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March 11, 2011

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

Re: $400 Benefit Level for DSA and PDA Members

Dear Peter:

As requested we have calculated San Mateo County (County) costs for a change to the OPEB (Postemployment Benefits Other than Pension) Plan based upon the tentative agreement between the County and the Deputy Sheriff's Association (DSA) employees, and the tentative agreement with the Probation and Detention Association (PDA) employees. 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.

Benefit Program Description

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 a new benefit program would be available with payments up to $400 per month paid by the County. Additional sick leave hours are credited at retirement, based upon years of service at retirement in accordance with the following schedule:

DSA Employees:

Years of Service at Retirement	Credited Sick Leave Hours
Less than 15	None
15-20	192
20 or more	288

PDA Employees:

Years of Service at Retirement	Credited Sick Leave Hours
10-15	96
15-20	192
20 or more	288

We assume that existing DSA employees will have the option of electing the new lower benefits, while no longer contributing 1.6% of salary to fund their benefits. We assume 25% of existing DSA employees will elect the new benefit program. Existing PDA employees will remain in their current plan. All new hires would receive the new benefits.

Health Inflation

All costs for the $400 per month benefit 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 / higher costs 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.

Implicit Rate Subsidy

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 and continues to be a significant portion of the total County costs.

Member Contributions

Currently, DSA members contribute 1.6% of salary to their benefits. In our study we assume that existing DSA members who chose to remain in the current benefit program (the $675 level) will continue to contribute 1.6% of salary. Existing members who elect the $400 level would contribute for only their first six years of service. New hires are assumed to contribute 1.6% of salary for their first six years.

Based on information provided via your email of January 4, 2011, DSA salaries are assumed to be $94,000 for each employee. We have assumed no increases in average salaries over the next four years, with annual increases at a rate of 3.25% per year thereafter.

The reduction in member contributions is a cost to the County.

PDA members do not contribute to their benefits.

Reduction in Employer Contributions / 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, as a higher proportion of the members will be in the $400 benefit category.

Exhibit Descriptions

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. Our study results are summarized in more detail in the enclosed exhibits:

Exhibit	Group
A	DSA
B	PDA

All savings are based on the 2009-2010 ARC. Prior to any changes, the total 2009-2010 ARC is $1,546,876 for DSA and $1,099,822 for PDA. Note: Due to the County's asset allocation methodology, which prorates assets based upon liabilities, some small additional cost savings will be seen in the remaining bargaining groups as assets allocated to the other groups increase.

Certification

In preparing this letter, 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 letter 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.

Milliman's work is prepared solely for the internal business use of San Mateo County. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

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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 letter 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 exhibits, and we look forward to discussing it with you.

Sincerely,

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

Arthur C. Rains-McNally, FSA, EA, MAAA
Consulting Actuary

DRW/ACRM/rcw

Enclosures

cc: Mr. Frank Thoen

EXHIBIT A

DSA 25% election of $400 benefit level by existing employees, New Hires pay 1.6% for 6 years

Years after Implementation	Savings from Plan Change	Lost Revenue	Net Savings (Cost)
1	$ 77,000	$ 90,000	$ (13,000)
2	83,000	90,000	(7,000)
3	96,000	90,000	6,000
4	111,000	90,000	21,000
5	121,000	93,000	28,000
6	124,000	96,000	28,000
7	142,000	128,000	14,000
8	150,000	156,000	(6,000)
9	162,000	202,000	(40,000)
10	178,000	251,000	(73,000)

EXHIBIT B

PDA at $400 Benefit Level

Years after Implementation	Savings from Plan Change
1	$ 9,000
2	19,000
3	40,000
4	51,000
5	60,000
6	61,000
7	85,000
8	118,000
9	140,000
10	158,000