Slide	Description	BOS Presentation (PowerPoint)	Narrative Report (Word)	Notes
1	Title/Cover	X	X	
2	Table of Contents		X	
3	Executive Summary	X		
4	**Section 1 Pension Overview - Separator slide**			Remove; no longer needed.
5	Pension System Overview		X	
6	County Employee Retirement Tiers		X	
7	Employee Cost Sharing		X	
8	Pension Contribution/Debt Payment Flow Chart		X	
9	Unfunded Liability Prepayments		X	Move policy content in narrative document; 5-year history of prepayments included in Slide 18
10	**Section 2 POB - Separator Slide**	X		Will change to Section 1 due to removing the Pension Overview section.
11	POB Issuance Summary	X	X	Keep in both presentation and narrative
12	POB Principal Balance by Fiscal year Chart		X	
13	POB Annual Expenses Chart		X	Information already included in the Slide Pension Forecast slide.
14	POB Returns over Time Table	X		
15	**Section 3 Annual Pension Costs/Forecast - Separator Slide**	X		Change to Section 2
16	Data Assumptions and Sources		X	
17	Data Assumptions and Sources - Cont.		X	
18	County Pension Expenses by Fiscal Year	X		
19	County Pension Expense Measurement Ratios by Fiscal Year	X		
20	Pension Cost Forecast Assumptions		X	
21	Pension Cost Forecast Chart	X		
22	**Section 4 Unfunded Liability - Separator Slide**	X		Change to Section 3
23	Net Pension Liability vs. UAAL Overview		X	Updated NPL defintion per feedback.
24	Net Pension Liability vs. UAAL Table	X		
25	Unfunded Liability Based on NPL Chart	X		
26	Unfunded Liability Based on UAAL Chart	X		
27	**Section 5 SCERA Update - Separator Slide**	X		Change to Section 4
28	Actuarial Valuation Table	X		
29	Actuarial Experience Summary	X		Change content to cover year-over-year changes to employer contribution Rate/Amount Table
30	5-Year Analysis of Plan Experience Table	X		
31	Actuarial Experience Pie Chart			Remove due to redundant content covered in Slide 30.
32	UAAL Major Events		X	Major events will be updated periodically in the narrative; they do not change every year.
33	Membership Summary - Current Year	X		
34	Total Plan Membership Combo Chart			Remove combo chart; move Retiree and Beneficiary tables to Slide 33 to consolidate information.
35	Average Annual Retirement Benefit Combo Chart	X		
36	Average Annual Retirement Benefit/Years of Service Table			Remove; only applicable to 2024 presentation.
37	Average Annual Retirement Benefit/Years of Service Table	X		
38	Annualized Investment Returns	X		

1.0 Pension System Governance

The Sonoma County Employees' Retirement Association (SCERA) was established in 1946 pursuant to the County Employees Retirement Law of 1937 to administer the County's defined-benefit public pension plan. SCERA is not part of the statewide California Public Employees' Retirement System ("CalPERS"). From 1946 to 1998, SCERA was administered through the County of Sonoma's Treasurer's Office, and the Treasurer was the Retirement Administrator. In 1998, governance of the plan was shifted out of the Treasurer's office and into a separate agency. SCERA now operates independently of the County and is governed by a 9-member Board of Retirement. SCERA currently administers defined-benefit pension plans for multiple employers, including non-County entities; however, employees and retirees from the County and affiliated special districts governed by the Board of Supervisors/Directors still comprise roughly 90% of total plan members.

Governed by Board of Supervisors/Directors	Non-County Entities
• County of Sonoma • Sonoma County Water Agency • Community Development Commission	• Sonoma Valley Fire District • Superior Court • Sonoma County Transportation Authority

SCERA's Board of Retirement responsible for establishing policies to administer the pension plan, making benefit determinations, and managing the investment of assets. The day-to-day management of SCERA is delegated to the Chief Executive Officer appointed by the Board of Retirement. While SCERA makes benefits determinations for individual retirees, the Board of Supervisors/Directors is responsible for approving the formulas used to calculate members' pension benefits, which is handled through collective bargaining:

SCERA Board of Retirement	County Board of Supervisors/Directors
• Responsible for plan administration • Makes benefits determinations • Manages investment of assets • Recommends Ad hoc COLAs to the BOS for consideration	• Approves pension benefit formulas through collective bargaining • Approves COLA benefits for its employees and retirees (CERL Articles 16.5 and 16.6)

1.1. County Employees Retirement Law of 1937

The County of Sonoma is one of 20 counties in the State of California covered by the County Employees Retirement Law of 1937 (also known as CERL or '37 Act), as contained in Government Code Title 3, Division 4, Part 3, Articles 1 through 18. This is a statutory system that is separate and distinct from CalPERS, which is governed under a different section of the Government Code.

1.2. Public Employees' Pension Reform Act of 2013

The California Public Employees' Pension Reform Act (PEPRA) was signed by Governor Jerry Brown in 2012 and went into effect on January 1, 2013 (AB 340 and AB 197); PEPRA applies to all public retirement systems in California. PEPRA made several changes to the pension benefits for new employees hired on or after the effective date, including setting new maximum benefits, adopting a lower-cost pension formula for safety and non-safety employees, with requirements to work longer to reach full retirement age, and a cap on the amount of compensation used to calculate a pension. PEPRA also reformed pension spiking, required a three-year averaging of final compensation for new employees to calculate pension benefits, removed certain elements of pay from being counted in the retirement calculation, and provided counties with new authority to negotiate cost sharing agreements with current employees.

2.0 County Employee Retirement Plan Benefits and Tiers

All permanent County employees working at least 50% of a full-time position are members of the SCERA retirement system. Participation and member contributions are mandatory for all eligible employees, expect for certain elected officials and newly hired employees aged 60 or over, for which participation is optional.

SCERA members are separated into different retirement plans or tiers depending on their job classification and when they first joined the SCERA retirement system upon being hired by the County, and each tier has specific benefits formulas and minimum retirement ages. SCERA members fall into two main categories, either General or Safety, depending on their job classification during their working career. Most County job classifications fall under the General category, which includes approximately 80% of all active and retired members. The Safety category primarily includes job classifications providing fire and public safety services.

Within the over-arching General and Safety categories, SCERA members fall under distinct retirement plan tiers depending on their hire date and eligibility. Members who entered the retirement system before PEPRA was enacted January 1, 2013, are in the Plan A Legacy tier. Most members who entered the retirement system after that date are in the Plan B PEPRA tier; however, some members joining after this date are eligible for the Plan A Legacy tier due to having reciprocity with another qualified California retirement system. All Legacy Plan A active members are eligible for the same benefit formula, but a cohort of Legacy retirees who retired prior to 2003 have a different benefit formula.

2.1 Calculation of Pension Benefits

Upon retirement or separation, pension benefits for SCERA members are calculated using established formulas that depend on the members' specific retirement plan and tier. Members' benefit calculation relies on multiplying three main factors together, and increasing any of these factors results in a higher lifetime pension benefit:

1. **Age Factor, or members' age when they start receiving benefits.** Pension formulas specify the optimal retirement age for maximizing benefits, expressed as a percentage. For example, the PEPRA Plan B "2.5% at 67" Age Factor means members can achieve a maximum age factor of 2.5% at age 67, but the factor is reduced proportionally depending on age, as low as 1.0% at age 52.
2. **Compensation Factor, or members' highest average compensation.** Benefits for Plan A Legacy members are calculated using the member's highest average monthly compensation over a consecutive 12-month period; benefits for Plan B PEPRA members are calculated using the member's highest average monthly compensation over a consecutive 3-year period. Higher average compensation
3. **Members' total years of service.** Service credit measures the amount of time members have been participating in the SCERA Plan, plus any purchases of eligible service credit completed. Service credit is earned for the time members are in paid status, including time on paid vacation, holiday, or sick leave.

The two hypothetical examples below illustrate how the pension benefits calculations utilize these three factors:

Age Factor (a)	Avg. Monthly Compensation (b)	Years of Service (c)	Monthly Pension Benefit (a) *(b) * (c)
3.0%	$5,000	30	$4,500
2.0%	$4,000	20	$1,600

The table below summarizes the pension formulas for the various retirement tiers:

Plan Tier Description	Member Eligibility	Age Factor	Compensation Factor
Pre-2003 General	Retired prior to 2003	2.6% @ Age 62	Highest 12-month average
Pre-2003 Safety	Retired prior to 2003	2.0% @ Age 50	Highest 12-month average
Plan A Legacy General	Hired prior to 1/1/2013, or after w/ reciprocity	3.0% @ Age 60	Highest 12-month average
Plan A Legacy Safety	Hired prior to 1/1/2013, or after w/ reciprocity	3.0% @ Age 50	Highest 12-month average
Plan B PEPRA General	Hired after 1/1/2013	2.5% @ Age 67	Highest 3-year average
Plan B PEPRA Safety	Hired after 1/1/2013	2.7% @ Age 57	Highest 3-year average

Refer to SCERA's website for additional information, including tables showing how these factors affect determination of benefits: https://scretire.org/active-deferred/calculating-your-benefit

2.2 Pension Cost-of-Living Adjustments

SCERA operates under an Ad-hoc cost-of-living-adjustment (COLA) design with no automatic, ongoing COLA benefit pre-funded by employer and employee contributions. As a result, pension benefits paid to members do not receive automatic annual COLAs, like recipients of Social Security benefits. The Retirement Board can recommend Ad-hoc COLAs be granted within the parameters of existing COLA statutes, but the Board of Supervisors as the governing body of the County must approve implementation the COLA.

2.3 Limits on Pension Benefits

Retirement law and Internal Revenue Code (IRC) Section 415(b) limit the annual benefit amount that can be paid to a retiree from retirement systems, which applies to SCERA. This limit is based on an individual's age at retirement and their retirement plan (General/Safety). The County has an excess benefits plan which pays the difference between a member's calculated benefit and the IRC allowable limit. Internal Revenue Code Section 401(a) (17) also imposes limits on pensionable compensation that may be used to calculate retirement benefits for individuals who first became members of SCERA on or after January 1, 1996. These limits may be adjusted annually by the Internal Revenue Service; refer to the IRS website for current limits: https://www.irs.gov/retirement-plans/cola-increases-for-dollar-limitations-on-benefits-and-contributions.

The retirement benefit for Plan A Legacy members below the IRS limit is capped at 100% of their highest average monthly compensation. Pensionable compensation used to calculate the retirement benefit for a Plan B PEPRA member is also capped; refer to the California State Controller's Office website for annual limits: https://www.sco.ca.gov/PEPRA_Compensation_Limits.html. Pension benefits for Plan B PEPRA members who participate in Social Security, like County employees, are capped at 100% of the PEPRA limit.

3.0 Funding the Pension Plan

The SCERA pension plan is funded by a combination of contributions from participating employers, contributions from active employees, and earnings on those invested funds over time. All participating members contribute to the Plan through regular biweekly payroll deductions. Because SCERA is a tax-qualified plan, contributions into the SCERA fund are not taxed when they are made, but benefits based on the contributions will be taxed as benefits are paid. Contribution rates vary according to plan tiers.

The annual contribution rates paid by the County and its employees are determined every year as part of SCERA's annual actuarial valuation and review conducted by an independent actuary. If all actuarial assumptions in the valuations occurred exactly as predicted, the Plan would be funded at 100%. However, in practice, the Plan's actual experience each year varies from the demographic and economic assumptions used to set contribution rates. When earnings or other assumptions do not meet expectations, it results in creation of unfunded liabilities for the retirement system. The Plan will always experience some years that exceed earnings and some years when the earnings assumptions are not met. The ideal is to create a well-funded plan over time by having more overfunding than underfunding through refining of actuarial methodology and prudent investment of assets. Both the County as employer and its employees pay annual contributions to fund the expected normal cost of the Plan based on the actuarially determined rates. Adverse actuarial assumption changes, other experience losses, or investment return shortfalls result in creation of unfunded liabilities for the pension system, and the County as employer is responsible for paying for the unfunded liabilities via higher annual employer contribution rates. SCERA's annual valuations can be viewed on its website: https://scretire.org/financial/actuarial-reports

3.1 Unfunded Liability Cost Sharing with Employees

Starting in Fiscal Year 2003-04, the County negotiated with General and Safety employee groups to have all County employees contribute supplemental contributions toward the pension system's unfunded liability over a set 20-year period, ending in Fiscal Year 2023-24. All County employees paid supplemental contributions towards UAAL, equal to 3.03% of pensionable payroll for General members and 3.00% for Safety members. Supplemental contributions expired June 2023 for all Plan B PEPRA Safety members, and expired June 2024 for all Plan B General members and a subset of Plan A Legacy members. The cost sharing arrangement has been maintained for approximately 1,000 Plan A Legacy employees (including Salary Resolution and four bargaining units) who continue to pay supplemental contributions towards unfunded liability equal to 3.00%/3.03% of pensionable pay.

3.2 Normal Cost Sharing with Legacy Plan A Employees

Employees' annual contribution rates as a percentage of pensionable compensation vary according to their plan tier. Plan A Legacy employees pay normal cost contribution rates based on their age of entry into the system, and whether they are General or Safety members, with individuals hired at a younger age paying a lower rate than older individuals, because their invested contributions have more time to benefit from compounding returns. Plan B PEPRA employees pay a flat normal cost contribution rate irrespective of age, but the rate varies depending on if they are General or Safety. The Plan B PEPRA employee contribution rate calculated to be equal to a 50/50 normal cost share with the County as employer (excludes unfunded liabilities borne by the County).

As an outcome of collective bargaining negotiations in 2016, the County reached agreement with employee labor groups to implement normal cost sharing arrangements for all Plan A Legacy employees, which was an incremental move towards 50/50 sharing of normal cost, which Plan B PEPRA members already pay. As part of this cost sharing arrangement, the increased cost sharing by Legacy employees is partially offset by receiving a taxable reimbursement in their biweekly paychecks.

3.3 Pension Contribution/Debt Payment Structure

In addition to the County's and employees' contributions noted above, the County also makes additional prepayments towards the pension plan's unfunded liability equivalent to 0.5% of its total annual pensionable payroll, and it also pays debt service on outstanding Pension Obligation Bonds. Both unfunded liability prepayments and pension obligation bonds are covered in more detail in **Sections 4 and 5**, respectively. The figure below provides a high-level summary of employer and employee contributions/costs:

[PENSION CONTRIBUTION/DEBT PAYMENT FIGURE FROM SLIDE 8 WILL BE PASTED HERE.]

4.0 Prepayment of Unfunded Liabilities

The SCERA Plan's unfunded liability is calculated as the amount by which future obligations to pay retired members' benefits exceeds the present value of the Plan's available fund assets. The pension system pays for retirees' pension benefits through a combination of employer and employee contributions, plus investment income earned on those contributions. The contribution rates are adjusted annually based on an analysis of the estimated costs to meet all future retiree benefit obligations based on current economic (i.e., wage inflation and assumed investment returns) and non-economic (i.e., member demographic and mortality rate) assumptions. New unfunded liabilities are created each year whenever actual experience does not meet actuarial assumptions. When unfunded liability is created in a given year, it is amortized over a fixed 20-year period from the year created, and the County's annual employer contribution rates are in turn increased to pay the annual cost for the unfunded liability over the 20-year period.

To help reduce the County's total unfunded pension liability, the Board of Supervisors adopted a financial policy in June 2019 that authorized annual prepayments towards unfunded liabilities, equal to 0.5% of pensionable payroll, plus the option for one-time payments. The recurring prepayments equal to 0.5% of pensionable payroll are made every year on top of the required annual employer contributions paid by the County, and they are applied directly to the unfunded liability. The Board has also authorized several one-time payments using General Fund savings at fiscal year-end close. Prepaying unfunded liability helps avoid future interest costs calculated at SCERA's assumed discount rate; as a rule of thumb, future interest cost avoided over a 20-year period is equal to approximately 80% of the prepayment amount (i.e., a $5,000,000 prepayment avoids another $4,000,000 of costs over time). Refer to the table below for a history of unfunded liability prepayments:

Fiscal Year	1x UAAL Prepayments	Recurring UAAL Prepayments	Total Prepayments
FY 15-16	$3,553,000	$0	$3,553,000
FY 19-20	$5,000,000	$1,722,016	$6,722,016
FY 20-21	$0	$1,810,962	$1,810,962
FY 21-22	$3,750,000	$1,845,745	$5,595,745
FY 22-23	$0	$1,898,041	$1,898,041
FY 23-24	$3,528,516	$1,936,002	$5,464,518
Total	**$15,831,516**	**$9,212,767**	**$25,044,283**

5. Pension Obligation Bonds

Pension Obligation Bonds ("POB") are issued by government entities to help cover its obligations to the pension system in which its employees are members. In addition to paying its proportional share of the pension system's unfunded liability, the County also pays for unfunded pension liabilities indirectly via its debt service on several outstanding Pension Obligation Bonds, which were issued in the past to help pay unfunded liability obligations to SCERA. The bonds were issued by the County on three separate occasions—1993, 2003, and 2010—when the interest rate difference, or spread, between SCERA's assumed discount rate (8.00% - 8.25% at the time of issuance) and the bond market, afforded an opportunity for significant savings over the 20-year payment period used both by the system and the bond market.

The POB proceeds were deposited in the SCERA pension fund upon issuance and invested to continually earn a return over time. In turn, the County pays POB principal and interest debt service payments to bondholders in accordance with the respective 20-year payment schedules for each issuance. The 1993 Pension Obligation Bond was fully paid in 2013, and the 2003 bond was fully paid in 2023. The table below provides a summary of the County's Pension Obligation Bonds:

[THE POB SUMMARY TABLE FROM SLIDE 11 WILL BE PASTED HERE.]

The chart below provides a time-phased history of POB principal balances starting in 1994 and projected through 2030 when the last POB will be fully paid:

[THE POB PINRCIPAL BALANCE CHART FROM SLIDE 13 WILL BE PASTED HERE.]

The chart below provides a time-phased history of historical and future annual debt service payments for the 1993, 2003, and 2010 POB's according to their payment schedules:

[THE POB ANNUAL EXPENSES CHART FROM SLIDE 14 WILL BE PASTED HERE.]

[THE SECTION 6 CONTENT BELOW WILL BE MOVED OUT OF THIS DOCUMENT AND INTO THE BOARD ITEM SUMMARY REPORT.]

6.0 County Pension Expenses – Data Assumptions and Sources

- Pension contribution expenses, pensionable/covered payroll, operating revenue, and net pension liability amounts are based on data from Annual Comprehensive Financial Reports:
  - "County of Sonoma" category includes all Governmental and Business-Type activities reported in the County's Annual Financial Reports, such as County departments, Open Space District, and affiliated agencies such as SCERA, Sonoma County Fair, First 5 Sonoma County, Law Library, Local Agency Formation Commission, Waste Management, and Northern Air Pollution Control District.
  - Water Agency as reported in its annual financial reports.
  - Community Development Commission as reported in its annual financial reports.
- Reported costs exclude non-County entities participating in SCERA's pension plan: Superior Court of Sonoma County, Sonoma Valley Fire Protection District, and Sonoma County Transportation Authority.

- Annual expenses and principal balances for Pension Obligation Bonds are based on the bonds' respective 20-year fixed payment schedules.
- The County's annual pension costs in any given fiscal year do not match the annual contributions in SCERA's actuarial valuations for the following reasons:
  - The County's fiscal year is July 1 – June 30, whereas the SCERA valuation aligns with the calendar year;
  - SCERA's valuation estimates expected future payroll costs, but the County is reporting actual costs, and SCERA adjusts contributions for the County's Replacement Benefit Plan payments per Internal Revenue Code §415; and
  - 18-month delayed contribution rate implementation; for example, the contribution rates set by SCERA's December 2023 valuation will be implemented in County Fiscal Year 2025-26.
- SCERA's annual valuations account for the difference between prior year expected versus actual contributions when setting contribution rates for the future year to ensure the County's contribution costs are ultimately paid over time.

6.1 Pension Forecast Assumptions

[Fiscal Years and other assumptions below to be updated based on current year]

- Pension Contribution Costs
  - Assumes payroll inflation of 3.00% annually, consistent with SCERA's actuarial valuation assumptions.
  - FY 23-24 estimate based on unaudited financial data.
  - FY 24-25 and FY 25-26 estimates incorporate contribution rate changes from SCERA's 2022 and 2023 actuarial valuations, respectively.
  - FY 26-27 through FY 31-32 estimates assume contribution rates will increase by 0.20% of payroll annually, based on the 15-year historical trend average since 2011.
  - Contributions include estimated cost reduction future interest cost avoidance from 1x and recurring unfunded liability prepayments made in recent fiscal years.
- Pension Obligation Bond Expenses
  - Estimates based on 20-year payment schedules.
  - POB costs decrease in FY 23-24 and again in FY 31-32, when the 2003 and 2010 bonds are paid off.
- Unfunded Liability Prepayments
  - Assumes annual prepayments equal to 0.5% of pensionable payroll.
  - Includes one-time prepayments approved by the BOS: $3.5 million in FY 23-24 and $1.0 million in FY 24-25.