



TERMINATING EMPLOYER POLICY

PURPOSE

The purpose of this policy is to establish the funding obligations of employers that terminate their participation in SCERS. This policy is made pursuant to California Government Code Sections 31453, 31454, 31564, and 31564.2 of the County Employees' Retirement Law of 1937.

POLICY

The Board of Retirement's primary consideration is to ensure that the funding obligation of the terminating employer is properly determined and settled.

The liabilities attributable to the terminating employer will be determined in a manner that is consistent with the fact that, because there will be no reassessment of the terminating employer's funding obligation after the termination date, all risks are being retained by SCERS and no risks are retained by the terminating employer. To accomplish this intent, the *present value of future benefits* will be determined using a risk-free interest rate assumption as determined by SCERS.

The assets attributable to the terminating employer will be determined by SCERS in a manner that is consistent with the contribution obligations of the remaining employers. To accomplish this intent, assets will be allocated to the terminating employer so that the contribution rate towards the Unfunded Actuarial Accrued Liability (UAAL) will be left substantially unchanged for all of SCERS' remaining employers.

The terminating employer's funding obligation will be the excess, if any, of the present value of future benefits over the employer's accumulated assets, as determined under this policy by SCERS using a risk-free interest rate assumption. Settlement of the funding obligation will be made in either a lump sum or, if allowed by the Board, level annual installment payments by the employer up to 5 years following termination unless the Board of Retirement determines, at any time before the end of the installment period, that the payments determined based on that installment period are insufficient to ensure adequate funding of the terminating employer's obligation.

Terminating employers shall pay for the actuarial studies completed by SCERS' actuary necessary to determine these components.

The Board of Retirement has the sole authority to determine the installment period, the valuation of assets, the determination of liabilities, and the funding obligation. As such, third party actuarial studies by a terminating employer if different than the SCERS' actuary study will not be accepted in the determination of these components.

APPLICATION

Present Value of Future Benefits

The benefits payable by SCERS to current and former employees of the terminating employer will be determined as follows:

- All active members on the termination date will receive SCERS benefits for their credited service up to the termination date. As a result, they will take on the same status as terminated members.
- All vested terminated and retired members (and beneficiaries) will continue to receive future benefits from SCERS.
- The future benefits to be paid to SCERS members of the terminating employer will include those payable to:
 - Current retirees and/or beneficiaries of retirees with service while employed at the employer prior to the termination date;
 - Employees of the employer as of the termination date; and
 - Former employees of the employer entitled to either deferred vested benefits or a refund of their accumulated contributions plus credited interest.

The present value of future benefits will be determined based on:

- The service retirement and other benefits associated with years of service in SCERS as of the employer's termination date, for which members are entitled to SCERS benefits;
- Expected future cost-of-living adjustments on those benefits;
- For deferred vested members, expected final average earnings (including the effect of any reciprocity agreements);
- For deferred vested members, their expected age at retirement; and,
- For retired members and beneficiaries of retirees, the SCERS benefits earned for service with the terminating employer.

Actuarial Assumptions

The present value of future benefits will be calculated using the same actuarial assumptions as adopted by the Board of Retirement in the most recent actuarial valuation except that future benefit payments will be discounted to the termination date using risk-free interest rate assumptions, as determined by SCERS. Unless modified by SCERS, the risk-free interest assumptions selected for this purpose are the discount rates used by the Pension Benefit Guaranty Corporation (PBGC) to measure the sufficiency of assets for a corporate employer that is terminating its single-employer defined benefit pension plan. These PBGC rates are generally lower than the expected earnings based discount rate used in SCERS' actuarial valuation.

There will be no reassessment of the terminating employer's funding obligation after the termination date under this approach.

Determination of Terminating Employer's Assets

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

- The Actuarial Accrued Liability of the terminating employer as of SCERS' most recent actuarial valuation irrespective of the employer's anticipated termination.
- The UAAL of the terminating employer as of the most recent actuarial valuation.
- The non-investment change in assets from the most recent actuarial valuation date to the actual termination date.
- The accumulated assets at the termination date.
- The portion of any of SCERS' reserves or designations from which the terminating employer will not benefit as a result of the termination. An adjustment will be made as appropriate to include these reserves/designations in the terminating employer's assets.

Alternative Approach To Determine Present Value of Future Benefits (Including Ongoing Reassessment of Benefit Liability)

This extension to the Board's termination policy will only be used if the Board of Retirement approves a terminating employer's request for the alternative approach under the terms of the Declining Employer Payroll Policy. The terminating employer shall demonstrate to the Board of Retirement's satisfaction that the terminating employer can support the ongoing obligation under the alternative approach.

If approved by the Board of Retirement, the terminating employer's initial settlement of the funding obligation can be determined under the terms of the Declining Employer Payroll Policy, by measuring the present value of future benefits using the expected earnings based on the discount rate in SCERS' actuarial valuation—instead of a risk-free interest rate assumption—and comparing that with the terminating employer's assets as calculated above.

Annually, after the determination of the covered employer's initial funding obligation, as part of the regular annual actuarial valuation of the plan, SCERS' actuary will measure any change in the UAAL of the terminating employer due to actuarial experience or changes in actuarial assumptions. In addition to the amortized payments for the covered employer's initial UAAL determined as of the initial valuation, the employer will be liable for, and must contribute to SCERS, 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. If a negative UAAL (Surplus) exists, SCERS will hold the Surplus to be applied against any future UAAL of the covered employer.

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

BACKGROUND

Government Code sections 31564 and 31564.2 provide authority for participating employers to withdraw their employees and terminate their participation in SCERS. These sections give general direction as to how to value assets, liabilities, and final settlement funding, but they also give the retirement systems discretion on the specific details of determining these matters.

RESPONSIBILITIES

Executive Owner: Chief Executive Officer

POLICY HISTORY

Date	Description
06-19-2019	Board approved policy