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San Bernardino County Employees' Retirement Association

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# Actuarial Funding Policy



**POLICY NO. 003**

## I. Introduction

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board of Retirement (Board) for the San Bernardino County Employees' Retirement Association (SBCERA). The Board establishes this Actuarial Funding Policy to help ensure the systematic funding of future benefit payments for members of SBCERA. In addition, this document records certain guidelines established by the Board to assist in administering SBCERA in a consistent and efficient manner.

This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies. It is a working document and may be modified as the Board deems necessary.

## II. Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by SBCERA;
2. To seek reasonable and equitable allocation of the cost of benefits over time; and,
3. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.

## III. Funding Requirement and Policy Components

SBCERA annual funding requirement is comprised of a payment of the Normal Cost and a payment on 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 funding policy:

1. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period;
2. 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
3. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

# IV. Actuarial Cost Method:

The Entry Age Normal method shall be applied to the projected 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.

# V. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets.



This policy anticipates that future circumstances may warrant adjustments to change the pattern of the recognition of the net deferred investment gains or losses after a period of significant market change followed by a period of market correction, upon receiving an analysis from SBCERA's actuary. Such adjustments would be appropriate when the net deferred investment gains or losses are relatively small (i.e., the actuarial and market values are very close together), but the recognition of that net deferred amount is markedly non-level. Any such adjustment would be made subject to the following conditions:

- The net deferred investment gains or losses are unchanged as of the date of the adjustment; and
- The period over which the net deferred investment gains and losses are fully recognized is unchanged as of the date of the adjustment.

# VI. Amortization Policy:

- The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2011 shall continue to be amortized over separate 20-year period amortization layers based on the valuations during which each separate layer was previously established.
- Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years.
- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years.

- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
    a. with the exception noted in b., below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years[1];
    b. the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL (Golden Handshake), will be funded over a period of up to 5 years.
- UAAL shall be amortized over "closed" amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.
- 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.
- If an overfunding exists for a UAAL cost sharing group (i.e., the total the UAAL for that cost sharing group 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 as the first of a new series of amortization layers, using the above amortization periods.
- Per Section 7522.2 of the Government Code, if the surplus for SBCERA in total does not exceed 20% of the AAL, then the surplus for any UAAL cost sharing group will not be amortized, and the full Normal Cost will be contributed. If the surplus for SBCERA in total exceeds 20% of the AAL, then for each UAAL cost sharing group, the amount of any such surplus in excess of 20% of the AAL (and any subsequent surpluses in excess of 20% of the then current AAL) 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 for SBCERA in total. If those other conditions are not met, then the surplus will not be amortized, and the full Normal Cost will be contributed.
- These amortization policy components will apply separately to each of SBCERA's UAAL cost sharing groups with the exception that the conditions of Section 7522.52 apply to the total plan. For the Survivor Benefit valuation, the same amortization policy components will also apply, with the exception that a level dollar methodology will be used instead of level percent of payroll.

# VII. Other Policy Considerations

In order to allow the employers to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of SBCERA's UAAL in the following valuation.

Any change in contribution rate requirement that results from plan amendment is generally implemented in the actuarial valuation that follows the effective date of the plan amendment or as soon as administratively feasible.

The normal cost rate for County General and Superior Court members is determined as a combined rate based on the members at both employers.

For determining the UAAL contribution rate, all pre-January 1, 1996 retirees and beneficiaries are included as County members for this calculation.

For employers for which a triggering event has occurred (as described in SBCERA's General Policy No. 021 - Declining Employer Payroll Policy), the provisions of that policy will govern.

# VIII. Glossary of Funding Policy Terms

- **Present Value of Benefits (PVB) or total cost**: the "value" at a particular point in time of all projected future benefit payments for current plan members. The "future benefit payments" and the "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 members, including future service and salary increases for 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 Normal 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:** 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 for determining contribution requirements. The AVA tracks the market value of assets over time, smoothes out short term fluctuations in market values and produces a smoother pattern of contributions than would result from using market value.
- **Valuation Value of Assets:** 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 non-valuation reserves.
- **Unfunded Actuarial Accrued Liability (UAAL):** the positive difference, if any, between the AAL and the AVA.
- **Surplus:** the positive difference, if any, between the AVA 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 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. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

- **Valuation Date:** June 30 of every year.
- **Cost Sharing Group:** (Cost Group) participating employers are grouped by plan type (General or Safety) and by employer type. The cost sharing groups for SBCERA are County General, Other General, SBCTA, SCAQMD, Superior Court, and Safety. Each of the employers within these groups have the same base employer contribution rate, as determined annually. If an employer within the cost sharing group makes an extra UAAL payment, that payment may further impact the base employer contribution rate for that employer only.

1. ^ In particular, the Board may incorporate into the amortization period the demographic characteristics of the members affected by the plan amendment. For plan changes that affect active members, this could entail using the average remaining future service for active members. For plan changes that affect retirees, this could entail using the remaining life expectancy for retirees or the period over which the increased cash flow to retirees is expected to be paid, with further adjustment to avoid any incremental negative cash flow as a result of the plan amendment.

## Approval Signatures



| Step Description | Approver | Date |
| --- | --- | --- |
| Chief Counsel Review | Barbara Hannah: Chief Counsel | Pending |
| | Amy McInerny: Chief Financial Officer | 4/24/2024 |

## Applicability

SBCERA, SBCERA Internal