



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 14

**MEETING DATE:** March 17, 2021

**SUBJECT:** Actuarial Funding Policy

**SUBMITTED FOR:** \_\_\_ Consent        X   **Deliberation and Action**      \_\_\_ **Receive and File**

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### **RECOMMENDATION**

Staff recommends the Board re-affirm the Actuarial Funding Policy.

### **PURPOSE**

This item supports the Strategic Management Plan goal to provide prudent and effective funding policies and practices that assist in producing low contribution rate volatility and plan sustainability.

### **DISCUSSION**

The Actuarial Funding Policy identifies the funding objectives and guidelines set by the Board. The Board last reviewed this policy in February 2018. As discussed in the previous agenda item, the current funding policy has demonstrated its resilience through economic cycles in keeping SCERS' funding on track over the long term to reduce the unfunded liability and support benefit payments. Therefore, no substantive changes are recommended.

The policy states the following objectives:

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

The three major funding components identified in the policy include:

- Actuarial Cost Method – SCERS uses the “Entry Age” method to determine the normal costs of retirement benefits. Under this method, the cost of an individual's pension is allocated on a level percent of payroll between the time employment starts (entry age) and the assumed retirement date. The goal is to spread the cost over the career of the member as a level percentage of payroll.
- Asset Smoothing Method – SCERS uses a 7-year period to 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 and rate-setting process.

- Amortization Policy – Generally, SCERS amortizes each year’s gains and losses, and changes in actuarial assumptions, over a “closed” 20-year period, to determine employer contribution rates.

The policy also authorizes the Board to consider changes to the smoothing or amortization periods during significant market events, or to phase-in other impacts, upon receiving the necessary analysis from its actuary.

A minor amendment to the policy is proposed to remove a reference to a special 10-year amortization period included in the June 30, 2010 valuation to amortize the liability for employees who participated in the 2010 Early Retirement Incentive Program (ERIP) for the Sacramento County Law Enforcement Managers Association (LEMA). The amortization period has now concluded.

### **ATTACHMENTS**

- Actuarial Funding Policy – amended version
- Actuarial Funding Policy – clean version

Prepared by:

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Eric Stern  
Chief Executive Officer



# AMENDED VERSION

## ~~STATEMENT OF ACTUARIAL~~ FUNDING POLICY

### **PURPOSE**

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

### **POLICY OBJECTIVES**

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

### **FUNDING REQUIREMENTS AND POLICY COMPONENTS**

SCERS' 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:

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

## POLICY

### A. 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.

### B. Asset Smoothing Method

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Market Value of Assets, shall be recognized in a level amount over 7 years in calculating the Actuarial Value of Assets. Net deferred investment gains or losses cannot exceed 30% of the Market Value of Assets.

The Board reserves the right to consider future ad-hoc adjustments to change the pattern of the recognition of the deferred investment gains or losses after a period of significant market change followed by a period of market correction upon receiving the necessary analysis from its actuary.

### C. Amortization Policy

1. ~~With the exception of a 10-year period used in the June 30, 2010 valuation to amortize the liability for employees who participated in the 2010 Early Retirement Incentive Program (ERIP) for the Sacramento County Law Enforcement Managers Association (LEMA), t~~The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2012 shall be amortized over a period of 23 years.
2. 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.
3. Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years.
4. 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;
  - b. The increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Government Code Section 31641.04, will be funded over a period of 5 years.
5. UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.

6. 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.
7. 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 actuarial accrued liability per Government Code Section 7522.52), such actuarial surplus and any subsequent 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 as the first of a new series of amortization layers, using the above amortization periods.

## **OTHER POLICY CONSIDERATIONS**

### **A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation**

In order to allow the employer 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 SCERS' UAAL in the following valuation.

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

### **B. Phase-in of Increase in Employer's Contribution Rate**

From time to time, the Board has considered phasing in extraordinary changes in employer contribution rates. The Board reserves the right to exercise such discretion based on facts and circumstances and after receiving input from its actuary.

### **C. Actuarial Assumptions Guidelines**

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.

Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board's best estimate of anticipated experience under SCERS and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

## DEFINITIONS

Actuarial Funding Method – A technique to allocate present value of projected benefits among past and future periods of service.

Actuarial Accrued Liability – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.

Normal Cost – The portion of the present value of projected benefits that is attributed to current service by the actuarial funding method.

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

Actuarial Value of Assets – The market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

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 – The portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Actuarial Accrued Liability from the Valuation Value of Assets.

Valuation Date – June 30 of every year.

## BACKGROUND

~~A comprehensive discussion of the proposed funding policy approved by the Board in 2013 is presented in a letter from Segal Consulting dated June 13, 2013. Prior to the 2013 funding policy, the Board last reviewed and changed the Asset Smoothing Method in 2009 from a 5-year smoothing period to a 7-year smoothing period. The Board formalized its actuarial funding practices as a policy in 2013.~~ SCERS' prior funding policy is as reflected in SCERS' annual actuarial valuation reports.

## RESPONSIBILITIES

Executive Owner: Chief Executive Officer

Review Frequency: As the Board determines necessary and/or as recommended by the Board's Consulting Actuary

## POLICY HISTORY

~~This~~ ~~The~~ ~~Statement of~~ Actuarial Funding Policy was prepared by the Board's actuaries at Segal ~~Consulting~~ and supersedes any previous statements. It is a working document and may be modified as the Board deems necessary.

Date	Description
02-21-2018	Board affirmed in revised policy format
06-19-2013	Board approved policy



# ACTUARIAL FUNDING POLICY

## PURPOSE

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

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Valuation Date – June 30 of every year.

## **BACKGROUND**

The Board formalized its actuarial funding practices as a policy in 2013. SCERS' prior funding policy is as reflected in SCERS' annual actuarial valuation reports.

## **RESPONSIBILITIES**

Executive Owner: Chief Executive Officer

Review Frequency: As the Board determines necessary and/or as recommended by the Board's Consulting Actuary

## **POLICY HISTORY**

The Actuarial Funding Policy was prepared by the Board's actuaries at Segal and supersedes any previous statements. It is a working document and may be modified as the Board deems necessary.

<b>Date</b>	<b>Description</b>
03-17-2021	Board re-affirmed policy
02-21-2018	Board affirmed in revised policy format
06-19-2013	Board approved policy