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March 19, 2021

Ms. Debby Cherney  
Chief Executive Officer  
San Bernardino County Employees' Retirement Association  
348 W Hospitality Lane, Third Floor  
San Bernardino, CA 92415-0014

**Re: San Bernardino County Employees' Retirement Association (SBCERA)  
CERTNA Termination Study – Estimated Termination Obligation as of March 31, 2021**

Dear Debby:

As requested, we have estimated CERTNA's (the "District") obligation to SBCERA based on a proposed termination date of March 31, 2021.

### **Termination Conditions**

According to SBCERA, the District currently has two active members. As of the proposed termination date, one member is expected to be a retiree while the other is expected to be a terminated vested member. SBCERA would retain the obligation to provide benefits to both members as of the proposed termination date of March 31, 2021.

### **Data Used in This Calculation**

This study is based on the information we collected and calculated in our most recent actuarial valuation for SBCERA as of June 30, 2020. In this study, we determined a proportional share of the assets for the District as of June 30, 2020 by following the same procedures used in prior termination studies for SBCERA. As detailed below, that methodology is used for determining the assets for all benefits except those provided by the Survivor Benefit Reserve.

In order to estimate the District's assets and liabilities as of March 31, 2021, we have also collected the following additional information from SBCERA:

- Actual contributions of \$138,287 made by the District and its employees for the period from July 1, 2020 to September 30, 2020 and expected contributions of \$80,293 to be made by the District and its employees for the period from October 1, 2020 to March 31, 2021.

Based on the above information, we have projected the allocated assets of the District from July 1, 2020 to March 31, 2021, using the assumed rate of investment return of 7.25%.

### **Funding Obligation Settlement Conditions**

Based on the “Participating Employer Termination and Terminal Funding Obligation” policy adopted by SBCERA, a market based approach is used in determining the District’s funding obligation as of the termination date. Under this approach, there would be no reassessment of the benefit liability after the District’s termination date of March 31, 2021.

This approach dictates the use of the market value of assets and requires a valuation of the liabilities on a market-consistent basis. Under this approach, the liabilities for retirees and terminated members will be calculated using the actuarial assumptions for the June 30, 2020 actuarial valuation, except that future benefit payments will be discounted to the termination date using a market based discount rate. The market based discount rates for this purpose are the discount rates used by the Pension Benefit Guaranty Corporation (PBGC) to measure the sufficiency of assets for a terminating single-employer (non-public) defined benefit pension plan. We have used the most current rates, as of December 2020, published by the PBGC for discounting expected benefit payments from pension plans, which are 1.62% per annum for the next 20 years and 1.40% per annum thereafter.

### **Results and Methodology Used in Calculation**

The results under the “Market Valuation” approach are shown in Attachment A. We have determined that the District’s funding obligation as of the termination date using the “Market Valuation” approach is \$3,772,006 in unfunded liability for all benefits except those provided by the Survivor Benefit Reserve. The District’s funding obligation associated with the Survivor Benefit Reserve is \$0 since the District has no beneficiaries receiving payments from that reserve.

From discussions with the District, we were informed that one of the members included in the determination of the District’s funding obligation had prior service while serving as an employee of the County. The funding obligation of \$3,772,006 in unfunded liability developed in Attachment A assumes that the District would be allocated the entire unfunded liability for all of that member’s benefits, including those accrued while serving as an employee of the County. In Attachment B, we have allocated the District’s funding obligation for this member by prorating the unfunded liability by the ratio of the years of service with the District to the total years of service with both the District and the County. On this basis, we have determined that the District’s funding obligation as of the termination date after allocating the District a portion of the unfunded liability based on service would be \$2,613,593 in unfunded liability.

Any net unfunded liabilities at termination are generally required to be paid by the District as a lump sum, although the Board of Retirement may have the authority to allow for the obligation to be paid for over a period of installments. We defer to SBCERA as to whether an installment period is legally permitted. If it is permitted and SBCERA is interested in allowing installment payments, then we can provide information on the payments that would be required over various possible installment periods. Also, if there is a significant delay beyond the proposed termination date of March 31, 2021 in the payment of the funding obligation, then we

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recommend that the funding obligation be adjusted to reflect interest until the actual payment date.

Note that this study is an estimate of the District's termination liability. It will need to be re-calculated after the actual termination date of March 31, 2021 using updated data that reflects actual investment and demographic experience through the termination date. In addition, we will reflect the PBGC rates of March 2021 in that final study.

These calculations were based on the June 30, 2020 actuarial valuation results and data noted earlier for contributions and District membership. The actuarial valuations were directed under the supervision of Tammy Dixon, FSA, MAAA, FCA, Enrolled Actuary. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President & Actuary



Molly Calcagno, ASA, MAAA, EA  
Actuary

/hy

cc: Amy McInerney

**"Market Valuation" Method For All Benefits Except Those Provided by the Survivor Benefit Reserve  
CURRENT CALCULATION WITH FULL MARKET BASED UAAL ATTRIBUTABLE TO CERTNA**

**Table 1 Determination of Unfunded Actuarial Accrued Liability and Assets for CERTNA as of June 30, 2020**

|          |   |                  |
|----------|---|------------------|
| <b>1</b> | <b>Actuarial Accrued Liability (AAL) for CERTNA as of June 30, 2020</b>                                   |                  |
|          | Active Members  | \$1,880,183      |
|          | Retirees  | 0                |
|          | Total   | \$1,880,183      |
| <b>2</b> | <b>Determination of Unfunded Actuarial Accrued Liability (UAAL) for CERTNA as of June 30, 2020</b>        |                  |
| i        | County General Cost Group UAAL as of June 30, 2020  | \$1,652,787,000  |
| ii       | County General Cost Group Projected Annual Payroll for 2020/2021 Plan Year                                | 1,095,933,901    |
| iii      | CERTNA Projected Annual Payroll for 2020/2021 Plan Year   | 366,566          |
| iv       | UAAL Allocated to CERTNA as of June 30, 2020 (i * iii / ii)   | 552,821          |
| <b>3</b> | <b>Determination of Actuarial Value of Asset (AVA) for CERTNA as of June 30, 2020 (Item 1 - Item 2iv)</b> | \$1,327,362      |
| <b>4</b> | <b>Determination of Market Value of Asset (MVA) for CERTNA as of June 30, 2020</b>                        |                  |
| i        | Total SBCERA MVA As of June 30, 2020  | \$10,287,333,860 |
| ii       | Total SBCERA AVA As of June 30, 2020  | 11,133,172,593   |
| iii      | MVA for CERTNA as of June 30, 2020 (Item 3 * i/ii)  | 1,226,516        |

**Table 2 Estimate of Projected Accumulated Assets for CERTNA as of March 31, 2021**

|              |   |             |
|--------------|---|-------------|
| <b>1</b>     | <b>MVA for CERTNA as of June 30, 2020 (See Table 1)</b>   | \$1,226,516 |
| <b>2</b>     | <b>Determination of Projected Change in MVA From July 1, 2020 to March 31, 2021</b>                                       |             |
| i            | Employer Contributions from July 1, 2020 to March 31, 2021 <sup>(1)</sup>   | \$111,509   |
| ii           | Member Contributions from July 1, 2020 to March 31, 2021 <sup>(1)</sup>   | 107,070     |
| iii          | Benefits Paid from July 1, 2020 to March 31, 2021 <sup>(1)</sup>  | 0           |
| iv           | Total Cashflow from July 1, 2020 to March 31, 2021 <sup>(1)</sup>   | \$218,580   |
| <b>3</b>     | <b>Actual Net Return on Market Value from July 1, 2020 to March 31, 2021<sup>(2)</sup></b>                                | 5.438%      |
| <b>4</b>     | <b>Determination of Projected MVA for CERTNA as of March 31, 2021 (Item 1 * (1+ Item 3) + Item 2iv * (1+ (Item 3)/2))</b> | \$1,517,730 |
| <u>Note:</u> |   |             |
| 1            | Excludes Survivor Benefit contributions and benefit payments.   |             |
| 2            | Estimated based on Valuation Assumed Rate of Return of 7.25% for 9 months.  |             |

**Table 3 Estimate of Unfunded Liability using Termination Basis for CERTNA as of March 31, 2021**

|              |   |             |
|--------------|---|-------------|
| <b>1</b>     | <b>Unfunded Liability using Termination Basis for CERTNA as of March 31, 2021</b>   |             |
| i            | Projected Assets as of March 31, 2021 (See Table 2, Item 4)   | \$1,517,730 |
| ii           | Present Value of Future Benefits Determined using Market Based Interest Rate as of March 31, 2021   | 5,289,736   |
| iii          | Unfunded Liability or (Net Asset) as of March 31, 2021 (Item ii - Item i)   | 3,772,006   |
| <u>Note:</u> |   |             |
| 1            | The discount rates used are based on the PBGC rates for December 2020 (1.62% for 20 years and 1.40% thereafter).  |             |
| 2            | The District's funding obligation associated with the Survivor Benefit Reserve is \$0 since the District has no beneficiaries receiving payments from that reserve. |             |

**"Market Valuation" Method For All Benefits Except Those Provided by the Survivor Benefit Reserve  
PROPOSED CALCULATION WITH MARKET BASED UAAL PRORATED FOR SERVICE ATTRIBUTABLE TO CERTNA**

**Table 1 Determination of Unfunded Actuarial Accrued Liability and Assets for CERTNA as of June 30, 2020**

|          |   |                    |                  |
|----------|---|--------------------|------------------|
| <b>1</b> | <b>Actuarial Accrued Liability (AAL) for CERTNA as of June 30, 2020</b>                                   | <b>Member #1</b>   | <b>Member #2</b> |
|          | Active Members  | \$1,670,937        | \$209,246        |
|          | Retirees  | 0                  | 0                |
|          | Total   | \$1,670,937        | \$209,246        |
| <b>2</b> | <b>Determination of Unfunded Actuarial Accrued Liability (UAAL) for CERTNA as of June 30, 2020</b>        |                    |                  |
| i        | County General Cost Group UAAL as of June 30, 2020  | \$1,652,787,000    | \$1,652,787,000  |
| ii       | County General Cost Group Projected Annual Payroll for 2020/2021 Plan Year                                | 1,095,933,901      | 1,095,933,901    |
| iii      | CERTNA Projected Annual Payroll for 2020/2021 Plan Year   | 236,399            | 130,167          |
| iv       | UAAL Allocated to CERTNA as of June 30, 2020 (i * iii / ii)   | 356,515            | 196,306          |
| <b>3</b> | <b>Determination of Actuarial Value of Asset (AVA) for CERTNA as of June 30, 2020 (Item 1 - Item 2iv)</b> | <b>\$1,314,422</b> | <b>\$12,940</b>  |
| <b>4</b> | <b>Determination of Market Value of Asset (MVA) for CERTNA as of June 30, 2020</b>                        |                    |                  |
| i        | Total SBCERA MVA As of June 30, 2020  | \$10,287,333,860   | \$10,287,333,860 |
| ii       | Total SBCERA AVA As of June 30, 2020  | 11,133,172,593     | 11,133,172,593   |
| iii      | MVA for CERTNA as of June 30, 2020 (Item 3 * i/ii)  | 1,214,559          | 11,957           |

**Table 2 Estimate of Projected Accumulated Assets for CERTNA as of March 31, 2021**

|              |   |                    |                 |
|--------------|---|--------------------|-----------------|
| <b>1</b>     | <b>MVA for CERTNA as of June 30, 2020 (See Table 1)</b>   | <b>\$1,214,559</b> | <b>\$11,957</b> |
| <b>2</b>     | <b>Determination of Projected Change in MVA From July 1, 2020 to March 31, 2021</b>                                       |                    |                 |
| i            | Employer Contributions from July 1, 2020 to March 31, 2021 <sup>(1)</sup>   | \$80,807           | \$30,702        |
| ii           | Member Contributions from July 1, 2020 to March 31, 2021 <sup>(1)</sup>   | 98,140             | 8,930           |
| iii          | Benefits Paid from July 1, 2020 to March 31, 2021 <sup>(1)</sup>  | 0                  | 0               |
| iv           | Total Cashflow from July 1, 2020 to March 31, 2021 <sup>(1)</sup>   | \$178,947          | \$39,633        |
| <b>3</b>     | <b>Actual Net Return on Market Value from July 1, 2020 to March 31, 2021<sup>(2)</sup></b>                                | <b>5.438%</b>      | <b>5.438%</b>   |
| <b>4</b>     | <b>Determination of Projected MVA for CERTNA as of March 31, 2021 (Item 1 * (1+ Item 3) + Item 2iv * (1+ (Item 3)/2))</b> | <b>\$1,464,413</b> | <b>\$53,317</b> |
| <b>Note:</b> |   |                    |                 |
| 1            | Excludes Survivor Benefit contributions and benefit payments.   |                    |                 |
| 2            | Estimated based on Valuation Assumed Rate of Return of 7.25% for 9 months.  |                    |                 |

**Table 3 Estimate of Unfunded Liability using Termination Basis for CERTNA as of March 31, 2021**

|              |   |             |           |             |
|--------------|---|-------------|-----------|-------------|
| <b>1</b>     | <b>Unfunded Liability using Termination Basis for CERTNA as of March 31, 2021</b>   |             |           |             |
| i            | Projected Assets as of March 31, 2021 (See Table 2, Item 4)   | \$1,464,413 | \$53,317  |             |
| ii           | Proportion of Projected Assets as of March 31, 2021 Attributable to CERTNA  | 0.651387    | 1.000000  |             |
| iii          | Projected Assets as of March 31, 2021 Attributable to CERTNA (i * ii)   | \$953,900   | \$53,317  | \$1,007,217 |
| iv           | Present Value of Future Benefits Determined using Market Based Interest Rate as of March 31, 2021   | 4,787,331   | 502,405   |             |
| v            | Proportion of Present Value of Future Benefits Determined using Market Based Interest Rate as of March 31, 2021 Attributable to CERTNA                              | 0.651387    | 1.000000  |             |
| vi           | Present Value of Future Benefits Determined using Market Based Interest Rate as of March 31, 2021 Attributable to CERTNA (iv * v)                                   | \$3,118,405 | \$502,405 | \$3,620,810 |
| vii          | Unfunded Liability or (Net Asset) as of March 31, 2021 Attributable to CERTNA (vi - iii)  | \$2,164,505 | \$449,088 | \$2,613,593 |
| <b>Note:</b> |   |             |           |             |
| 1            | The discount rates used are based on the PBGC rates for December 2020 (1.62% for 20 years and 1.40% thereafter).  |             |           |             |
| 2            | The District's funding obligation associated with the Survivor Benefit Reserve is \$0 since the District has no beneficiaries receiving payments from that reserve. |             |           |             |