members, though it varies depending on retirement tier.

Impact on Aggregate Employer Contribution Rates

	Total	Annual Amount (\$000s)
Increase due to changes in economic assumptions	2.20%	\$22,093
Increase due to changes in demographic assumptions	<u>0.19%</u>	<u>2,006</u>
Total increase	2.39%	\$24,099
Impact on Aggregate Member Contribution Rates		
	Total	Annual Amount (\$000s)
Increase due to changes in economic assumptions	0.67%	\$6,651
Increase due to changes in demographic assumptions	<u>0.11%</u>	<u>1,142</u>
Total increase	0.78%	\$7,793

- The Board is considering phasing in the cost increase for the unfunded liability portion of the rate increase over two or three years. This only affects employer contribution rates. The normal costs (about 0.8% of pay for both employers and members) will be recognized in the 2021-22 rates.
- The Board meeting next Wednesday will be conducted over videoconferencing. The agenda and videoconference information is [here](#). If you want to provide input, you're obviously welcome to make comments during the meeting and we can facilitate that through the videoconference platform, but to avoid technical glitches I'd also recommend sending an email to me by next Tuesday and we can distribute your comments to the Board members ahead of time.

Please let me know if you have any questions or wish to discuss further.

Thanks

Eric

Eric Stern
Chief Executive Officer
 Sacramento County Employees' Retirement System (SCERS)
 980 9th Street, Suite 1900, Sacramento, CA 95814

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Stern. Eric

From: Ingrid Penney <Ingrid@carmichaelpark.com>
Sent: Wednesday, May 13, 2020 3:52 PM
To: Stern. Eric
Cc: Mike Blondino
Subject: RE: SCERS actuarial assumption changes

EXTERNAL EMAIL: If unknown sender, **do not** click links/attachments.

Good afternoon Eric,

Thank you for sharing this information. I understand why the assumptions are less given our present circumstances. I see that the study is using a three year period to smooth out the impact over time.

If the economy were to rebound in the next six months, would there be an opportunity to modify the assumptions?

Sincerely,

Ingrid S. Penney
Administrative Services Manager
(916) 485-5322 x 27 office
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ingrid@carmichaelpark.com

Parks Make Life Better!

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Eric

Eric Stern
Chief Executive Officer
 Sacramento County Employees' Retirement System (SCERS)
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May 19, 2020

Via Electronic Mail Only

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

Re: Objection to Proposed Change in SCERS Assumption Rate

Dear Mr. Stern:

I am general counsel to the Sacramento County Probation Association (SCPA), which represents 535 sworn deputy probation officers and supervisors who are members of the Sacramento County Employees' Retirement System. I am objecting on behalf of the Association to the proposal to reduce the SCERS actuarial assumption rates from 7 percent to 6.75 percent, thereby increasing employee contribution rates and requiring new County expenditures to maintain current wages and pay increased contributions.

First, the midst of an unprecedented pandemic is not the time to place additional financial pressure on employees whose families have lost wage earners from private sector layoffs and furloughs or on the budgets of the County of Sacramento and the Sacramento County Probation Department. As SCPA President Greg Stuber noted in his e-mail to you on March 2, 2020, when you gave notice of the prospective rate increase, SCPA members in Safety Tier 2 were subjected to a 3.23% increase in the employee contribution rate in 2017 and under your current proposal will be asked to take the highest member contribution rate hike of 1.81%. Now, with a "pandemic economy" in place, you are proposing to take additional wages from SCPA members without cause.

The premise in Agenda Item 13 that the global pandemic is driving either the actuarial changes or the phase-in options recommended by Segal is disingenuous, as the

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Segal study and its May 12, 2020 recommendations are based on 2016-2019 data. The Board used a phase-in of employer contribution rates at the time of the last contribution increase, when there was no pandemic. In fact, the Segal study pointedly does *not* take the effects of the pandemic on local budgets into account, acknowledging “it is not possible to determine when and to what extent the economy will rebound after the current crisis caused by the COVID-19 pandemic”. The effort to sell the proposed contribution increases as a response to the coronavirus is insincere.

As the short- and long-term economic effects of the COVID-19 crisis have yet to be understood, any adverse changes to contribution rates should be postponed until the June 30, 2023 valuation to preserve current, negotiated wages and lessen the economic uncertainty for SCERS member employees. At a minimum, the Board should adopt the assumption rate alternative providing for a 7% assumed rate of return for at least another year, if not longer. The current NASRA average assumed rate of return remains above 7% and, as noted by Segal, that alternative “produces a savings to the employer rate because it would be expected to generate even stronger investment returns than what the System assumes today”. Under that alternative, the increase in the average member rate is a nominal 0.02%, which most SCPA members in Tier 2 will find easier to absorb than the proposed 1.81% increase.

Second, the very real impact of the proposed actuarial changes likely will be to cause county-wide layoffs and other cuts as agencies struggle to meet the new contribution rates under either an immediate or a phase-in scenario. State funding in the coming year and into 2022, which is a key component of the Probation Department budget, is likely to be significantly lower because of severely diminished revenue due to COVID-19 restrictions. Departments mandated to make budget cuts to satisfy the proposed increase in contribution rates will have to make those cuts in personnel as well as services and programs.

Your proposal to phase in the increase in the employer unfunded actuarial accrued liability (UAAL) contribution rate does not include a phase-in of the increase in member contributions. When the County asks to renegotiate SCPA members’ contributions to implement a Board adoption of the Segal recommendations, the SCPA negotiating team will have no choice but to seek wage increases to offset the immediate increase in the contribution rate for SCPA members. Thus, by unnecessarily imposing higher contribution rates on the County and its employees, the Board will force the Probation

Eric Stern
May 19, 2020
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Department (and all County agencies) to cut budgets, staff, programs and public services to meet yet another increase in the contribution rate.

Finally, the goodwill occasioned by a Board decision to maintain current assumption rates during these unprecedented economic times should not be discounted. The half-percent reduction in the assumption rate in 2017 caused the contribution rate for SCPA members in Safety Tier 2 to jump from 16.30% to 19.53%. While the increase in the contribution rate is lower in the current proposal, any increase during these difficult times would be a hardship on SCPA members. A decision by the Board to maintain the current assumption rates and forego imposing contribution increases would be a welcome change to employees who have endured the illogic of increasing contribution rates while the retirement fund claims ever-greater returns on its investments.

On behalf of SCPA, I request this letter stating the Association's objections to the increases to SCERS contribution rates proposed in Agenda Item 13 be made a part of the public record for the May 20, 2020 SCERS Board of Retirement Regular Meeting.

Sincerely,



Christopher W. Miller
Attorney at Law

/cwm

Cc: Greg Stuber, SCPA