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January 27, 2011

Mr. Peter Bassett
Benefits Manager
San Mateo County, EPS
455 County Center, 5th Floor
Redwood City, CA 94063

Re: $400 Benefit Level for Service Employees International Union (SEIU) Members

Dear Peter:

As requested, we have revised our August 3, 2010 analysis based upon the tentative agreement between SEIU and San Mateo County (County). Our previous analysis included additional bargaining units, different benefit levels, and did not provide for additional sick leave based on service at retirement.

As requested we have calculated County costs for various benefit changes to the OPEB (Postemployment Benefits Other than Pension) Plans. Except as otherwise noted in this report, all data, assumptions, and methodology match our January 1, 2009 actuarial valuation report dated September 10, 2009. Please see Appendix A of that report for a summary of the assumptions and methodology and see Appendix C of that report for a summary of the data.

New Defined Benefit Program

As you are aware, under the current benefits program, members who retire from the County and are eligible to receive a pension from San Mateo County Employees' Retirement Association (*SamCERA*) may elect to continue coverage in the County's health plan and convert their sick leave balance at retirement to a County paid benefit that will partially (or fully) fund their retiree health premiums. The duration and amount of County paid benefits depends upon the amount of sick leave at retirement and on the bargaining group to which the retiree belonged. After the County paid benefits expire, the retirees may continue coverage in the County health plan at their own expense. See Appendix B of our actuarial valuation report for a complete summary of the current benefit plan provisions.

For this study, we assume that upon retirement, retirees are able to convert eight hours of unused sick leave per month into retiree health benefits, with premiums up to $400 per month paid by the County. The benefits will apply only for employees hired on or after February 1, 2011. Additional sick leave is credited based on service at retirement. As is the case for current employees, new employees who exhaust their sick leave will be credited with additional sick leave hours based upon years of service at retirement in accordance with the following schedule:

Years of Service at Retirement	**Credited Sick Leave Hours**
10	96
15	192
20	288

Most of the cost savings in the proposed alternatives are based upon the assumption that there will be no future escalation in benefits. If the County does increase the benefit levels in future bargaining cycles, significantly lower savings may be realized. Furthermore, if the County elects to fund the benefits based upon the assumption that there will be no escalation in benefits, but benefit increases do occur, the long-term funding would need to be increased to cover the increased benefit costs.

Under the current program, SEIU members retiring after January 1, 2009 have automatic escalations in benefit levels. For the benefits in this letter, we assume that there are no future increases in the benefit levels for SEIU members hired on or after February 1, 2011.

It is our understanding that the benefit changes would be only for new hires. To study the impact of the changes over time, we used the current data, but assumed that the new program had been in place for years prior to the valuation date.

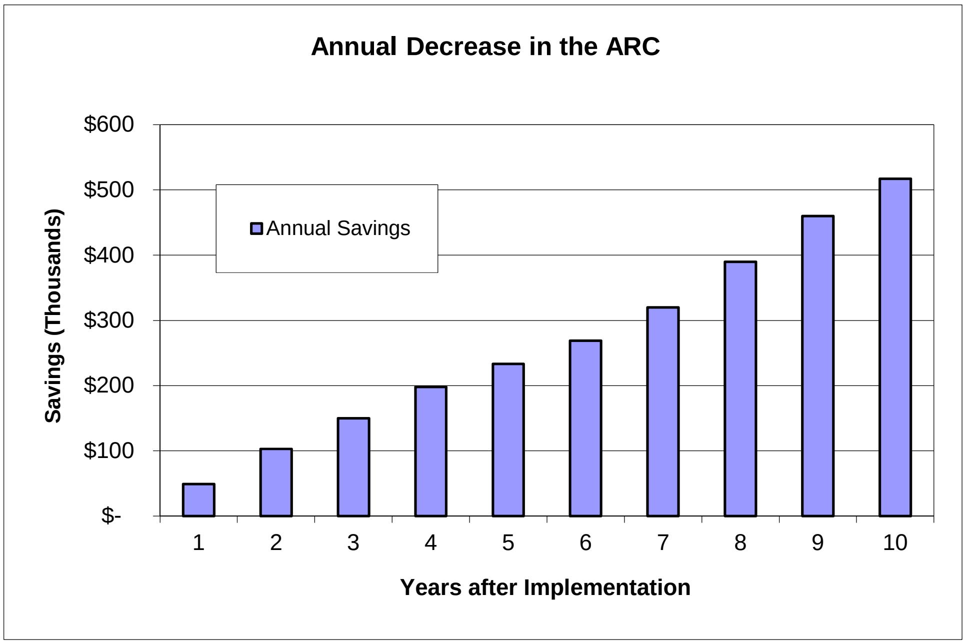
As with the current benefits program, the County charges early retirees who are not yet eligible for Medicare a health premium based upon claims experience of both actives and retirees. Since health claims costs generally increase with age, the retiree health premiums would be higher if they were determined without regard to active claims experience. This creates an implicit rate subsidy. The implicit rate subsidy is not affected by proposed changes in the benefits program.

Reduction in Contributions (Savings)

Because the tentative agreement provides a decrease in benefits for certain new employees, there are no additional costs in the future due to the changes, but there are savings. The Annual Required Contribution (ARC) is defined to be the Entry Age Normal Cost plus an amortization of the unfunded accrued liability. Since the current funding policy is to contribute the ARC each year, the reduction in the ARC reflects the savings in contributions for the year. These savings will gradually increase with time.

Based upon current data, we have estimated the emerging savings and have summarized the results in the following:

	$400 Benefit Level	
Years after Implementation	**Annual Savings**	**Cumulative Savings**
1	$ 49,000	$ 49,000
2	103,000	152,000
3	150,000	302,000
4	198,000	500,000
5	233,000	733,000
6	269,000	1,002,000
7	320,000	1,322,000
8	390,000	1,712,000
9	460,000	2,172,000
10	517,000	2,689,000



In order to allocate the Annual Required Contribution by Representation Group Codes, the assets need to be allocated by Representation Group. GASB 45 does not dictate how this allocation is done. For the purposes of these exhibits, the assets were allocated in proportion to the Actuarial Accrued Liability (AAL), as has been the practice of San Mateo County. This means that there appears to be a savings for retired, terminated vested employees and other employees in bargaining units unaffected by the benefit change. As the AAL decreases for members in the affected bargaining units, a greater share of the assets is allocated to other employees, and thus there appears to be a savings in ARC for this group even though there is no change to the benefits.

Certification

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the County's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. Since the results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the County have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the County and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the County.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The County has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in an email from Peter Bassett on June 4, 2009.

These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs may vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

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The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

We respectfully submit the following report, and we look forward to discussing it with you.

Sincerely,

Daniel Wade

Daniel R. Wade, FSA, EA, MAAA
Consulting Actuary

Franklin N. Thoen

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Consulting Actuary

DRW/FNT/nlo