Segal

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary
T 415.263.8283
ayeung@segalco.com
Eva Yum, FSA, MAAA, EA
Vice President and Actuary
T 415.263.8248
eyum@segalco.com

180 Howard Street
Suite 1100
San Francisco, CA 94105-6147
segalco.com

February 14, 2024

Mr. Carlos Barrios
Assistant Chief Executive Officer, Benefits
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, CA 94612-1900

Re: Alameda County Employees' Retirement Association (ACERA) Supplemental Retiree Benefits Reserve (SRBR) — Preliminary December 31, 2023 transfer amount to align assets to equalize sufficiency periods to pay OPEB and non-OPEB benefits

Dear Carlos:

In our September 25, 2023 letter, we provided a proposal to align the assets available to provide the OPEB and non-OPEB SRBR benefits. We recommended that the proposed transfer be made before we complete the next preview letter[1] and final report[2] on the sufficiency periods to provide those benefits as of December 31, 2023 because such assets are first used in completing the financial reports in April 2024. The background and details of the proposed alignment were provided in our September 25, 2023 letter and a copy is included as part of this document.

In that letter, we estimated the amount of assets that would need to be transferred from the OPEB SRBR to the non-OPEB SRBR to be $54.8 million if the alignment were to happen as of December 31, 2022. At the October 4, 2023 Retiree Committee meeting, the Retiree Committee directed Segal to provide an update to the transfer amount after the April 1, 2024 cost of living adjustment (COLA) and the December 31, 2023 financial information are available.

Proposed alignment of OPEB and non-OPEB SRBR assets

In the December 31, 2022 SRBR valuation report, the OPEB and non-OPEB related assets in the SRBR were projected to be sufficient to pay OPEB benefits through 2050 (27 full years and 1 partial year) and non-OPEB benefits through 2038 (15 full years and 1 partial year).

[1] The preview letter is scheduled to be provided to ACERA in May 2024.
[2] The final report is scheduled to be provided to ACERA in September 2024.

To estimate the transfer amount needed to align the sufficiency periods for the OPEB and non-OPEB benefits, we have updated the non-OPEB cash flows provided in the December 31, 2022 SRBR valuation to reflect the supplemental COLA benefit payable effective April 1, 2024. We have also used the preliminary December 31, 2023 OPEB and non-OPEB assets for this calculation.[3] As of December 31, 2023, the OPEB sufficiency period is estimated at 26 full years and 1 partial year and the non-OPEB sufficiency period is estimated at 14 full years and 1 partial year. We estimated that if $54.2 million were to be transferred from the OPEB SRBR to the non-OPEB SRBR as of December 31, 2023, both the OPEB and non-OPEB benefits would have a sufficiency period of 24 full years and 1 partial year as of December 31, 2023. This transfer would have the effect of decreasing the OPEB SRBR sufficiency period by 2 years and increasing the non-OPEB SRBR sufficiency period by 10 years.

We note that the transfer amount is subject to change pending the final December 31, 2023 OPEB and non-OPEB assets which will be available from ACERA around February 21, 2024. We also note that the final sufficiency periods as determined in the December 31, 2023 SRBR valuation (that reflects the December 31, 2023 demographic data, new actuarial assumptions, 2025 Monthly Medical Allowance, etc.) could change from the calculations in this letter that have been rolled forward from December 31, 2022, but we believe the impact to the alignment of the sufficiency periods for the OPEB and non-OPEB SRBR to be small.

Actuarial assumptions and methods

All results shown in this letter are based on the data and actuarial assumptions used in the December 31, 2022 actuarial valuation, except as noted below. The following assumptions and methodologies are applied in determining the updated transfer amount:

- The cashflow projections for the non-OPEB supplemental COLA benefits for 2024 and beyond reflect the actual April 1, 2024 COLA. We have reflected the December 31, 2023 preliminary OPEB (including 401(h) account) and non-OPEB assets in determining the sufficiency periods. We have also adjusted the OPEB SRBR assets to reflect the estimated transfer of $4,116,000 from the SRBR to the employer advance reserves for the reimbursement of implicit retiree health benefit subsidy for calendar year 2023.
- The cashflow projections are based on demographic data used in the December 31, 2022 valuation rolled forward one year to December 31, 2023. Therefore, it is assumed that all actuarial assumptions used in the December 31, 2022 valuation would have been realized and there were no actuarial gains or losses, except for the actual April 1, 2024 COLA and the preliminary 2023 return on assets.
- The projections do not reflect the new assumptions that will be used in the December 31, 2023 valuation (based on the experience study for the period

[3] The preliminary OPEB and non-OPEB related assets provided to Segal on February 9, 2024 were about $1,135.3 million and $57.1 million, respectively, as of December 31, 2023. The preliminary OPEB related assets include about $10 million in the 401(h) reserve and an adjustment for the estimated transfer of $4.1 million from the SRBR to the employer advance reserves for the reimbursement of implicit retiree health subsidy for 2023.

December 31, 2019 through November 30, 2022). We note that there were no changes to the recommended and adopted inflation, COLA and investment return assumptions in that study.

- We assume no change to the medical trend and other OPEB related assumptions (e.g., enrollment in various medical plans). Therefore, the cashflows used for the OPEB benefits are the same as what we showed in the December 31, 2022 SRBR sufficiency valuation.

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The December 31, 2022 valuation and these calculations were completed under the supervision of Eva Yum, FSA, MAAA, Enrolled Actuary. 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.

Please let us know if you need any additional information and we look forward to discussing this letter with you.

Sincerely,

Andy Yeung

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

Eva Yum

Eva Yum, FSA, MAAA, EA
Vice President and Actuary

EZY/jl
Enclosure (#5780703)

cc: Dave Nelsen
Lisa Johnson

Segal

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary
T 415.263.8283
ayeung@segalco.com
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September 25, 2023

Mr. Carlos Barrios
Assistant Chief Executive Officer, Benefits
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, CA 94612-1900

**Re: Alameda County Employees' Retirement Association (ACERA)
Supplemental Retiree Benefits Reserve (SRBR) — proposal to align assets to equalize sufficiency periods to pay OPEB and non-OPEB benefits**

Dear Carlos:

As we pointed out in our SRBR sufficiency preview letter dated May 30, 2023 and our SRBR final valuation report dated September 25, 2023, we have provided in this letter our proposal to align the assets available to provide the OPEB and non-OPEB SRBR benefits before we complete the next sufficiency preview letter and final report as of December 31, 2023.

In this letter, we outline several reasons why the Board may want to consider such alignment as of that date. However, for illustration purposes, we have provided the amount of assets that would be transferred from the OPEB SRBR to the non-OPEB SRBR if the alignment were to happen as of December 31, 2022.

Background

The SRBR is a reserve established pursuant to Article 5.5 of the County Employees Retirement Law of 1937 (CERL) and the SRBR is funded by both regular and excess earnings. Regular earnings are credited up to the current assumed investment return and when the total ACERA smoothed portfolio return is greater than the assumed investment return, 50% of the excess earnings are transferred to the SRBR. Those transfers are allocated to the OPEB and non-OPEB SRBR programs commensurate with the size of the OPEB and non-OPEB SRBR reserves, respectively.

In accordance with the Board's SRBR policy, "the Board manages approved SRBR benefits with a goal towards meeting the projected liabilities of the fund over a 15-year period, as determined by the actuary. If it is reported that current SRBR programs, which provide benefits, will not sustain for 15 years, benefit adjustments may be made based on the amount of funds needed in order to attain a prolonged lifespan of the fund without causing undue harm to beneficiaries."

In the above SRBR preview letter and final valuation report, the OPEB and non-OPEB related assets in the SRBR as of December 31, 2022 are projected to be sufficient to pay OPEB benefits through 2050 (27 full years and 1 partial year) and non-OPEB benefits through 2038 (15 full years and 1 partial year). The OPEB and non-OPEB assets were about $1,104.7 million[*] and $54.9 million, respectively as of December 31, 2022.

Since there is a gap between the sufficiency periods of paying OPEB and non-OPEB benefits, we have provided a proposal that may be considered by the Board to equalize the periods.

Proposed alignment of OPEB and non-OPEB SRBR assets

As stated in the SRBR Policy, the Board has the sole and exclusive authority and discretion to distribute funds in the SRBR to provide benefits for retirees. After consulting with ACERA's outside auditor, we believe it is reasonable from an actuarial standpoint for the Board to consider an ad-hoc transfer of assets from the OPEB SRBR to the non-OPEB SRBR with the goal of equalizing the sufficiency periods to pay benefits for both programs. We note that if approved by the Board, this will be the first time for such transfer since the Board allocated SRBR assets between the OPEB and the non-OPEB programs in the December 31, 2005 valuation to offset the OPEB and non-OPEB liabilities under the two separate sets of accounting reporting requirements. In order to avoid the need to make frequent transfers, we also propose that this determination be made as part of the next sufficiency study as of December 31, 2023. This means that any such change in the sufficiency periods and the resultant change in the accounting reporting results be determined as of December 31, 2023.

The sufficiency period for the non-OPEB SRBR is highly dependent on actual inflation. There has been a spike in short-term inflation that started in the second quarter of 2021 and continued into 2022. Because of the high one-year actual inflation of 4.88% in the Bay Area for 2022 (versus the inflation assumption of 2.75%), there is an increase in the supplemental COLA costs. As a result, there is an approximate five-year decrease in the sufficiency period to pay non-OPEB benefits between the last study as of December 31, 2021 and the current study as of December 31, 2022. While the rate of inflation has leveled off and started to decline around the second half of 2022, we propose that the transfer amount be calculated after the December 2023 Bay Area consumer price index is published so that the transfer amount would reflect the supplemental COLA benefit for 2024.

Illustration

As an illustration, we have calculated the asset transfer amount based on the December 31, 2022 SRBR valuation results.

[*] The OPEB related assets used for the determination of the sufficiency period includes about $9 million in the 401(h) reserve.

We determined that if an amount of $54.8 million were to be transferred from the OPEB SRBR to the non-OPEB SRBR, both the OPEB and non-OPEB benefits would have a sufficiency period of 25 full years and 1 partial year. The $54.8 million transfer represents about 5% of the OPEB SRBR assets. This transfer would have an effect of decreasing the OPEB SRBR sufficiency period by 2 years and increasing the non-OPEB SRBR sufficiency period by 10 years.

Actuarial assumptions and methods

All results shown in this letter are based on the data and actuarial assumptions used in the December 31, 2022 actuarial valuation. That valuation and these calculations were completed under the supervision of Eva Yum, FSA, MAAA, Enrolled Actuary. 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.

Please let us know if you need any additional information and we look forward to discussing this letter with you.

Sincerely,

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