Status Pending PolicySat ID 17573717

San Bernardino County Employees' Retirement Association

Origination	10/6/2022
Last Approved	N/A
Effective	3/6/2025
Last Revised	10/6/2022
Next Review	3/5/2028
Area	General
Applicability	SBCERA systemwide

Declining Employer Payroll

POLICY NO. 021

I. PURPOSE

The Board of Retirement (Board) has a duty to establish the funding obligations of participating employers that may experience an actual or expected material decline in the payroll attributable to its SBCERA active members (covered payroll) and who may therefore not pay their respective share of any unfunded liability of SBCERA, absent adjustments to the methodology used to determine their contribution amount due, as described herein. This Declining Employer Payroll Policy (Policy) is intended to establish guidelines by which SBCERA intends to ensure that any such participating employer will continue to satisfy its obligation to timely fund all unfunded actuarial accrued liability (UAAL) attributable to the employer's active, retired, and deferred employees and their beneficiaries by reason of their prior service as SBCERA members.

SBCERA is a cost-sharing multiple-employer plan defined benefit pension plan. As a result, there is no ongoing separate accounting of SBCERA's assets by employer except in instances when, in the Board's opinion, separate accounting is necessary to maintain equity among employers. Under SBCERA's practice in place prior to the adoption of this Policy, SBCERA generally determined participating employers' contribution obligations for the UAAL by applying a contribution rate recommend by SBCERA's actuary to the participating employer's covered payroll (the percentage-of-payroll methodology). For participating employers whose covered payroll is generally consistent over the long-term with the actuarial assumptions regarding payroll growth, the percentage-of-payroll methodology is appropriate for collection of contributions necessary to support the benefits of the employer's active, retired, and deferred members. In addition, the percentage-of-payroll methodology employs a pooled methodology among participating employers when determining employer contributions rates within a particular cost sharing group (as defined in the SBCERA Actuarial Funding Policy, Policy No. 003), which this policy does not change as to those employers who are not subject to this policy.

However, for participating employers whose 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 SBCERA retirement system (sometimes referred to herein as the "Plan").

II. OBJECTIVES

For participating employers whose covered payroll is declining, or is expected to decline, materially over time, the Board of Retirement (Board) has determined that the percentage-of-payroll methodology is not the appropriate means of collecting employer contributions owed to the Plan. The objectives of this Policy are to:

- Ensure equitable and adequate funding of the UAAL in cases involving participating employers with declining covered payroll.
- Approve procedures for identifying participating employers who should be subject to this Policy.
- Approve a different methodology for determining any UAAL attributable to such participating employers.

Generally, the objectives of this Policy also are to ensure compliance with the County Employees' Retirement Law of 1937, California Government Code sections 31450 et seq., as amended (CERL) and other applicable provisions of law. Pursuant to the CERL sections 31453, 31453.5, 31453.7, 31581, 31582, 31584, 31585, 31586, and other applicable provisions of law, a participating employer remains liable, and must make the required appropriations and transfers to the Plan for the employer's respective share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability, and related benefits from SBCERA, as determined by the Board.

It is the Board's primary intent to ensure the adequacy of the assets attributable to each participating employer to satisfy that employer's funding obligation. This will generally require redetermination of the participating employer's funding obligation annually until fully satisfied. In accordance with this intent, the Board of Retirement will also seek to allow an employer covered by the Policy to satisfy its funding obligation in a manner which provides the employer reasonable flexibility under the existing circumstances.

This Policy is intended to be consistent with and not supersede the terms of any other existing policies, resolutions, or guidelines that SBCERA or its Board may have promulgated.

This Policy does *not* change the methodology of how contributions for "normal cost" is determined for SBCERA's participating employers or members.

III. POLICY PROCEDURES AND GUIDELINES

A. Summary

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

B. Triggering Events

This Policy covers only those participating employers for whom the Board determines, based on a recommendation from SBCERA's Chief Executive Officer (CEO) made upon the advice of SBCERA's actuary, that a Triggering Event, as described below, has occurred and the employer is not excluded from coverage. The Board hereby directs the CEO to obtain the information needed for the Board to make determinations regarding triggering events. The CEO is further directed to report this information to the Board, at least annually.

1. Triggering Event - Ceasing to Enroll New Hires

A participating employer may continue to maintain the status of enrolled members, but cease enrolling any newly hired employees. For such an employer, the covered payroll would eventually diminish to zero as its active employees retire or otherwise terminate employment. An example of this category is an employer that is acquired by another entity that is not an SBCERA participating employer.

2. Triggering Event - Material and Expected Long-Lasting Reduction in Covered Payroll

A participating employer may experience a material reduction in their covered payroll, but nevertheless continue to enroll its newly hired employees with SBCERA. The reduction may be sudden (e.g., due to a discrete event such a partial loss of funding or partial outsourcing), or it may be more gradual, over a period of years (e.g., due to technological advances or payroll attrition), and might not be tied to a discrete event. Generally, the Board would determine that this type of Triggering Event occurred only if the Board expects that the reduction in a participating employer's covered payroll is expected to be permanent, long-lasting, or for an indefinite period that is greater than a cycle that the employer may typically experience, or a cycle similar to other employers in the same cost group. Necessarily, by its nature, the determination whether this type of Triggering Event has occurred is more subjective than when the Triggering Event is sudden.

C. Exclusion from and Termination of Coverage

This Policy also covers *only* those employers who are financially viable entities when a Triggering Event occurs and whom SBCERA expects to continue indefinitely thereafter to be a financially viable entity. 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 appropriations and transfers under the Policy). This Policy also does not cover a "terminating employer" who ceases to provide SBCERA membership for *all* of the employer's active members (i.e., as of a date certain, withdraws both new hires and existing active from membership with SBCERA). Such a terminating employer is covered by General Policy No. 20 - Terminal Funding Obligation Policy.

The Board recognizes that participating employers covered by this Policy will have a UAAL funding obligation for several years. Therefore, if concerns arise after the Policy coverage has begun regarding the employer's ongoing existence as a financially viable entity, the Board may remove the employer from coverage under this Policy and take any other measures that may be available to ensure the actuarial soundness of the Plan. This includes, without limitation, assessing the projected entire amount of the employer's UAAL in a manner consistent with General Policy No. 20 - Terminal Funding Obligation Policy.

D. Procedures to Determine the Covered Employer's UAAL Funding Obligation

Step 1:	The CEO will work with SBCERA Staff, actuary, and participating employers to obtain covered payroll history, employer financial reports, budgets, future financial projections, bond-rating agency submissions, or other relevant documentation needed for the Board to make determinations regarding likely Triggering Events and exclusions from, or terminations of, coverage, at least annually.
Step 2:	Upon recommendation from the CEO and notice to the affected participating employer, the Board will make a determination at a public meeting regarding whether a Triggering Event has occurred, whether the employer should be excluded from coverage under this Policy, and for any employer that the Board has previously determined to be covered under this Policy, whether their coverage should be terminated under subsection C - Exclusion from and Termination of Coverage of this Policy. Employers may be required to provide SBCERA with an updated employee census, payroll date, and financial reports - see CERL section 31543.
Step 3:	If the Board determines that a Triggering Event has occurred and the employer is not excluded from coverage under this Policy, then, solely for purposes of determining the covered employer's UAAL contribution obligation, SBCERA will segregate on its books all assets and liabilities attributable to the employer, based upon the recommendation of the actuary, and shall maintain such separate accounting for the covered employer until all of the participating employer's obligations to the Plan have been fully satisfied. The covered employer will be placed in its own cost group for purposes of determining employer and employee contributions. The covered employer's "normal cost" contribution obligation will continue to be based on the active members of the covered employer and its covered payroll
Step 4:	The actuary will determine, and certify to the Board, the covered employer's funding obligation for its initial UAAL, such obligation shall not be pro-rata based on payroll, but rather based on the dollar amount of the employer's actuarial accrued liability (AAL), including inactive and deferred members. The Board will generally require the covered employer's UAAL contributions to be paid in level, fixed dollar amounts over a period not to

	exceed twenty (20) years, beginning on July 1 of the fiscal year immediately after the year in which the Triggering Event occurs. The Board may determine, consistent with its fiduciary duties, that it is appropriate to collect the necessary contributions in a different manner.
Step 5:	The actuary will use the actuarial valuation performed for SBCERA as of the end of the fiscal year immediately prior to the fiscal year in which the Triggering Event occurs (and base on all of SBCERA's then-current actuarial assumptions and methodologies) to determine the initial AAL of the covered employer. The initial valuation value of assets (VVA), a smoothed value, will be determined using a pro-rata allocation based on the ratio of the employer's initial AAL to the AAL of all employers in the same cost group. As a result of this methodology, the initial methodology, the initial UAAL (the initial AAL minus the initial VVA) will also be allocated pro-rata based on the covered employer's AAL in proportion to that of the other employers in the same cost group. Later values of the VVA (those used in future valuations) shall be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the smoothed (VVA) earnings rate on total SBCERA assets
Step 6:	Annually, after the determination of the covered employer's initial funding obligation, as part of the regular annual actuarial valuation of the Plan, the actuary will measure any change in the UAAL of the covered 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 covered employer will be liable for, and must contribute to SBCERA, any such new UAAL determined as of subsequent valuations, based upon an amortization schedule recommended by the actuary and adopted by the Board. SBCERA will hold any negative UAAL (Surplus) to be applied against any future UAAL of the covered employer.
Step 7:	If any Surplus remains after the covered employer has fully satisfied all of its UAAL funding obligation (Final Surplus), SBCERA will distribute the Final Surplus in accordance with the terms of the applicable law.

Approval Signatures

Step Description	Approver	Date
Chief Counsel Review	Barbara Hannah: Chief Counsel	Pending
Policy Owner	Amy McInerny: Chief Financial Officer	2/11/2025

Applicability

SBCERA, SBCERA Internal

History

Sent for re-approval by McInerny, Amy: Chief Financial Officer on 2/11/2025, 11:11AM EST

> No updates necessary.

Last Approved by McInerny, Amy: Chief Financial Officer on 2/11/2025, 11:11AM EST