Alameda County Employees' Retirement Association

BOARD OF RETIREMENT

ACTUARIAL COMMITTEE/BOARD MEETING NOTICE and AGENDA

THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE [SEE GOV'T CODE § 54953(e) AND LETTER ATTACHED AT THE END OF THIS 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 21, 2021
11:00 am

ZOOM INSTRUCTIONS	COMMITTEE MEMBERS	
The public can view the Teleconference and comment via audio during the meeting. To join this Teleconference, please click on the link below. https://zoom.us/join Meeting ID: 889 7271 0595 Password: 820684 Call-in Number: 1 669 900 6833 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193	TARRELL GAMBLE, CHAIR	APPOINTED
	OPHELIA BASGAL, VICE CHAIR	APPOINTED
	KEITH CARSON	APPOINTED
	LIZ KOPPENHAVER	ELECTED RETIRED
	GEORGE WOOD	ELECTED GENERAL

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.

The order of agenda items is subject to change without notice. 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 available online at www.acera.org.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

ACTUARIAL COMMITTEE/BOARD MEETING

Call to Order: 11:00 am

Public Input

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

1. Review of the Interest Crediting Policy

Staff Recommendation
That the Actuarial Committee recommend to the Board that the Interest Crediting Policy continues to be necessary and appropriate and that the Board make the revisions to the Interest Crediting Policy shown in the redline included with this agenda packet.

-Jeff Rieger

2. Review of the Actuarial Funding Policy

Staff Recommendation
That the Actuarial Committee recommend to the Board that the Actuarial Funding Policy continues to be necessary and appropriate and that the Board make the revisions to the Actuarial Funding Policy shown in the redline included with this agenda packet.

-Jeff Rieger

3. Review of the Declining Employer Payroll Policy

Staff Recommendation
That the Actuarial Committee recommend to the Board that the Declining Employer Payroll Policy continues to be necessary and appropriate and that the Board make the revisions to the Declining Employer Payroll Policy shown in the redline included with this agenda packet.

-Jeff Rieger

4. Review of the Withdrawing Employer Policy

Staff Recommendation
That the Actuarial Committee recommend to the Board that the Withdrawing Employer Policy continues to be necessary and appropriate and that the Board make the revisions to the Withdrawing Employer Policy shown in the redline included with this agenda packet.

-Jeff Rieger

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports
None

ACTUARIAL COMMITTEE/BOARD MEETING

Future Discussion Items

None

Establishment of Next Meeting Date

TBD

Adjournment

ALAMEDA COUNTY
HEALTH CARE SERVICES
AGENCY
COLLEEN CHAWLA, Director

AGENDA ___September 28, 2021

OFFICE OF THE AGENCY DIRECTOR
1000 San Leandro Blvd., Suite 300
San Leandro, CA 94577
TEL (510) 618-3452
FAX (510) 351-1367

September 23, 2021

The Honorable Board of Supervisors
County Administration Building
1221 Oak Street
Oakland, CA 94612

SUBJECT: RECEIVE AND ACCEPT THE RECOMMENDATION OF THE HEALTH CARE SERVICES AGENCY DIRECTOR FOR CONTINUED SOCIAL DISTANCING AT ALL BOARD OF SUPERVISORS MEETINGS AND BOARD COMMITTEE MEETINGS

Dear Board Members:

RECOMMENDATION

Receive and accept the recommendation of the Health Care Services Agency Director for continued social distancing at all meetings of the full Board of Supervisors and at all Board of Supervisors Committee meetings.

DISCUSSION/SUMMARY

In light of the continued state of emergency related to COVID-19, the Health Care Services Agency (HCSA) Director recommends that your Board continue to impose the social distancing measures that were initially adopted in March 2020 for all meetings of the Board of Supervisors and Board Committee meetings, until your Board – in consultation with the HCSA Director – concludes that such measures are no longer necessary. The HCSA Director makes this recommendation to comply with newly enacted urgency legislation establishing new requirements for teleconferenced (remote) meetings under the Ralph M. Brown Act.

This recommendation is based on the continued threat of COVID-19 to the community, the unique characteristics of public governmental meetings (such as the increased mixing associated with bringing together people from across the community, the need to enable those who are immunocompromised or unvaccinated to be able to safely continue to fully participate in public governmental meetings, and the challenges with fully ascertaining and ensuring compliance with vaccination and other safety recommendations at such meetings), and the continued increased safety protection that social distancing provides as one method to reduce the risk of COVID-19 transmission.

BACKGROUND

On March 4, 2020, Governor Newsom issued an Executive Order proclaiming a state of emergency in California as a result of the COVID-19 pandemic. This emergency declaration remains in effect. On March 17, 2020, Governor Newsom issued Executive Order N-29-20, which allowed local agencies subject to the Brown Act to hold their meetings remotely, without providing a physical location for members of the public to gather and participate, so long as there were telephonic means to allow public participation and protect citizens' statutory and constitutional rights. Your Board held its first telephonic meeting with no in-person public participation on April 21, 2020 and has continued the practice since. On June 11, 2021, Governor Newsom issued Executive Order N-08-21 which similarly governed the convening of public meetings and modified the permissions of Executive Order N-29-20 to allow for continued use of teleconferenced meetings by local agencies subject to the Brown Act.

On September 16, 2021, Governor Newsom signed into law Assembly Bill 361 (AB 361, Chapter 165, Statutes of 2021), which amended the Brown Act to allow for continued use of teleconferenced meetings by Brown Act bodies without providing a physical meeting location for the public through January 31, 2024, under certain conditions. The permitting conditions include factors such as a continued declaration of emergency, and a local official recommending measures for social distancing.

As HCSA and the Health Officer have reported to your Board, the highly transmissible SARS-CoV-2 B.1.617.2 (Delta) variant has been circulating in the County of Alameda since April 2021. While the risk for COVID-19 infection is highest among unvaccinated residents (and the vaccination rates in our County are relatively high) over one-third of COVID-19 infections are among fully vaccinated persons. Among vaccinated persons, older adults are at the highest risk for severe illness resulting from COVID-19 infection.

Accordingly, the HCSA Director recommends that social distancing measures adopted in the early days of the pandemic remain in place for meetings of your Board and Board Committees. This recommendation is consistent with the Division of Occupational Safety and Health of California's (Cal/OSHA) Emergency Temporary Standards, which require employers to train and instruct employees that the use of social distancing helps combat the spread of COVID-19 (8 Cal. Code Regs. 3205(c)(5)(D).). Under the requirements of AB 361, no later than 30 days after the September 28 meeting, and again every 30 days thereafter for as long as this recommendation remains in place, your Board will need to reconsider the state of emergency, and whether (a) the emergency directly impacts the ability of members to safely meet in person; or (b) social distancing measures are still recommended at Board and Board Committee meetings.

FINANCING

Acceptance of this recommendation will have no impact on net County cost.

VISION 2026 GOAL

Acceptance of this recommendation will prevent potential spread of COVID-19 in the Board's public meetings, and thus advances the 10X Vision 2026 Goal pathway of **Accessible Infrastructure** in support of our shared visions of a **Thriving & Resilient Population** and **Safe & Livable Communities**.

Sincerely,

DocuSigned by:
CB284AE84C50405...

Colleen Chawla, Director
Health Care Services Agency

ACERA

Office of the Chief Counsel

To: Actuarial Committee

From: Jeff Rieger, Chief Counsel

Meeting: October 21, 2021

Subject: **Review Of Four Actuarial Policies**

Four Actuarial Policies are before the Committee for review and recommended revisions: (1) Interest Crediting Policy; (2) Actuarial Funding Policy; (3) Declining Employer Payroll Policy; and (4) Withdrawing Employer Policy. Redlines that show the proposed changes to the four polices are attached hereto as Attachments 1-4.

The Interest Crediting Policy and Actuarial Funding Policy are coming to the Board earlier than called for under the normal review cycle. The recommended revisions account for the Livermore Area Recreation and Park District's (LARPD) extraordinary contribution to ACERA in June 2021. The proposed revisions are materially the same as the revisions the Board made to these two policies to account for the County's extraordinary contribution of about $800 million to ACERA in June 2021. Attachment 5 hereto is a May 20, 2021 memorandum to the Actuarial Committee, which describes the reasons for the proposed amendments to account for the County's extraordinary contribution. That memorandum applies equally to the LARPD's extraordinary contribution, because LARPD's members are in their own rate group (the County's extraordinary contribution was for Safety UAAL and the County is the only employer with Safety members).

The Declining Employer Payroll Policy and Withdrawing Employer Policy are up for review based on the normal review cycle. The minor proposed revisions are based on input from Segal and me. The revisions are not substantive, but rather provide minor clarifications and additional legal support for the terms of the existing policies.

Andy Yeung and I will discuss the proposed revisions further at the Committee meeting and answer any questions.

Attachment 1
Interest Crediting Policy

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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 ~~make~~ made ~~theirs a~~ voluntary contributions. Five years after the County and LARPD ~~makes~~made ~~any~~ 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 employer 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 ~~make~~mades ~~an~~ their additional UAAL contributions to those~~that~~ 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~~that~~ Reserves after taking into consideration periodic transfers made from those~~that~~ 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 employer 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.

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[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 ~~makes~~ made their ~~an~~ additional UAAL contributions to those~~that~~ 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~~that~~ Reserves after taking into consideration periodic transfers made from those~~that~~ 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.

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

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.

Attachment 2
Actuarial Funding Policy

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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 years 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 ~~makes~~ 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 ~~has~~ 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~~that~~ 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 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 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.

~~D.~~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.

~~E.~~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.

~~F.~~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.

~~G.~~H. If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus) and the amount of such 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. 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.

~~H.~~I. These amortization policy components will apply separately to each of ACERA's UAAL cost sharing groups.

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 ~~that~~ 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~~that~~ 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.

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.

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

Attachment 3
Declining Employer Payroll Policy

Declining Employer Payroll Policy

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

I. Purpose and Background

A participating Plan Sponsor (employer) in the Alameda County Employees' Retirement Association (ACERA) may experience an actual or anticipated material decline in the payroll attributable to its ACERA active members (ACERA-covered payroll). The Declining Employer Payroll Policy is intended to establish guidelines by which ACERA intends to assure that such employer will continue to satisfy its obligation to timely pay all unfunded actuarial accrued liability (UAAL) attributable to the prior and future service of active, retired and deferred ACERA members who are or were the participating employer's employees, and their beneficiaries.

II. Background and Objectives

A. As a general rule, under ACERA's practice in place prior to the adoption of this Declining Plan Sponsor Payroll Policy, ACERA determined employers' contribution obligations for UAAL by applying a contribution rate determined by ACERA's actuary to the employer's ACERA-covered payroll (the percentage-of-payroll methodology). For employers whose payrolls are generally consistent with ACERA's actuarial assumptions regarding payroll growth, or those whose payroll is growing faster than the actuarial assumptions, the percentage-of-payroll methodology continues to be appropriate. But for employers whose ACERA-covered payroll is declining, or is expected to decline, materially over time, the Board of Retirement has determined that the percentage-of-payroll methodology is not the appropriate means of collecting employer contributions owed to the Association. The objectives of this Declining Employer Payroll Policy are to (i) ensure equitable and adequate funding of UAAL in cases involving employers with declining payrolls, (ii) approve procedures for identifying employers who should be subject to this Policy, and (iii) approve a different methodology for determining any UAAL attributable to such employers and setting the amount and schedule of the contributions needed to fund such UAAL. This Policy does not change the methodology regarding how contributions for "normal cost" are determined for participating employers.

B. Generally, the objectives of this Policy also are to ensure compliance with County Employees Retirement Law of 1937 (Gov. Code §31450 et seq., as amended), the Public Employees' Pension Reform Act of 2013 (Gov. Code §§7522-7522.74), and other applicable provisions of law. Pursuant to Gov. Code §§7522.52, 31453.5, 31454.7, 31581, 31582, 31584, 31585, 31586, 31611, and other applicable provisions of law, a participating employer remains liable, and must make the required appropriations and transfers to ACERA for the participating employer's share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability and related benefits from ACERA.

C. It is the Board of Retirement's intent to allow an employer covered by this Policy to satisfy its funding obligation in a manner which provides the employer reasonable flexibility; however, primary consideration will be given to ensuring the adequacy of the assets attributable to the employer to satisfy the employer's funding obligations. This will generally require redetermination of the funding obligations of the employer for several years.

III. Policy Procedures and Guidelines

Absent exigent circumstances or unless otherwise expressly approved by the Board of Retirement at a duly-noticed public meeting, the procedures and guidelines for implementing this Policy are set forth below.

A. Commencement of Coverage – Triggering Events

1. This Policy covers only those employers for whom the Board determines, based on a recommendation from ACERA's Chief Executive Officer (CEO), that a triggering event as described in this section has occurred and who are not excluded from coverage under this Policy as described in section III.B.1.~~6~~ and/or section III.B.2.~~7~~ below. The fact that a triggering event may have occurred in the past does not prevent ACERA from applying this policy to that employer. The Board hereby directs the CEO to work with ACERA's staff and ACERA's actuary to obtain the information (e.g., ACERA-covered payroll history) needed for the Board to make determinations regarding triggering events. The CEO is further directed to report to the Board, at least annually, regarding these activities.

a. Triggering event resulting from ceasing to enroll new hires. Some ACERA participating employers cease to enroll new hires with ACERA but, for a period of time, continue to have at least some previously-enrolled employees maintaining their status as active ACERA members. These employers' ACERA-covered payroll will eventually diminish to zero as their active employees retire or otherwise terminate employment. Examples of employers in this category may include an employer that is acquired by another entity that is not an ACERA participating employer, or an ACERA employer that covers some of its employees through another pension system such as CalPERS or a 401(k) plan. There may be other examples as well.

b. Triggering event resulting from a material and permanent reduction in ACERA-covered payroll. Some employers may experience a material reduction in their ACERA-covered payroll, but nevertheless continue to enroll their new hires with ACERA. The reduction may be sudden (e.g., due to a discrete event such as a partial loss of funding, or partial outsourcing), or it may be more gradual, over a period of years, and might not be tied to a discreet event. Generally, the Board would determine that this type of triggering event has occurred only if the Board expects that the reduction in employer's ACERA-covered payroll is expected to be permanent or for an indefinite period of time with no reasonably foreseeable end. Generally, by its nature, the determination whether this type of triggering event has occurred is more subjective than that described in subparagraph a) immediately above.

B. Exclusions from Coverage; Terminations of Coverage

1. This Policy also covers only those employers which are a) financially-viable entities when a triggering event occurs, and b) which ACERA expects to continue indefinitely thereafter to be financially-viable entities. This Policy does not cover any other situation, including, without limitation, an employer going out of business by reason of dissolution, loss of funding, consolidation or merger (unless there is a surviving financially-viable entity that is acceptable to the Board that will make the ongoing payments under the Policy). This Policy also does not cover a "withdrawing employer" who ceases to provide ACERA membership for all of the

employer's active ACERA members (i.e., as of a date certain, withdraws both new hires and existing actives from membership with ACERA).

2. The Board of Retirement also recognizes that participating employers covered by this Policy will have UAAL funding obligations for several years. Therefore, if concerns arise during that period of time regarding the employer's ongoing existence as a financially-viable entity, the Board may remove the employer from coverage under this Policy and/or take any other measures that may be available to ensure the actuarial soundness of the Retirement Association including, without limitation, assessing the projected entire amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board) using a lower discount rate and payable in a single sum immediately due.

C. Procedures

1. The CEO will (i) work with ACERA staff and actuary, and ACERA's participating employers to obtain the information (e.g., ACERA-covered payroll history, financial reports) needed for the Board to make determinations regarding triggering events and exclusions from, or terminations of, coverage and (ii) report to the Board, at least annually, regarding these activities.

2. Upon a recommendation from the CEO and notice to the affected participating employer, the Board will make a determination at a duly-noticed public meeting regarding (i) whether a triggering event has occurred for the employer, (ii) whether the employer should be excluded from coverage under this Policy, and (iii) for those employers that the Board has previously determined to be covered under the Policy, whether their coverage should be terminated under section III.B.1.~~6~~ above. Employers may be required to provide ACERA with updated employee census and payroll data and financial reports. See Gov. Code §31543.)

3. If the Board determines that a triggering event has occurred and the employer is not excluded from coverage under the Policy, then, solely for purposes of determining the covered employer's UAAL contribution obligation, ACERA will segregate on its books all assets and liabilities attributable to the employer based upon the recommendation of ACERA's actuary, and shall maintain such separate

accounting for the employer until all of the participating employer's obligations to ACERA have been fully satisfied.

4. ACERA's actuary will determine, and certify to the Board of Retirement, the covered employer's funding obligation for its initial UAAL, which obligation shall not be pro-rata based on payroll, but rather based on the employer's actuarial accrued liability (AAL) including in-active member, when determinable. Otherwise, the Board may use other methodologies to determine liability as recommended by their actuary, including but not limited to the pro-rata share based on payroll. The Board may determine to require the employer's contributions to be paid in level, fixed-dollar amounts over a period not to exceed twenty (20) years, beginning on July 1 of the calendar year immediately after the year in which the triggering event occurs.

5. The actuary will use the actuarial valuation performed for ACERA as of the end of the calendar year immediately prior to the calendar year in which the triggering event occurs (and based on all of ACERA's then current actuarial assumptions and methodologies) to determine the initial valuation value of assets (VVA), a smoothed value, allocated to the covered employer. That initial VVA will be a pro-rata allocation based on the employer's AAL (i.e., based on the employer's initial UAAL allocation determined in accordance with section III.C.3.~~10~~ above). Later values of the VVA (i.e., those used in the future valuations described below) shall be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the actual smoothed (VVA) earnings rate on total ACERA assets.

~~6.~~ Annually, after the determination of the covered employer's initial funding obligation, as part of the regular annual actuarial valuation of the plan, ACERA's actuary will measure any change in the UAAL

~~7.~~6. of the participating employer due to actuarial experience or changes in actuarial assumptions. In addition to the amortized payments for the covered employer's initial UAAL funding obligation determined as of the initial valuation, the employer will be liable for, and must contribute to ACERA, any such new UAAL determined as of subsequent valuations, based upon an amortization schedule recommended by the actuary and adopted by the Board of Retirement. ACERA will hold any negative UAAL (Surplus) to be applied against any future UAAL of the covered employer.

~~8.~~7. If any Surplus remains after the covered employer has satisfied all of its UAAL obligations (Final Surplus), ACERA will ~~distribute~~ account for the Final Surplus in accordance with the terms of applicable law.

~~9.~~8. Notwithstanding anything to the contrary herein, the ACERA Board of Retirement hereby reserves the right to pursue any other remedies under applicable law that, depending on the circumstances, may be available to "ensure the actuarial soundness of the retirement system" (CERL §31564.2(d)) and ensure that "the county and districts shall each remain liable to the retirement system for their respective share of any unfunded actuarial liability of the system, as determined by the board" (CERL §31454.7).~~.~~

IV. Policy Review

The Operations Committee will review this Policy at least every three (3) years to ensure that it remains relevant and appropriate.

V. Policy History

A. The Board of Retirement adopted this Policy on October 18, 2018.

~~A.~~B. The Board of Retirement revised this Policy on October 21, 2021.

Attachment 4
Withdrawing Employer Policy

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Withdrawing Employer Policy

I. Purpose

This Policy establishes guidelines to be applied when a participating ACERA employer ceases to provide ACERA membership for its active ACERA members. This policy contemplates that the withdrawing employer will continue to be financially able to satisfy its obligation to timely pay all Unfunded Actuarial Accrued Liability ("UAAL") attributable to its active, retired and deferred employees by reason of their prior service as ACERA's members. This Policy is not intended to apply to the County of Alameda as a participating employer.

II. Objectives

A. To ensure compliance with County Employees Retirement Law of 1937, California Government Code §§31450 et seq., as amended ("CERL") and other applicable provisions of law:

1. Pursuant to CERL §§ 31454.7, 31564.2, 31580.1, 31584, 31585, and other applicable provisions of law, a withdrawing employer remains liable, and must make the required appropriations and transfers, to ACERA for the employer's share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability and related benefits from ACERA.

2. CERL §31564.2(d) provides, in part, that "[t]he funding of the retirement benefits for the employees of a withdrawing agency is solely the responsibility of the withdrawing agency or the board of supervisors. Notwithstanding any other provision of the law, no contracting agency shall fail or refuse to pay the employer's contributions required by this chapter within the applicable time limitations. In dealing with a withdrawing district, the board of retirement shall take whatever action needed to ensure the actuarial soundness of the retirement system."

~~2.~~3. CERL §31454.7 provides: "Under all circumstances, the county and districts shall each remain liable to the retirement system for their respective share of any unfunded actuarial liability of the system, as determined by the board."

B. The general principle applied in this policy is to establish the funding obligation of withdrawing employers as:

1. The value of future benefits to be paid by ACERA to the withdrawing employer's employees, retirees, beneficiaries and terminated members as of the withdrawal date; minus

2. The value of ACERA assets allocated to the withdrawing employer as of the withdrawal date.

3. In cases involving members who worked at more than one ACERA employer or who earned service at a County department before it was spun off into a District, the Board of Retirement retains discretion on how liabilities for such members should be allocated to the withdrawing employer.

C. It is the Board of Retirement's intent to allow a withdrawing employer to satisfy its funding obligation in a manner which provides the employer reasonable flexibility. However, primary consideration will be given to ensuring the funding obligation of the withdrawing employer is properly determined and satisfied. This will generally require redetermination of the funding obligation of the employer for several years following the date the employer initiates its withdrawal.

In lieu of the ongoing redetermination of the funding obligations, the withdrawing employer may request that a market valuation approach be used to determine the value of the future benefits to be paid and the value of the assets allocated by ACERA.

D. This policy covers only those withdrawing employers (i) who cease to provide ACERA membership for their active employees (i.e., both current actives and new hires), (ii) who are financially viable entities when the withdrawal is initiated, and (iii) for whom ACERA expects thereafter to continue to be financially viable entities. This policy does not cover any other situation – whether a withdrawing employer, a terminating employer or otherwise – including, without limitation, an employer going out of business by reason of bankruptcy, loss of funding, or merger, or an employer who gradually winds down its active employees' continued participation in ACERA either through attrition or through a decision to have employees hired after a specific date to not become members of ACERA (e.g., to participate in a retirement arrangement other than ACERA).

III. Guidelines

Absent exigent circumstances or unless otherwise expressly approved by the Board of Retirement at a duly-noticed meeting, the guidelines for implementing this policy are set forth below.

A. The governing body of a participating employer must adopt, in an open, public meeting, an intent to withdraw from ACERA before ACERA will calculate the cost of the withdrawal. The participating employer must provide ACERA with a copy of the formal action evidencing an intention to withdraw.

B. Upon notice that a participating employer seeks to terminate ACERA's membership for its active employees' future service, and on the advice and recommendation of its actuary, ACERA will segregate on its books all assets and liabilities attributable to the employer as determined by ACERA's actuary, and shall maintain such separate accounting for the employer until all of its liabilities have been fully satisfied.

C. ACERA and the withdrawing employer will enter into a Continuing Contribution Agreement, the purposes of which are to:

1. evidence the withdrawing employer's obligations as of the date the employer initiates its withdrawal, as well as its continuing funding obligations for the ongoing benefits owed to its retired, deferred and disabled officers and employees and their surviving beneficiaries, for their accumulated ACERA service and related benefits;

2. provide a funding mechanism acceptable to ACERA for the withdrawing employer to timely satisfy its existing and continuing funding obligations to ACERA, the payment of which must be over a period which is not longer than the period over which ACERA's remaining unfunded liability is being amortized (see CERL section 31564.2(c)). However, except in exigent circumstances, the amortization schedule for payment of the employer's initial funding obligation will not exceed a period of five (5) years.

3. require the withdrawing employer to provide ACERA with updated employee census and payroll data requested by ACERA in the years following the date the employer initiates its withdrawal;

4. provide a mechanism for adjusting the withdrawing employer's obligations and payments due to ACERA based on periodic actuarial experience analysis; and

5. provide a mechanism by which ACERA will ~~consider~~ determine the ~~transfer~~ disposition of any Final Surplus, as defined below~~, to the withdrawing employer or a successor retirement system, as appropriate~~.

D. Pursuant to the terms of the Continuing Contribution Agreement, ACERA's actuary will determine, and certify to the Board of Retirement, the withdrawing employer's initial funding obligation for its UAAL calculated as of the date of withdrawal.

E. A detailed description of the methodology that will be used in determining the initial value of the assets is provided in Exhibit One. The initial value of the assets used to determine the withdrawing employer's initial funding obligation for its UAAL will be based on the valuation value of assets (VVA) (a smoothed value) allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiated its withdrawal (or later date if the Continuing Contribution Agreement so provides), based upon all of ACERA's then current actuarial assumptions and methodologies. Later values (i.e., those used in "true-ups" described below) shall be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the Total ACERA smoothed (VVA) earnings rate.

No consideration will be given to current assets that are accumulated in the Supplemental Retiree Benefit Reserve (SRBR) to pay future Board of Retirement provided benefits paid out of the SRBR.

F. The present value of future benefits owed to the withdrawing employer's retired, deferred and disabled officers and employees and their surviving beneficiaries (present value of accrued benefits, or "liabilities") will be determined using ACERA's then current actuarial assumptions and methodologies. In determining the present value of accrued benefits, benefit service shall be frozen for the withdrawing employer's active employees but, for members who transfer to a system that has reciprocity with ACERA, pay shall be projected based on ACERA's then salary growth assumptions.

No consideration will be given to future Board of Retirement provided benefits paid out of the SRBR.

G. Periodically after the date the employer initiated its withdrawal, in periods not to exceed three (3) years' duration, following an experience analysis, ACERA's actuary will re-measure (true-up), and certify to the Board of Retirement, any additional obligation of the withdrawing employer for UAAL. In accordance with the terms of the Continuing Contribution Agreement and applicable law, the withdrawing employer is liable for, and must contribute, any new UAAL determined in the true-up experience analysis, based upon an amortization schedule recommended by the actuary and adopted by ACERA.

Absent exigent circumstances, the amortization schedule for payment of the employer's periodic true-up funding obligations will not exceed a period of three (3) years. ACERA will hold any negative UAAL (Surplus) to be applied against any future UAAL of the withdrawing employer.

H. If any Surplus remains after the withdrawing employer has satisfied all of its UAAL obligations (Final Surplus), ACERA will ~~distribute~~ account for the Final Surplus in accordance with the terms of the Continuing Contribution Agreement and applicable law.

I. Notwithstanding anything to the contrary herein, the ACERA Board of Retirement hereby reserves the right to pursue any other remedies under applicable law that, depending on the circumstances, may be available to "ensure the actuarial soundness of the retirement system" (CERL §31564.2(d) and ensure that "the county and districts shall each remain liable to the retirement system for their respective share of any unfunded actuarial liability of the system, as determined by the board." (CERL §31454.7). ~~).~~ For example, notwithstanding the employer's obligations under the Continuing Contribution Agreement, if concerns arise regarding the employer's ongoing existence as a financially viable entity, the Board of Retirement may assess the projected entire amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board) using a lower discount rate and payable in a single sum immediately due.

IV. Policy Review

The Operations Committee will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

V. Policy History

A. The Board of Retirement adopted this Policy on October 21~~18~~, 2021~~18~~.

Exhibit One

Determination of Withdrawing Employer's Assets

ACERA is a cost sharing multiple employer plan. As a result, there is no ongoing separate accounting of ACERA's assets by employer except in instances when, in the Board of Retirement's opinion, separate accounting is necessary to maintain equity among employers. The ACERA assets attributable to contributions of the withdrawing employer and its employees as of the withdrawal date will be determined as follows:

Step 1: Determine the Actuarial Accrued Liability of the withdrawing employer as of ACERA's most recent actuarial valuation irrespective of the employer's anticipated withdrawal.

Step 2: Determine the Unfunded Actuarial Accrued Liability (UAAL) of the withdrawing employer as of the most recent actuarial valuation by dividing the withdrawing employer's annual required UAAL contribution amount by the UAAL amortization factor. The amortization factor will generally equal the UAAL contribution amount for the membership group which includes the withdrawing employer divided by the UAAL for that membership group. The withdrawing employer's UAAL contribution rate, annual payroll and UAAL amortization factor would be determined as of the most recent actuarial valuation date.

Step 3: Determine the non-investment change in assets from the most recent actuarial valuation date to the actual withdrawal date as:

- The total contributions by the withdrawing employer since the most recent actuarial valuation date; plus
- The total contributions by employees of the withdrawing employer since the most recent actuarial valuation date; minus
- The total benefit and refund payments since the most recent actuarial valuation date to retirees, beneficiaries, and former employees of the employer.

Step 4: Determine the accumulated assets at the withdrawal date as:

$$(\text{Step 1} - \text{Step 2}) \times (1 + i \times t/365) + \text{Step 3} \times (1 + i \times t/730)$$

where:

i = annual interest at the actuarial rate of return assumed in ACERA's most recent valuation.

t = number of calendar days from the most recent actuarial valuation date to the effective date of the employer's withdrawal.

Attachment 5
May 20, 2021, Memo re: Proposed Revisions to Actuarial Policy and Interest Crediting Policy

ACERA

Office of the Chief Counsel

To: Actuarial Committee

From: Jeff Rieger, Chief Counsel

Meeting: May 20, 2021

Subject: **Proposed Revisions to Actuarial Funding Policy and Interest Crediting Policy**

Introduction

The County may contribute approximately $800 million to ACERA on or before June 30, 2021, to pay off a substantial portion of the County's UAAL associated with its former and current Safety employees. This payment will be subject to the Board of Retirement's and Board of Supervisor's approval of an agreement, which we expect to bring to the Board of Retirement at its June 17, 2021 meeting.

The proposed revisions to the Actuarial Funding Policy and Interest Crediting Policy are shown in the attached redlines. The proposed revisions are designed to ensure that (a) the County receives full credit for its contribution, and (b) ACERA's other participating employers and the SRBR are not negatively impacted by the contribution. Because the County is the only participating employer with Safety members, Staff and the Actuary (Segal) believe that the revisions to the policies described below are adequate.[1]

Proposed Revisions

Deferred Gains and Losses

ACERA defers recognition of investment gains and losses over a five-year period. For example, as of December 31, 2020, ACERA has $643.3 million of deferred gains, and likely will still have substantial deferred gains on June 30, 2021. If the County deposits $800 million on June 30, 2021, those funds will not have participated in earning the deferred gains as of that date. Thus, that extraordinary contribution should not be credited with interest associated with those deferred gains, at the expense of the other employers and the SRBR.

The proposed revisions to the Policies resolve this issue by establishing a new reserve—the County Safety Voluntary Contribution Reserve ("Reserve")—to hold the County's extraordinary contribution. Amounts in that Reserve will be periodically transferred to the

1 ACERA can accept extraordinary contributions to pay off UAAL associated with General members in an equitable manner, but additional policy adjustments would be required because the County is pooled with other employers of General members for the purposes of determining employer contributions.

Employer Advance Reserve and COLA Reserve to offset a portion of the County's Safety UAAL contribution that would otherwise be required of the County and deposited in those reserves. For five years, the amounts in the Reserve will be credited with interest based on a separate five year cycle of deferred investment gains and losses that does not include any of the deferred gains and losses that existed before the County's contribution. After that first five years, amounts remaining in the Reserve that are attributable to the County's extraordinary contribution would be credited with the same interest as the other valuation reserves. Interest will be credited to the Reserve using the weighted outstanding balance of the Reserve after taking into consideration the periodic transfers from the Reserve. In this manner, all employers and the SRBR will receive their fair share of deferred investment gains and losses that existed before the County's extraordinary contribution.

Contingency Reserve

ACERA maintains a non-valuation Contingency Reserve with 1% of the system's assets. The Contingency Reserve is filled up in years when the actuarially recognized returns exceed expected returns and amounts will continue to accumulate in that Reserve for as long as actuarially recognized returns are at or above expected returns. In years when the actuarially recognized returns fall short of expected returns, funds in the Contingency Reserve are transferred to valuation reserves and the SRBR. As of December 31, 2020, the Contingency Reserve held approximately $69 million and is expected to hold more than that on June 30, 2021. The County's extraordinary contribution will not have earned any of the excess returns held in the Contingency Reserve at the time the County makes its extraordinary contribution. Thus, under the proposed revisions to the Interest Crediting Policy, if the funds in the Contingency Reserve will be transferred to valuation reserves and SRBR, the Board may consider whether any adjustments to its normal procedures are advisable for the equitable treatment of all participating employers and the SRBR.

Conclusion

The recommended policy revisions are squarely within the Board's constitutional and statutory authority regarding actuarial matters. *See* Cal. Const., art. XVI § 17(e); Gov't Code § 31454.7 (Legislature affirming, in 2020, the Board's "plenary authority to recommend adjustments to county and district contributions as necessary to ensure the appropriate funding of the system"). The County's payment of the contribution discussed in this memorandum will be subject to the Board of Retirement's and Board of Supervisor's approval of an agreement that we expect to bring to the Board of Retirement at its June 17, 2021 meeting. ACERA will also bring back at that meeting the County's Safety employer contribution rates for 2021/2022 recommended by Segal to reflect the final amount of the County's extraordinary contribution (if it is made). *See Bandt v. Board of Retirement* (2006) 136 Cal.App.4th 140 (interim valuation to account for extraordinary contribution was appropriate). Further, to the extent additional revisions to the Actuarial Funding Policy and Interest Crediting Policy may be necessary to implement the terms of such an agreement, we will return to the Committee or Board with such further revisions, but Staff and the Actuary believe that the currently proposed revisions will establish the framework for ACERA to accept the contemplated contribution in an equitable manner.

Andy Yeung and I will be available at the Committee meeting to answer any questions.