Alameda County Employees' Retirement Association
BOARD OF RETIREMENT

ACTUARIAL COMMITTEE/BOARD MEETING NOTICE and AGENDA

ACERA MISSION:

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Thursday, October 17, 2024
11:00 am

LOCATION AND TELECONFERENCE	COMMITTEE MEMBERS	
ACERA **C.G. "BUD" QUIST BOARD ROOM** **475 14TH STREET, 10TH FLOOR** **OAKLAND, CALIFORNIA 94612-1900** **MAIN LINE: 510.628.3000** **FAX: 510.268.9574** **The public can observe the meeting and offer public comment by using the below Webinar ID and Passcode after clicking on the below link or calling the below call-in number.** https://zoom.us/join Call-In Number: 1 699 900 6833 Webinar ID: 879 6337 8479 Passcode: 699406 For help joining a Zoom meeting, see:https://support.zoom.us/hc/en-us/articles/201362193	**KELLIE SIMON, CHAIR** **HENRY LEVY, VICE CHAIR** **KEITH CARSON** **TARRELL GAMBLE** **ELIZABTEH ROGERS**	**ELECTED GENERAL** **TREASURER** **APPOINTED** **APPOINTED** **ELECTED RETIRED**

The Alternate Retired Member votes in the absence of the Elected Retired Member, or, if the Elected Retired Member is present, then votes if both Elected General members, or the Safety Member and an Elected General member, are absent.

The Alternate Safety Member votes in the absence of the Elected Safety, either of the two Elected General Members, or both the Retired and Alternate Retired members.

This is a meeting of the Actuarial Committee if a quorum of the Actuarial Committee attends, and it is a meeting of the Board if a quorum of the Board attends. This is a joint meeting of the Actuarial Committee and the Board if a quorum of each attends.

Board and Committee agendas and minutes and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure) are posted online at www.acera.org and also may be inspected at 475 14th Street, 10th Floor, Oakland, CA 94612-1900.

Public comments are limited to four (4) minutes per person in total. The order of the items on the agenda is subject to change without notice.

Note regarding accommodations: If you require a reasonable modification or accommodation for a disability, please contact ACERA between 9:00 a.m. and 5:00 p.m. at least 72 hours prior to the meeting at accommodation@acera.org or at 510-628-3000.

ACTUARIAL COMMITTEE/BOARD MEETING

Call to Order: 11:00 am

Roll Call

Public Input

Action Items: Matters for Discussion and Possible Motion by the Committee

1. **Review, discussion, and possible motion to renew the Interest Crediting Policy with or without revisions.**

   -Lisa Johnson

   Recommendation
   Staff Recommends that the Actuarial Committee recommend that the Board of Retirement approve the Interest Crediting Policy, without revision.

2. **Review, discussion, and possible motion to renew the Actuarial Funding Policy with or without revisions.**

   -Lisa Johnson

   Recommendation
   Staff Recommends that the Actuarial Committee recommend that the Board of Retirement approve the Actuarial Funding Policy, per the redline in the agenda backup.

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports

None

Trustee Input

Future Discussion Items

None

Establishment of Next Meeting Date

TBD

Adjournment

ACERA

MEMORANDUM TO THE ACTUARIAL COMMITTEE

DATE: October 17, 2024

TO: Members of the Actuarial Committee

FROM: Lisa Johnson, Assistant Chief Executive Officer

SUBJECT: **Interest Crediting Policy Review**

Executive Summary

The Interest Crediting Policy (Policy) is set for review by the Actuarial Committee every three years, to ensure that it remains relevant and appropriate. The policy was reviewed in October 2021.

Staff's review of the Policy resulted in the following findings:

- The Policy continues to be appropriate and does not overlap with other Board policies.

Background

The Policy exists to establish the process to be used by ACERA to credit semi-annual interest to reserves..

Recommendation

Staff recommends that the Actuarial Committee recommend that the Board of Retirement approve the Interest Crediting Policy, without revision.

Attachment:
Interest Crediting Policy

Interest Crediting Policy

I. Purpose

The purpose of this policy is to establish the process to be used by the Alameda County Employees' Retirement Association ("ACERA") to credit semi-annual interest to reserves. This policy shall include, but may not be limited to, the following:

A. Defining the reserves maintained by ACERA;

B. Determining the regular and excess rates of interest at which reserves are to be credited; and

C. Determining the priorities and sequence by which interest will be credited to the reserves.

II. Objectives

The policy has been developed with the following objectives:

A. To comply with appropriate legal and regulatory requirements.

B. To maintain consistency between the reserving structure and the actuarial funding of ACERA.

C. To limit, to the extent possible, the volatility of interest crediting from period to period.

D. To limit, to the extent possible, the charging of losses to valuation reserves.

E. To assure that the reserve values track the market value of assets over the long term.

III. Governing Law

ACERA is governed by provisions of the County Employees Retirement Law of 1937 ("CERL"), as well as other federal and State laws relating to public retirement systems.

CERL generally governs interest crediting and excess earnings. Under CERL, interest is credited on June 30 and December 31 each year to all contributions, reserves, and accounts in the retirement fund which have been on deposit for 6 months. Various reserves and designations are established and maintained by the Board under procedures adopted by the Board pursuant to Article 5.5 of CERL.

IV. Reserves

ACERA maintains the following reserves:

A. Valuation Reserves

1. Member Deposit Basic and Cost-of-Living Reserves – The reserves to which member contributions are credited. These contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon retirement of a member, transfers are made to Annuity and Cost-of-Living Reserves.

2. Employer Advance (Basic) Reserve – The reserve to which basic employer contributions are credited, including amounts made directly to the retirement plan as well as amounts made to the 401(h) Reserve Account for payment of estimated retiree health benefits (OPEB) for the next fiscal year but reimbursed with a transfer from the SRBR. Upon retirement of a member, a transfer is made to Pension (Current and Prior) Reserves (Pension).

3. Cost-of-Living Reserve – The reserve to which cost-of-living employer contributions are credited and Member Cost-of-Living contributions for new retirees are transferred when the member retires.

4. Retired Member Reserves (Annuity & Pension) – The reserves to which transfers are made from Member Deposit Basic and Employer Advance (Basic) Reserve at the time of a member's retirement. The total of these reserves should equal the present value of the total benefits (excluding cost-of-living increases) due all

retirees and eligible beneficiaries had there been no actuarial gains or losses and changes in actuarial assumptions.

5. Survivor Death Benefit Reserve – The reserve is credited with the present value of death and survivor benefits expected to be paid upon the death of an active member.

6. County Safety Voluntary Contribution Reserve and Livermore Area Recreation and Park District (LARPD) General Voluntary Contribution Reserve – The reserves to which the County's voluntary contributions to pay Unfunded Actuarial Accrued Liability (UAAL) associated with the County's past and present Safety employees and LARPD's voluntary contributions to pay UAAL associated with LARPD's past and present General employees are credited. Pursuant to the Board's Actuarial Funding Policy, the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be subject to a separate five-year asset smoothing schedule that excludes any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County and LARPD made their voluntary contributions. Five years after the County and LARPD made such contributions, the same five-year asset smoothing schedule that is used to calculate interest for the other valuation reserves will then be used for amounts in the County Safety Voluntary Contribution Reserve and LAPRD General Voluntary Contribution Reserve that are attributable to such contributions.

B. Non-Valuation Reserves

1. Contingency Reserve Account – The reserve is maintained in an amount equal to 1% of the total market value of assets to provide funds to offset future deficiencies in interest earnings, losses on investment or other contingencies. This reserve consists of the minimum 1% required pursuant to Section 31616. If the Contingency Reserve is negative, then it will be included as an offset to the valuation value of assets used to determine the employers' contribution rates in the annual actuarial valuation. The Board may transfer funds from the Contingency Reserve to different valuation reserves at different rates (including no transfer at all to one or more valuation reserves) in order to take account of the timing of the County and LARPD's Extraordinary Contributions to ACERA in a manner that is equitable to all employers and the SRBR.

2. 401(h) Reserve Account – The reserve is credited with employer contributions in an amount sufficient for payment of estimated retiree health benefits (OPEB) for the next fiscal year. Once the employers make the contributions to this Account, there will be a reimbursement to the Employer Advance Reserve through a transfer from the SRBR.

3. Supplemental Retiree Benefit Reserve (SRBR) – This reserve is used for the payment of benefits provided to members who are retired or beneficiaries as determined by the Board in accordance with Section 31618 of the CERL. For book-keeping purposes only, the SRBR Reserve is divided into two parts:

    a. OPEB Reserve – This reserve is used to fund discretionary retiree health benefits.

    b. Non-OPEB Reserve – This reserve is used to fund discretionary supplemental COLA benefits and to fund vested $1,000 lump sum death benefits.

C. Financial Statement Reserves and Accounts

Market Stabilization Reserve – The difference between the current market value of assets and the actuarial value of assets used to establish the above reserves.

V. Guidelines

A. "Available Earnings" are determined on current period earnings of the fund calculated on the actuarial value of assets as determined under the Board's funding policy, plus any positive balance in the Contingency Reserve.

B. Credit regular interest at the assumed annual valuation interest rate on the valuation reserves, the 401(h) Reserve Account and the SRBR. Earnings will be credited twice each year to all reserves that have been on deposit for six full months, in accordance with Section 31615 of the CERL. The crediting of interest will take effect on June 30 and December 31 of each year.

C. Maintain a 1% Contingency Reserve Account required pursuant to Section 31616. (It should be noted that an additional amount up to 2% may be included at the discretion of the Board as permitted by Section 31616. The Board's current policy is not to include any such additional discretionary amount.)

D. Any Available Earnings remaining after crediting full interest to valuation reserves, the 401(h) Reserve Account, the SRBR, and restoring the Contingency Reserve Account to its target level constitute Excess Earnings. The Excess Earnings will be allocated in the following manner:

   1. Allocate one-half to the Unallocated SRBR.

   2. Allocate the other one-half of the remaining earnings to the valuation reserves and the 401(h) Reserve Account in proportion to the amounts in each of those reserves.

E. The Glossary of terms is attached as Exhibit A.

VI. Regular Interest Crediting Process

Step 1 Determine "Available Earnings" for accounting period as the sum of:

A. Earnings of the retirement fund for the period based on actuarial value of assets, expressed in dollars. This could be a negative amount.

B. Any positive balance in the Contingency Reserve Account.

C. If sum of A. and B. is negative, such negative amount is credited only to the Contingency Reserve Account but not to the valuation reserves, the 401(h) Reserve Account or the SRBR.

Step 2 Credit interest to the valuation reserves, the 401(h) Reserve Account, and the SRBR

A. If in the prior accounting period the Contingency Reserve Account was reduced below 1% to meet the interest crediting requirements under Step 2 in the prior period, transfer Available Earnings from the current period into the Contingency Reserve Account to restore it to 1% of total assets.

B. Credit the valuation reserves, the 401(h) Reserve Account and the SRBR at a rate up to one-half of the assumed annual valuation interest rate, if there are enough Available Earnings.

Available Earnings outlined in Step 1 (A) above for crediting to the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County and LARPD made their additional UAAL contributions to those Reserves.

Interest will be credited to the County Safety Voluntary Contribution Reserve and LARPD General Voluntary Contribution Reserve using the weighted outstanding balance of those Reserves after taking into consideration periodic transfers made from those Reserves to the Employer Advance Reserve and the Cost-of-Living Reserve to offset the County's Safety UAAL and LARPD's General UAAL contribution requirements.

The Board may transfer funds from the Contingency Reserve to different valuation reserves at different rates (including no transfer at all to one or more valuation reserves) in order to take account of the timing of the County and LARPD's Extraordinary Contributions to ACERA in a manner that is equitable to all employers and the SRBR.

C. Deduct the interest credited above from Available Earnings which includes the Contingency Reserve Account even if that Account was just restored to 1% in Step 2A[1]. If the amount of interest credited is more than the Available Earnings, credit in Step 2B only up to the amount of the Available Earnings.

Step 3 Maintain a Contingency Reserve of 1%

Transfer from any remaining Available Earnings from Step 2C into the Contingency Reserve the amount required to maintain a Contingency Reserve of 1% of total assets.

---

[1] *Restoring the Contingency Reserve to 1% in Step 2A and immediately including the amount in that Reserve as Available Earnings in Step 2C in the same interest crediting period would have the effect of not restoring the 1% Contingency Reserve for use in the subsequent interest crediting period until Step 3, i.e., until after crediting interest to all the reserves in Step 2B. This order of crediting interest to the Reserves has been researched by ACERA's legal counsel and determined to be a reasonable exercise of discretion available to the Board in accordance with Government Code Section 31616. It would also result in more stable pattern of interest crediting in some situations, based on scenarios developed by ACERA's actuary.*

VII. Excess Interest Crediting Process

Apply any remaining available earnings (excess earnings) as follows:

A. Allocate one-half of any remaining earnings to the SRBR.

B. Allocate the other one-half of the remaining earnings to the valuation reserves and the 401(h) Reserve Account in proportion to the amounts in each of those reserves, on the balance in the fund for at least six full months.

The above allocation to the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County and LARPD made their additional UAAL contributions to those Reserves.

The above allocation to the County Safety Voluntary Contribution Reserve and LARPD General Voluntary Contribution Reserve will be made using the weighted outstanding balance of those Reserves after taking into consideration periodic transfers made from those Reserves to the Employer Advance Reserve and the Cost-of-Living Reserve to offset the County's Safety UAAL and LARPD's General UAAL contribution requirements.

VIII. Policy Review

This policy has been adopted by a majority vote of the ACERA Board, and can be amended by the ACERA Board by a majority vote. This policy is effective with the six-month interest crediting period ending December 31, 2015. This policy will be reviewed as deemed necessary.

IX. Policy History

A. The Board adopted this policy on December 17, 2015.

B. The Board approved this policy, without revisions, on November 8, 2018.

C. The Board revised this policy on May 20, 2021.

D. The Board reviewed this policy on October 21, 2021.

~~D.~~E. The Board approved this policy, without revisions, on October 17, 2024.

Exhibit A

Glossary

Actuarial Terms and Definitions

The following list defines certain technical terms relevant to the Regular Interest and Excess Interest Crediting Policy for the convenience of the reader:

Investment Return

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain, and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return reflects a smoothing of market gains and losses to avoid significant swings in the value of assets from one year to the next.

Actuarial Value of Assets

Market value of assets less unrecognized market value gains and losses from each of the last five years. Market value gains and losses are equal to the difference between the actual market return and the expected return on the market value, and are recognized semi-annually over a five-year period. The actuarial value of assets is limited to no greater than 140% or less than 60% of the market value of assets.

Valuation Value of Assets

The actuarial value of assets reduced by the value of the Non-Valuation Reserves (401(h) Reserve Account, SRBR and Contingency Reserve (unless negative).

Assumed Annual Valuation Interest Rate

This is the interest rate adopted by the Board from the actuarial valuation that established the employer and employee contribution rates for that fiscal year.

Extraordinary Contribution

A participating employer's voluntary UAAL contribution to ACERA that is in addition to the employer's required annual UAAL contributions.

MEMORANDUM TO THE ACTUARIAL COMMITTEE

DATE: October 17, 2024

TO: Members of the Actuarial Committee

FROM: Lisa Johnson, Assistant Chief Executive Officer

SUBJECT: **Actuarial Funding Policy Review**

Executive Summary

The Actuarial Funding Policy (Policy) is set for review by the Actuarial Committee every three years, to ensure that it remains relevant and appropriate. The policy was reviewed in October 2021.

Staff's review of the Policy resulted in the following findings:

- The Policy continues to be appropriate.
- The Policy would benefit from adopting the points of clarification recommended by the actuaries surrounding circumstances of surplus, per Section 7522.52 of PEPRA and included in the included in red and redline in the agenda backup.

Background

The Policy exists to establish the process to be used by ACERA to record the funding objectives and policy set by the Board of Retirement (Board) for the Alameda County Employees' Retirement Association (ACERA).

This Policy exists to ensure the systematic funding of future benefit payments for members of ACERA; and to record guidelines established by the Board to assist in administering ACERA's retirement fund in a consistent and efficient manner.

Recommendation

Staff recommends that the Actuarial Committee recommend that the Board of Retirement approve the Actuarial Funding Policy, per the redline in the agenda backup.

Attachment:
Actuarial Funding Policy

Actuarial Funding Policy

I. Purpose

The purpose of the Actuarial Funding Policy (Policy) is to record the funding objectives and policy set by the Board of Retirement (Board) for the Alameda County Employees' Retirement Association (ACERA). This Policy is to ensure the systematic funding of future benefit payments for members of ACERA. In addition, this Policy records guidelines established by the Board to assist in administering ACERA's retirement fund in a consistent and efficient manner.

II. Assumptions

A. ACERA is a public employee retirement system that was established in 1948 to provide retirement allowances and other benefits to all permanent General and Safety employees of the County of Alameda and participating special districts.

B. These benefits are financed through a combination of employee and employer contributions along with the investment return on those contributions. Benefit and contribution level may vary within ACERA depending on the member's classification (General or Safety), tier and by participating employer (the County or one of the Special Districts).

C. ACERA is governed by the provisions of the County Employees Retirement Law of 1937 (1937 Act). Alameda County adopted Article 5.5 of the 1937 Act. This Article creates a Supplemental Retiree Benefit Reserve (SRBR) through which the Board may pay supplemental benefits to retirees and beneficiaries.

D. An actuarial valuation is performed annually as of December 31 of each year to determine the contribution rates for the fiscal year that begins 6 months after the valuation date.

E. This Policy applies to "regular benefits" which refer to the retirement, disability, survivor and withdrawal benefits, and all cost-of-living increases that were adopted by the County of Alameda (or the special districts) and whose payments are guaranteed by those agencies. This Policy does not cover benefits financed by the SRBR. Also, this Policy does not cover the interest crediting procedure that is used by the Board to allocate earnings among the different reserves (i.e., the valuation reserves used for the "regular benefits" and SRBR for "excess earnings benefits").

F. This Policy supersedes any previous actuarial funding policies.

III. Objectives

A. To achieve long-term full funding of the cost of "retiree benefits" provided by ACERA;

B. To seek reasonable and equitable allocation of the cost of "retiree benefits" over time;

C. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals; and

D. To the extent that it does not conflict with the above goals, the Board will try to pool risks across all portions of ACERA to the extent that groups of members have similar benefit provisions, contribution provisions and contribution histories. Separate cost sharing groups will be set up to recognize meaningful differences in benefit structure (e.g., Safety or General), employer contribution history (e.g., payment of Extraordinary Contributions like Pension Obligation Bond payments and credit from reimbursement of implicit retiree health benefit subsidy) and benefit changes for a specific employer.

IV. Funding Requirements and Components

ACERA annual funding requirement for "regular benefits" is comprised of a payment of the Normal Cost and a payment towards the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this Policy:

A. Actuarial Cost Method: the techniques to allocate the total Present Value of Future Benefits to each year~~s~~ of service, including all past years;

B. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and

C. Amortization Policy: the decisions on how, in terms of duration and pattern of contributions, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

Actuarial Cost Method:

The Entry Age method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined on an individual basis for each active member.

Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected market return, shall be recognized semi-annually in level amounts over 5 years in calculating the Actuarial Value of Assets. Total Net Deferred investment gains or losses cannot exceed 40% of the Market Value of Assets. Note that the Valuation Value of Assets is the Actuarial Value of Assets reduced by any applicable Non-Valuation Reserves, as defined in ACERA's Interest Crediting Policy.

A separate five-year asset smoothing schedule that excludes any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County made a voluntary additional Safety UAAL contribution and the Livermore Area Recreation and Park District (LARPD) made a voluntary additional General UAAL contribution will apply to the amounts in the County Safety Voluntary Contribution Reserve and LARPD General Voluntary Contribution Reserve attributable to such voluntary contributions (including previously credited interest) until the contributions have been on deposit for five years. Thereafter, the same five-year asset smoothing schedule used for the other valuation reserves will be used for the outstanding balance of amounts attributable to those contributions.

Amortization Policy:

A. The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of December 31, 2011 shall be amortized separately from any future changes in UAAL over a period of 21 years from December 31, 2011.

B. After December 31, 2011, any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of December 31 will be amortized over a period of 20 years.

C. After December 31, 2011, any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years.

D. A County voluntary Safety UAAL contribution to the County Safety Voluntary Contribution Reserve, and accrued interest thereon, will be transferred from that Reserve and used to offset the County's Safety UAAL contributions that would otherwise be required of the County over a period determined by the Board. The annual actuarial valuation report will show both (1) the County's Safety contribution rate in the absence of such transfers, and (2) the County's actual Safety contribution rate, which takes account of such transfers.

An LARPD voluntary General UAAL contribution to the LARPD General Voluntary Contribution Reserve, and accrued interest thereon, will be transferred from that Reserve and used to offset LARPD's General UAAL contributions that would otherwise be required of LARPD over a period determined by the Board. The annual actuarial valuation report will show both (1) LARPD's General contribution rate in the absence of such transfers, and (2) LARPD's actual General contribution rate, which takes account of such transfers.

E. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:

1. With the exception noted in 2., below, the change in UAAL as a result of any plan amendments will be amortized over a period of 15 years or less;

2. The increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted under Section 31641.04 of the 1937 CERL (Golden Handshake), will be funded over a period of up to 5 years.

F. UAAL shall be amortized over "closed" amortization periods so that the remaining amortization period for each layer decreases by one year with each actuarial valuation.

G. UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.

H. If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus), any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over 20 years as the first of a new series of amortization layers. ~~and the amount of such~~If the surplus is in excess of 20% of the AAL per Section 7522.52 of PEPRA, such surplus that is in excess of 20% of the AAL and any subsequent such surpluses will be amortized over an "open" amortization period of 30 years~~.~~, but only if the other conditions of Section 7522.52 have also been met. If those conditions are not met, then the surplus will not be amortized, and the full Normal Cost will be contributed. ~~Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over 20 years as the first of a new series of amortization layers.~~

I. These amortization policy components will apply separately to each of ACERA's UAAL cost sharing groups with the exception that the conditions of Section 7522.52 apply to the total plan.

V. Other Policy Considerations

A. Timing of Contributions

1. The contribution rates determined in each valuation (as of December 31) will apply to the fiscal year that begins after the date of the valuation. The UAAL contribution rates in the actuarial valuation are not adjusted in advance to account for this delay.

2. Any change in contribution rate requirement that results from a plan amendment (including a change in member contribution rates) is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

3. For purposes of calculating employer contributions, the employer and member contributions are assumed to be made during consistent intervals throughout the year.

B. Cost Groups

Separate cost groups will be set up in order to recognize differences in benefit structure (e.g., General Tiers 1 through 4 and Safety Tiers 1, 2, 2C, 2D and 4), member contribution levels, employer contribution history (e.g., payment of Extraordinary Contributions like Pension Obligation Bond (POB) payments as well as any credit from reimbursement of implicit retiree health benefit subsidy), and other differences that the Board deems significant, such as benefit changes for a specific employer.

An employer may be contributing to one or more different cost groups depending on the benefit structure adopted for its employees.

1. ACERA's total (employer and member) Normal Cost is determined separately for each group of members that have the same benefit formula (on a prospective basis) based on the Actuarial Cost Method described above. This means that to the extent that members have the same plan provisions for future benefit accruals, then the total Normal Cost (as a percentage of payroll) for those employers will be the same.

2. The net employer Normal Cost is calculated by reducing the total Normal Cost for expected member contributions. This is done separately for each of the different member contribution arrangements and benefit structures that exist for the various employers. The various member contribution arrangements are described in more detail in the actuarial valuation report.

3. ACERA's UAAL is determined separately based on contribution and benefit history. This means that there could be separate calculations of AAL for cost groups that have significantly different contribution histories, or prior benefit accrual provisions (e.g., General versus Safety). Plan assets are tracked separately for groups with different UAAL contribution histories unless otherwise established by the Board.

4. There is a further adjustment made to the UAAL contribution rate for LARPD General Tiers 3 and 4 to account for the District's Tier 3 employees receiving the 2.5% @ 55 formula for past service and the payment of the District's other UAAL as a level percent of payroll over a closed amortization period. This adjustment is described in more detail in the actuarial valuation report.

5. The outstanding balance in the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be adjusted with interest under the Interest Crediting Policy and to account for transfers from those Reserves to the Employer Advance Reserve and the Cost-of-Living Reserve to offset the Safety UAAL contributions that would otherwise be required of the County and the General UAAL contributions that would otherwise be required of LARPD. The Actuary will monitor the available contribution offset and recommend modifications to the Board if actual experience causes significant changes to the offset expected from those Reserves.

VI. Glossary of Funding Policy Terms

Present Value of Future Benefits (PVB): the present value at a particular point in time of all projected future benefit payments for current plan members. The future benefit payments and the present value of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for current active members.

Actuarial Cost Method: allocates a portion of the total cost (PVB) to each year of service, both past service and future service.

Normal Cost (NC): the cost allocated under the Actuarial Cost Method to each year of active member service.

Entry Age Actuarial Cost Method: A funding method that calculates the Normal Cost as a level percentage of pay over the working lifetime of the plan's members.

Actuarial Accrued Liability (AAL): the value at a particular point in time of all past Normal Costs. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true.

Market Value of Assets (MVA): the fair value of assets of the plan as reported in the plan's audited financial statements.

Actuarial Value of Assets (AVA) or smoothed value: a market-related value of the plan assets. The AVA tracks the market value of assets over time and smoothes out short-term fluctuations in market values.

Valuation Value of Assets (VVA): the value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any applicable Non-Valuation Reserves as defined in ACERA's Interest Crediting Policy. In particular, the VVA will not include assets allocated to the SRBR.

Unfunded Actuarial Accrued Liability (UAAL): the positive difference, if any, between the AAL and the VVA.

Surplus: the positive difference, if any, between the VVA and the AAL.

Actuarial Gains and Losses: changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets (after smoothing) earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or "actuarial gain" as of the next valuation. Actuarial gains and losses include contribution gains and losses that result from actual contributions made being greater or less than the level determined under this Policy.

Extraordinary Contribution: A participating employer's voluntary UAAL contribution to ACERA that is in addition to the employer's required annual UAAL contributions.

VII. Policy Modification

The Actuarial Committee, or other committee designated by the Board, shall review this policy at least every three (3) years. The Committee shall make recommendations to the Board concerning any improvements or modifications it deems necessary.

VIII. Policy History

A. The Board adopted this Policy on September 18, 2014.

B. The Board approve this Policy, without revisions, November 8, 2018.

C. The Board revised this Policy on May 20, 2021.

D. The Board revised this Policy on October 21, 2021.

~~D.~~E. The Board revised this Policy on October 17, 2024