

### Alameda County Employees' Retirement Association BOARD OF RETIREMENT

### ACTUARIAL COMMITTEE/BOARD MEETING NOTICE and AGENDA

### **ACERA MISSION:**

<u>To provide ACERA members and employers with flexible, cost-effective, participant-oriented</u> <u>benefits through prudent investment management and superior member services.</u>

> Wednesday, June 18, 2025 11:30 a.m.

LOCATION AND TELECONFERENCE	COMMITTEE MEMBERS			
ACERA	OPHELIA BASGAL, CHAIR	ELECTED GENERAL		
C.G. "BUD" QUIST BOARD ROOM				
475 14TH STREET, 10TH FLOOR	STEVEN WILKINSON, VICE	APPOINTED		
OAKLAND, CALIFORNIA 94612-1900	CHAIR			
MAIN LINE: 510.628.3000				
FAX: 510.268.9574	KEITH CARSON	APPOINTED		
The public can observe the meeting and	DOSS CLIDDINCED	ELECTED SAFETY		
offer public comment by using the below	RUSS CLIPPINGER	ELECTED SAFETY		
Webinar ID and Passcode after clicking on	FLIZARTEH ROCERS	FI FCTFD RFTIRFD		
the below link or calling the below call-in	ELIZADI EN ROUERS	ELECTED KETIKED		
number.				
https://zoom.us/join				
Call-In Number: 1 699 900 6833				
Webinar ID: 879 6337 8479				
Passcode: 699406				
For help joining a Zoom meeting,				
see: <u>https://support.zoom.us/hc/en-</u>				
<u>us/articles/201362193</u>				
<u>us/articles/201302195</u>				

The Alternate Retired Member votes in the absence of the Elected Retired Member, or, if the Elected Retired Member is present, then votes if both Elected General members, or the Safety Member and an Elected General member, are absent.

The Alternate Safety Member votes in the absence of the Elected Safety, either of the two Elected General Members, or both the Retired and Alternate Retired members.

This is a meeting of the Actuarial Committee if a quorum of the Actuarial Committee attends, and it is a meeting of the Board if a quorum of the Board attends. This is a joint meeting of the Actuarial Committee and the Board if a quorum of each attends.

Board and Committee agendas and minutes and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure) are posted online at <u>www.acera.org</u> and also may be inspected at 475 14<sup>th</sup> Street, 10<sup>th</sup> Floor, Oakland, CA 94612-1900.

Public comments are limited to four (4) minutes per person in total. The order of the items on the agenda is subject to change without notice.

*Note regarding accommodations*: If you require a reasonable modification or accommodation for a disability, please contact ACERA between 9:00 a.m. and 5:00 p.m. at least 72 hours prior to the meeting at <u>accommodation@acera.org</u> or at 510-628-3000.

## ACTUARIAL COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 2 of 2 – Wednesday, June 18, 2025

**Call to Order:** 11:30 a.m.

**Roll Call** 

<u>Public Input</u>

### Action Items: Matters for Discussion and Possible Motion by the Committee

1. Discussion to make revisions to the Actuarial Funding Policy and to the Interest Crediting Policy.

Recommendation

The Actuarial Committee recommends that the Board of Retirement update the Actuarial Funding Policy and the Interest Crediting Policy if the County provides an additional contribution on or before June 30, 2025.

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports

1. Presentation of the deterministic projections as part of the Risk Assessment Report based on the Actuarial Valuation and Review as of December 31, 2024.

> -Lisa Johnson -Eva Yum, Segal -Andy Yeung, Segal

<u>Trustee Input</u>

**Future Discussion Items** 

None

<u>Establishment of Next Meeting Date</u> TBD

<u>Adjournment</u>



### MEMORANDUM TO THE ACTUARIAL COMMITTEE

DATE: June 18, 2025

TO: Members of the Actuarial Committee

FROM: Lisa Johnson, Assistant Chief Executive Officer

SUBJECT: Proposed Revisions to the Actuarial Funding and Interest Crediting Policies

### **Executive Summary**

The County is considering a payment of approximately \$400 million in additional contributions to ACERA on or before June 30, 2025, to reduce the County's Unfunded Actuarial Accrued Liability (UAAL) for the County's General membership group. This payment is subject to the approval of a written agreement, by the Board of Retirement and County Board of Supervisors. A potential agreement with the County regarding the County's voluntary contributions will be brought before the Board of Retirement at its June 18, 2025, meeting.

Related proposed revisions to the Actuarial Funding and Interest Crediting Polices are shown in the attached redlined Actuarial Funding and Interest Crediting Policies. The proposed revisions are designed to ensure that (a) the County receives full credit for its additional contribution, and (b) ACERA's other participating employers and the Supplemental Retiree Benefit Reserve (SRBR) are not negatively impacted by the contribution. Consideration has been taken for the County not being the only participating employer with General members. Staff and the Actuary (Segal) have included the necessary revisions to the policies described below.

### Reserves, Asset Smoothing, and Interest Crediting

If the County deposits \$400 million on or before June 30, 2025, those funds will not have participated in earning the deferred investment gains or losses as of that date.<sup>1</sup> Thus, that extraordinary contribution should not be credited with interest associated with those deferred investment gains or losses, at the expense of the other employers and the SRBR.

The proposed revisions to the Policies resolve this issue by establishing a new reserve – the County General Voluntary Contribution Reserve ("Reserve") – to hold the County's voluntary contribution (excluding Livermore Area Recreation and Park District (LARPD) and Alameda Office of Education (ACOE) cost group).

A separate five-year asset smoothing schedule will be maintained for the voluntary additional General UAAL contribution. The schedule will exclude any known deferred investment gains or losses carried over from periods through June 30, 2025, before the County made an additional contribution. This separate asset smoothing schedule will apply to the amount in the County General Voluntary Contribution Reserve attributable to such voluntary contribution (including previously credited interest) until the contribution has been on deposit for five years. Thereafter, the same five-year asset smoothing schedule used for the other valuation reserves will be used for the outstanding balance of amount attributable to that contribution.

<sup>1</sup>ACERA has net deferred investment losses on a smoothed assets basis as of December 31, 2024. The actual net deferred investment gains or losses as of June 30, 2025, will be available after the close of the accounting period as of June 30, 2025.

A County voluntary General UAAL contribution to the County General Voluntary Contribution Reserve, and accrued interest thereon, will be transferred from that Reserve and used to offset the County's General UAAL contributions in the General excluding LARPD and ACOE cost group that would otherwise be required of the County over a period determined by the Board. The annual actuarial valuation report will show both (1) the County's General Contribution rate in the absence of such transfers and (2) the County's actual General contribution rate, which takes account of such transfers.

For Interest Crediting, the available earnings for crediting to the County General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30, 2025, before the County made their additional UAAL contribution to that Reserve.

#### Conclusion

The recommended policy revisions are squarely within the Board's constitutional and statutory authority regarding actuarial matters. See Cal. Const., art. XVI § 17(e); Gov't Code § 31454.7 (Legislature affirming, in 2020, the Board's "plenary authority to recommend adjustments to county and district contributions as necessary to ensure the appropriate funding of the system"). The County's payment of the contribution discussed in this memorandum will be subject to the Board of Retirement's and Board of Supervisor's approval of an agreement that we expect to bring to the Board of Retirement at its June 18, 2025, meeting. At a future meeting, ACERA will bring back the County's General employer contribution rates for 2025/2026 recommended by Segal to reflect the final amount of the County's extraordinary contribution (if it is made). See Bandt v. Board of Retirement (2006) 136 Cal.App.4th 140 (interim valuation to account for extraordinary contribution was appropriate). Further, to the extent additional revisions to the Actuarial Funding Policy and Interest Crediting Policy may be necessary to implement the terms of such an agreement, we will return to the Committee or Board with such further revisions, but Staff and the Actuary believe that the currently proposed revisions will establish the framework for ACERA to accept the contemplated contribution in an equitable manner. The proposed changes to the Actuarial Funding and Interest Crediting Policies are only needed if the proposed additional contributions are received on or before June 30, 2025. Further changes to the two policies will be needed if the proposed additional contributions are received on a date after June 30, 2025.

Attachment:

Actuarial Funding Policy Interest Crediting Policy



# Actuarial Funding Policy

### I. Purpose

The purpose of the Actuarial Funding Policy (Policy) is to record the funding objectives and policy set by the Board of Retirement (Board) for the Alameda County Employees' Retirement Association (ACERA). This Policy is to ensure the systematic funding of future benefit payments for members of ACERA. In addition, this Policy records guidelines established by the Board to assist in administering ACERA's retirement fund in a consistent and efficient manner.

### II. Assumptions

- A. ACERA is a public employee retirement system that was established in 1948 to provide retirement allowances and other benefits to all permanent General and Safety employees of the County of Alameda and participating special districts.
- B. These benefits are financed through a combination of employee and employer contributions along with the investment return on those contributions. Benefit and contribution level may vary within ACERA depending on the member's classification (General or Safety), tier and by participating employer (the County or one of the Special Districts).
- C. ACERA is governed by the provisions of the County Employees Retirement Law of 1937 (1937 Act). Alameda County adopted Article 5.5 of the 1937 Act. This Article creates a Supplemental Retiree Benefit Reserve (SRBR) through which the Board may pay supplemental benefits to retirees and beneficiaries.
- D. An actuarial valuation is performed annually as of December 31 of each year to determine the contribution rates for the fiscal year that begins 6 months after the valuation date.

- E. This Policy applies to "regular benefits" which refer to the retirement, disability, survivor and withdrawal benefits, and all cost-of-living increases that were adopted by the County of Alameda (or the special districts) and whose payments are guaranteed by those agencies. This Policy does not cover benefits financed by the SRBR. Also, this Policy does not cover the interest crediting procedure that is used by the Board to allocate earnings among the different reserves (i.e., the valuation reserves used for the "regular benefits" and SRBR for "excess earnings benefits").
- F. This Policy supersedes any previous actuarial funding policies.

#### III. Objectives

- A. To achieve long-term full funding of the cost of "retiree benefits" provided by ACERA;
- B. To seek reasonable and equitable allocation of the cost of "retiree benefits" over time;
- C. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals; and
- D. To the extent that it does not conflict with the above goals, the Board will try to pool risks across all portions of ACERA to the extent that groups of members have similar benefit provisions, contribution provisions and contribution histories. Separate cost sharing groups will be set up to recognize meaningful differences in benefit structure (e.g., Safety or General), employer contribution history (e.g., payment of Extraordinary Contributions like Pension Obligation Bond payments and credit from reimbursement of implicit retiree health benefit subsidy) and benefit changes for a specific employer.

### IV. Funding Requirements and Components

ACERA annual funding requirement for "regular benefits" is comprised of a payment of the Normal Cost and a payment towards 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 Policy:

A. <u>Actuarial Cost Method</u>: the techniques to allocate the total Present Value of Future Benefits to each year of service, including all past years;

- B. <u>Asset Smoothing Method</u>: 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
- C. <u>Amortization Policy</u>: the decisions on how, in terms of duration and pattern of contributions, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

#### 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. The Normal Cost shall be determined on an individual basis for each active member.

#### Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected market return, shall be recognized semi-annually in level amounts over 5 years in calculating the Actuarial Value of Assets. Total Net Deferred investment gains or losses cannot exceed 40% of the Market Value of Assets. Note that the Valuation Value of Assets is the Actuarial Value of Assets reduced by any applicable Non-Valuation Reserves, as defined in ACERA's Interest Crediting Policy.

A separate five-year asset smoothing schedule that excludes any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County made a voluntary additional Safety UAAL contribution and the Livermore Area Recreation and Park District (LARPD) made a voluntary additional General UAAL contribution will apply to the amounts in the County Safety Voluntary Contribution Reserve and LARPD General Voluntary Contribution Reserve attributable to such voluntary contributions (including previously credited interest) until the contributions have been on deposit for five years. Thereafter, the same five-year asset smoothing schedule used for the other valuation reserves will be used for the outstanding balance of amounts attributable to those contributions.

<u>A separate five-year asset smoothing schedule that excludes any known deferred</u> <u>investment gains or losses carried over from periods through June 30, 2025 before the</u> <u>County made a voluntary additional General UAAL contribution will apply to the amount</u> <u>in the County General Voluntary Contribution Reserve attributable to such voluntary</u> contribution (including previously credited interest) until the contribution has been on deposit for five years. Thereafter, the same five-year asset smoothing schedule used for the other valuation reserves will be used for the outstanding balance of amount attributable to that contribution.

#### Amortization Policy:

- A. The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of December 31, 2011 shall be amortized separately from any future changes in UAAL over a period of 21 years from December 31, 2011.
- B. After December 31, 2011, any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of December 31 will be amortized over a period of 20 years.
- C. After December 31, 2011, any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years.
- D. A County voluntary Safety UAAL contribution to the County Safety Voluntary Contribution Reserve, and accrued interest thereon, will be transferred from that Reserve and used to offset the County's Safety UAAL contributions that would otherwise be required of the County over a period determined by the Board. The annual actuarial valuation report will show both (1) the County's Safety contribution rate in the absence of such transfers, and (2) the County's actual Safety contribution rate, which takes account of such transfers.

An LARPD voluntary General UAAL contribution to the LARPD General Voluntary Contribution Reserve, and accrued interest thereon, will be transferred from that Reserve and used to offset LARPD's General UAAL contributions that would otherwise be required of LARPD over a period determined by the Board. The annual actuarial valuation report will show both (1) LARPD's General contribution rate in the absence of such transfers, and (2) LARPD's actual General contribution rate, which takes account of such transfers. A County voluntary General UAAL contribution to the County General Voluntary Contribution Reserve, and accrued interest thereon, will be transferred from that Reserve and used to offset the County's General UAAL<sup>1</sup> contributions in the General excluding LARPD and Alameda County Office of Education cost group that would otherwise be required of the County over a period determined by the Board. The annual actuarial valuation report will show both (1) the County's General contribution rate in the absence of such transfers, and (2) the County's actual General contribution rate, which takes account of such transfers.

- E. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
  - With the exception noted in 2., below, the change in UAAL as a result of any plan amendments will be amortized over a period of 15 years or less;
  - 2. The increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted under Section 31641.04 of the 1937 CERL (Golden Handshake), will be funded over a period of up to 5 years.
- F. UAAL shall be amortized over "closed" amortization periods so that the remaining amortization period for each layer decreases by one year with each actuarial valuation.
- G. 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.
- H. If an overfunding exists (i.e., the total of all UAAL 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 over 20 years as the first of a new series of amortization layers. If the surplus is in excess of 20% of the AAL per Section 7522.52 of

<sup>&</sup>lt;sup>1</sup> The County's UAAL is calculated annually by: (a) taking the UAAL for the entire cost group, (b) adjusting for the unused historical County credits from the Pension Obligation Bond and the implicit retiree health benefit subsidy and (c) allocating in proportion of the County's to all employers' projected payrolls within the cost group.

PEPRA, such surplus that is in excess of 20% of the AAL and any subsequent such surpluses 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. If those 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 ACERA's UAAL cost sharing groups with the exception that the conditions of Section 7522.52 apply to the total plan.

#### V. Other Policy Considerations

- A. Timing of Contributions
  - I. The contribution rates determined in each valuation (as of December 31) will apply to the fiscal year that begins after the date of the valuation. The UAAL contribution rates in the actuarial valuation are not adjusted in advance to account for this delay.
  - 2. Any change in contribution rate requirement that results from a plan amendment (including a change in member contribution rates) is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.
  - 3. For purposes of calculating employer contributions, the employer and member contributions are assumed to be made during consistent intervals throughout the year.

#### B. Cost Groups

Separate cost groups will be set up in order to recognize differences in benefit structure (e.g., General Tiers 1 through 4 and Safety Tiers 1, 2, 2C, 2D and 4), member contribution levels, employer contribution history (e.g., payment of Extraordinary Contributions like Pension Obligation Bond (POB) payments as well as any credit from reimbursement of implicit retiree health benefit subsidy), and other differences that the Board deems significant, such as benefit changes for a specific employer.

An employer may be contributing to one or more different cost groups depending on the benefit structure adopted for its employees.

- I. ACERA's total (employer and member) Normal Cost is determined separately for each group of members that have the same benefit formula (on a prospective basis) based on the Actuarial Cost Method described above. This means that to the extent that members have the same plan provisions for future benefit accruals, then the total Normal Cost (as a percentage of payroll) for those employers will be the same.
- 2. The net employer Normal Cost is calculated by reducing the total Normal Cost for expected member contributions. This is done separately for each of the different member contribution arrangements and benefit structures that exist for the various employers. The various member contribution arrangements are described in more detail in the actuarial valuation report.
- 3. ACERA's UAAL is determined separately based on contribution and benefit history. This means that there could be separate calculations of AAL for cost groups that have significantly different contribution histories, or prior benefit accrual provisions (e.g., General versus Safety). Plan assets are tracked separately for groups with different UAAL contribution histories unless otherwise established by the Board.
- 4. There is a further adjustment made to the UAAL contribution rate for LARPD General Tiers 3 and 4 to account for the District's Tier 3 employees receiving the 2.5% @ 55 formula for past service and the payment of the District's other UAAL as a level percent of payroll over a closed amortization period. This adjustment is described in more detail in the actuarial valuation report.
- 5. The outstanding balance in the County Safety Voluntary Contribution Reserve, and the LARPD General Voluntary Contribution Reserve and the County General Voluntary Contribution Reserve will be adjusted with interest under the Interest Crediting Policy and to account for transfers from those Reserves to the Employer Advance Reserve and the Cost-of-Living Reserve to offset the Safety UAAL contributions that would otherwise be required of the County Safety, and the General UAAL contributions that would otherwise be required of LARPD, and the General UAAL contributions that would otherwise be required of the County General. The Actuary will monitor the available contribution offset and recommend modifications to the Board if actual experience causes significant changes to the offset expected from those Reserves.

#### VI. Glossary of Funding Policy Terms

<u>Present Value of Future Benefits (PVB)</u>: the present value at a particular point in time of all projected future benefit payments for current plan members. The future benefit payments and the present 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 current members, including future service and salary increases for current active members.

<u>Actuarial Cost Method</u>: allocates a portion of the total cost (PVB) to each year of service, both past service and future service.

<u>Normal Cost (NC)</u>: the cost allocated under the Actuarial Cost Method to each year of active member service.

<u>Entry Age Actuarial Cost Method</u>: A funding method that calculates the Normal Cost as a level percentage of pay over the working lifetime of the plan's members.

<u>Actuarial Accrued Liability (AAL)</u>: 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.

<u>Market Value of Assets (MVA)</u>: the fair value of assets of the plan as reported in the plan's audited financial statements.

<u>Actuarial Value of Assets (AVA) or smoothed value</u>: a market-related value of the plan assets. The AVA tracks the market value of assets over time and smoothes out short-term fluctuations in market values.

<u>Valuation Value of Assets (VVA)</u>: 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 applicable Non-Valuation Reserves as defined in ACERA's Interest Crediting Policy. In particular, the VVA will not include assets allocated to the SRBR.

<u>Unfunded Actuarial Accrued Liability (UAAL)</u>: the positive difference, if any, between the AAL and the VVA.

Surplus: the positive difference, if any, between the VVA and the AAL.

<u>Actuarial Gains and Losses</u>: 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 (after smoothing) 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. Actuarial gains and losses include contribution gains and losses that result from actual contributions made being greater or less than the level determined under this Policy.

<u>Extraordinary Contribution</u>: A participating employer's voluntary UAAL contribution to ACERA that is in addition to the employer's required annual UAAL contributions.

#### VII. Policy Modification

The Actuarial Committee, or other committee designated by the Board, shall review this policy at least every three (3) years. The Committee shall make recommendations to the Board concerning any improvements or modifications it deems necessary.

#### VIII. Policy History

- A. The Board adopted this Policy on September 18, 2014.
- B. The Board approve this Policy, without revisions, November 8, 2018.
- C. The Board revised this Policy on May 20, 2021.
- D. The Board revised this Policy on October 21, 2021.
- E. The Board revised this Policy on October 17, 2024.
- E.F. The Board revised this Policy on \_\_\_\_.



# Interest Crediting Policy

### I. Purpose

The purpose of this policy is to establish the process to be used by the Alameda County Employees' Retirement Association ("ACERA") to credit semi-annual interest to reserves. This policy shall include, but may not be limited to, the following:

- A. Defining the reserves maintained by ACERA;
- B. Determining the regular and excess rates of interest at which reserves are to be credited; and
- C. Determining the priorities and sequence by which interest will be credited to the reserves.

### II. Objectives

The policy has been developed with the following objectives:

- A. To comply with appropriate legal and regulatory requirements.
- B. To maintain consistency between the reserving structure and the actuarial funding of ACERA.
- C. To limit, to the extent possible, the volatility of interest crediting from period to period.
- D. To limit, to the extent possible, the charging of losses to valuation reserves.
- E. To assure that the reserve values track the market value of assets over the long term.

#### III. Governing Law

ACERA is governed by provisions of the County Employees Retirement Law of 1937 ("CERL"), as well as other federal and State laws relating to public retirement systems.

CERL generally governs interest crediting and excess earnings. Under CERL, interest is credited on June 30 and December 31 each year to all contributions, reserves, and accounts in the retirement fund which have been on deposit for 6 months. Various reserves and designations are established and maintained by the Board under procedures adopted by the Board pursuant to Article 5.5 of CERL.

#### IV. Reserves

ACERA maintains the following reserves:

- A. Valuation Reserves
  - I. <u>Member Deposit Basic and Cost-of-Living Reserves</u> The reserves to which member contributions are credited. These contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon retirement of a member, transfers are made to Annuity and Cost-of-Living Reserves.
  - 2. <u>Employer Advance (Basic) Reserve</u> The reserve to which basic employer contributions are credited, including amounts made directly to the retirement plan as well as amounts made to the 401(h) Reserve Account for payment of estimated retiree health benefits (OPEB) for the next fiscal year but reimbursed with a transfer from the SRBR. Upon retirement of a member, a transfer is made to Pension (Current and Prior) Reserves (Pension).
  - <u>Cost-of-Living Reserve</u> The reserve to which cost-of-living employer contributions are credited and Member Cost-of-Living contributions for new retirees are transferred when the member retires.
  - 4. <u>Retired Member Reserves (Annuity & Pension)</u> The reserves to which transfers are made from Member Deposit Basic and Employer Advance (Basic) Reserve at the time of a member's retirement. The total of these reserves should equal the

present value of the total benefits (excluding cost-of-living increases) due all retirees and eligible beneficiaries had there been no actuarial gains or losses and changes in actuarial assumptions.

- <u>Survivor Death Benefit Reserve</u> The reserve is credited with the present value of death and survivor benefits expected to be paid upon the death of an active member.
- 6. County Safety Voluntary Contribution Reserve and Livermore Area Recreation and Park District (LARPD) General Voluntary Contribution Reserve – The reserves to which the County's voluntary contributions to pay Unfunded Actuarial Accrued Liability (UAAL) associated with the County's past and present Safety employees and LARPD's voluntary contributions to pay UAAL associated with LARPD's past and present General employees are credited. Pursuant to the Board's Actuarial Funding Policy, the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be subject to a separate fiveyear asset smoothing schedule that excludes any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County and LARPD made their voluntary contributions. Five years after the County and LARPD made such contributions, the same five-year asset smoothing schedule that is used to calculate interest for the other valuation reserves will then be used for amounts in the County Safety Voluntary Contribution Reserve and LAPRD General Voluntary Contribution Reserve that are attributable to such contributions.
- Geg. County General Voluntary Contribution Reserve The reserve to which the County's voluntary contribution to pay UAAL<sup>1</sup> in the General excluding LARPD and Alameda Office of Education cost group is credited. Pursuant to the Board's Actuarial Funding Policy, the County General Voluntary Contribution Reserve will be subject to a separate five-year asset smoothing schedule that excludes any known deferred investment gains or losses carried over from periods through June 30, 2025 before the County made their voluntary contribution. Five years after the County made such contribution, the same five-year asset smoothing schedule that

<sup>&</sup>lt;sup>1</sup> The County's UAAL is calculated annually by: (a) taking the UAAL for the entire cost group, (b) adjusting for the unused historical County credits from the Pension Obligation Bond and the implicit retiree health benefit subsidy and (c) allocating in proportion of the County's to all employers' projected payrolls within the cost group.

is used to calculate interest for the other valuation reserves will then be used for amounts in the County General Voluntary Contribution Reserve that is attributable to such contribution.

#### B. Non-Valuation Reserves

- I. <u>Contingency Reserve Account</u> The reserve is maintained in an amount equal to 1% of the total market value of assets to provide funds to offset future deficiencies in interest earnings, losses on investment or other contingencies. This reserve consists of the minimum 1% required pursuant to Section 31616. If the Contingency Reserve is negative, then it will be included as an offset to the valuation value of assets used to determine the employers' contribution rates in the annual actuarial valuation. The Board may transfer funds from the Contingency Reserve to different valuation reserves at different rates (including no transfer at all to one or more valuation reserves) in order to take account of the timing of the County Safety, and LARPD and County General's Extraordinary Contributions to ACERA in a manner that is equitable to all employers and the SRBR.
- 2. <u>401(h) Reserve Account</u> The reserve is credited with employer contributions in an amount sufficient for payment of estimated retiree health benefits (OPEB) for the next fiscal year. Once the employers make the contributions to this Account, there will be a reimbursement to the Employer Advance Reserve through a transfer from the SRBR.
- 3. <u>Supplemental Retiree Benefit Reserve (SRBR)</u> This reserve is used for the payment of benefits provided to members who are retired or beneficiaries as determined by the Board in accordance with Section 31618 of the CERL. For book-keeping purposes only, the SRBR Reserve is divided into two parts:
  - a. OPEB Reserve This reserve is used to fund discretionary retiree health benefits.
  - b. Non-OPEB Reserve This reserve is used to fund discretionary supplemental COLA benefits and to fund vested \$1,000 lump sum death benefits.
- C. Financial Statement Reserves and Accounts

Market Stabilization Reserve – The difference between the current market value of assets and the actuarial value of assets used to establish the above reserves.

#### V. Guidelines

- A. "Available Earnings" are determined on current period earnings of the fund calculated on the actuarial value of assets as determined under the Board's funding policy, plus any positive balance in the Contingency Reserve.
- B. Credit regular interest at the assumed annual valuation interest rate on the valuation reserves, the 401(h) Reserve Account and the SRBR. Earnings will be credited twice each year to all reserves that have been on deposit for six full months, in accordance with Section 31615 of the CERL. The crediting of interest will take effect on June 30 and December 31 of each year.
- C. Maintain a 1% Contingency Reserve Account required pursuant to Section 31616. (It should be noted that an additional amount up to 2% may be included at the discretion of the Board as permitted by Section 31616. The Board's current policy is not to include any such additional discretionary amount.)
- D. Any Available Earnings remaining after crediting full interest to valuation reserves, the 401(h) Reserve Account, the SRBR, and restoring the Contingency Reserve Account to its target level constitute Excess Earnings. The Excess Earnings will be allocated in the following manner:
  - I. Allocate one-half to the Unallocated SRBR.
  - Allocate the other one-half of the remaining earnings to the valuation reserves and the 401(h) Reserve Account in proportion to the amounts in each of those reserves.
- E. The Glossary of terms is attached as Exhibit A.

#### VI. Regular Interest Crediting Process

Step 1 Determine "Available Earnings" for accounting period as the sum of:

- A. Earnings of the retirement fund for the period based on actuarial value of assets, expressed in dollars. This could be a negative amount.
- B. Any positive balance in the Contingency Reserve Account.
- C. If sum of A. and B. is negative, such negative amount is credited only to the Contingency Reserve Account but not to the valuation reserves, the 401(h) Reserve Account or the SRBR.

Step 2 Credit interest to the valuation reserves, the 401(h) Reserve Account, and the SRBR

- A. If in the prior accounting period the Contingency Reserve Account was reduced below 1% to meet the interest crediting requirements under Step 2 in the prior period, transfer Available Earnings from the current period into the Contingency Reserve Account to restore it to 1% of total assets.
- B. Credit the valuation reserves, the 401(h) Reserve Account and the SRBR at a rate up to one-half of the assumed annual valuation interest rate, if there are enough Available Earnings.

Available Earnings outlined in Step 1 (A) above for crediting to the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30, 2021 before the County and LARPD made their additional UAAL contributions to those Reserves.

Available Earnings outlined in Step 1 (A) above for crediting to the County General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30, 2025 before the County made their additional UAAL contribution to that Reserve.

Interest will be credited to the County Safety Voluntary Contribution Reserve, and LARPD General Voluntary Contribution Reserve and County General Voluntary <u>Contribution Reserve</u> using the weighted outstanding balance of those Reserves after taking into consideration periodic transfers made from those Reserves to the Employer Advance Reserve and the Cost-of-Living Reserve to offset the County's Safety UAAL, and LARPD's General UAAL contribution and County's General UAAL requirements. The Board may transfer funds from the Contingency Reserve to different valuation reserves at different rates (including no transfer at all to one or more valuation reserves) in order to take account of the timing of the County <u>Safety, and LARPD and County</u> <u>General</u>'s Extraordinary Contributions to ACERA in a manner that is equitable to all employers and the SRBR.

C. Deduct the interest credited above from Available Earnings which includes the Contingency Reserve Account even if that Account was just restored to 1% in Step 2A<sup>2</sup>. If the amount of interest credited is more than the Available Earnings, credit in Step 2B only up to the amount of the Available Earnings.

#### Step 3 Maintain a Contingency Reserve of 1%

Transfer from any remaining Available Earnings from Step 2C into the Contingency Reserve the amount required to maintain a Contingency Reserve of 1% of total assets.

#### VII. Excess Interest Crediting Process

Apply any remaining available earnings (excess earnings) as follows:

- A. Allocate one-half of any remaining earnings to the SRBR.
- B. Allocate the other one-half of the remaining earnings to the valuation reserves and the 401(h) Reserve Account in proportion to the amounts in each of those reserves, on the balance in the fund for at least six full months.

The above allocation to the County Safety Voluntary Contribution Reserve and the LARPD General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30,

<sup>&</sup>lt;sup>2</sup> Restoring the Contingency Reserve to 1% in Step 2A and immediately including the amount in that Reserve as Available Earnings in Step 2C in the same interest crediting period would have the effect of not restoring the 1% Contingency Reserve for use in the subsequent interest crediting period until Step 3, i.e., until after crediting interest to all the reserves in Step 2B. This order of crediting interest to the Reserves has been researched by ACERA's legal counsel and determined to be a reasonable exercise of discretion available to the Board in accordance with Government Code Section 31616. It would also result in more stable pattern of interest crediting in some situations, based on scenarios developed by ACERA's actuary.

2021 before the County and LARPD made their additional UAAL contributions to those Reserves.

The above allocation to the County General Voluntary Contribution Reserve will be determined without regard to any known deferred investment gains or losses carried over from periods through June 30, 2025 before the County made their additional UAAL contribution to that Reserve.

The above allocation to the County Safety Voluntary Contribution Reserve, and the LARPD General Voluntary Contribution Reserve and the County General Voluntary <u>Contribution Reserve</u> will be made using the weighted outstanding balance of those Reserves after taking into consideration periodic transfers made from those Reserves to the Employer Advance Reserve and the Cost-of-Living Reserve to offset the County's Safety UAAL and LARPD's General UAAL contribution requirements.

#### VIII. Policy Review

This policy has been adopted by a majority vote of the ACERA Board, and can be amended by the ACERA Board by a majority vote. This policy is effective with the six-month interest crediting period ending December 31, 2015. This policy will be reviewed as deemed necessary.

#### IX. Policy History

- A. The Board adopted this policy on December 17, 2015.
- B. The Board approved this policy, without revisions, on November 8, 2018.
- C. The Board revised this policy on May 20, 2021.
- D. The Board reviewed this policy on October 21, 2021.
- E. The Board approved this policy, without revisions, on October 17, 2024.
- E.F. The Board reviewed this policy on



Interest Crediting Policy – Exhibit A

### Exhibit A

#### Glossary

Actuarial Terms and Definitions

The following list defines certain technical terms relevant to the Regular Interest and Excess Interest Crediting Policy for the convenience of the reader:

### Investment Return

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain, and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return reflects a smoothing of market gains and losses to avoid significant swings in the value of assets from one year to the next.

### Actuarial Value of Assets

Market value of assets less unrecognized market value gains and losses from each of the last five years. Market value gains and losses are equal to the difference between the actual market return and the expected return on the market value, and are recognized semiannually over a five-year period. The actuarial value of assets is limited to no greater than 140% or less than 60% of the market value of assets.

### Valuation Value of Assets

The actuarial value of assets reduced by the value of the Non-Valuation Reserves (401(h) Reserve Account, SRBR and Contingency Reserve (unless negative).

### Assumed Annual Valuation Interest Rate

This is the interest rate adopted by the Board from the actuarial valuation that established the employer and employee contribution rates for that fiscal year.

#### Extraordinary Contribution

A participating employer's voluntary UAAL contribution to ACERA that is in addition to the employer's required annual UAAL contributions.



### MEMORANDUM TO THE ACTUARIAL COMMITTEE

DATE: June 18, 2025

TO: Members of the Actuarial Committee

FROM: Lisa Johnson, Assistant Chief Executive Officer

SUBJECT: Actuarial Standard of Practice No 51 (ASOP No. 51), Risk Assessment, Including Review of Funded Status of the Pension Plan as of December 31, 2024

#### **Executive Summary**

On June 18, 2025, staff and Segal will present the results of a deterministic scenario test used to evaluate and address the risk exposure related to ACERA's Actuarial Valuation and Review as of December 31, 2024. In February 2019, staff obtained Board approval for Segal to provide risk reports that satisfy disclosure requirements for ASOP No. 51, effective for a measurement date on or after November 1, 2018 and for ACERA's December 31, 2024 valuation.

The purpose of the Risk Assessment Report is to comply with ASOP 51's requirement for system actuaries to identify, assess and disclose risks that may reasonably be anticipated to significantly affect the plan's future financial condition when measuring pension plan obligations or calculating employer contribution rates as part of the fund valuation. The report provides a quantitative analysis of some significant risks and potential impact, using relevant economic deterministic scenario tests. The report also contains disclosure of plan maturity measures and other historical information that are significant to understanding plan risks, per ASOP 51 requirements.

**Deterministic Scenario Tests:** Assesses the impact of one or more events on the plan's future financial position. Example: market return that is higher or lower than the assumed 7.00% in the next year.

**Recommended Scenario Test for ACERA:** Consider the impact of portfolio market return in 2025 at 0.00%, 7.00%, or 14.0% in the Risk Assessment Report based on the December 31, 2024 Actuarial Valuation.

#### Attachment:

ACERA Risk Assessment, Including Review of Funded Status of the Pension Plan as of December 31, 2024

Alameda County Employees' Retirement Association

# Risk Assessment

Based on the Actuarial Valuation and Review of the Pension Plan and SRBR as of December 31, 2024





180 Howard Street Suite 1100 San Francisco, CA 94105-6147 T 415.263.8200 segalco.com

June 9, 2025

Board of Retirement Alameda County Employees' Retirement Association 475 14<sup>th</sup> Street, Suite 100 Oakland, CA 94612

Dear Board Members:

We are pleased to submit this Risk Assessment based on the Actuarial Valuation and Review for the Alameda County Employees' Retirement Association as of December 31, 2024.

This risk report has been prepared at the request of the Board of Retirement to assist in administering the Pension Plan ("the Plan") and the Supplemental Retiree Benefit Reserve ("the SRBR"). It includes discussion of the key risks that may have an ongoing influence on the Plan's financial health, as well as various projections of future results under different investment return scenarios together with the assumptions adopted for the December 31, 2024 valuation.

The actuarial calculations in this report were completed under the supervision of Eva Yum, FSA, MAAA, Enrolled Actuary and Mehdi Riazi, FSA, MAAA, FCA, Enrolled Actuary.

The actuarial opinions expressed in this report were prepared by Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary, Eva Yum, FSA, MAAA, Enrolled Actuary, and Todd Tauzer, FSA, MAAA, FCA, CERA. 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 herein.

Sincerely,

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Todd Tauzer, FSA, MAAA, FCA, CERA Senior Vice President and Actuary

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Andy

Andy Yeung, ASA, MAAA, FCA, EA Vice President and Actuary

Eva Yum, FSA, MAAA, EA Vice President and Actuary

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## Introduction

The purpose of this report is to assist the Board of Retirement, participating employers and members and other stakeholders to better understand and assess the risk profile of the Plan, as well as the particular risks inherent in using a fixed set of actuarial assumptions in preparing the results in our December 31, 2024 funding valuation for the Pension Plan ("the Plan") of the Alameda County Employees' Retirement Association ("ACERA").

The results included in our December 31, 2024 funding valuation report for the Plan were prepared based on a specific set of economic and non-economic actuarial assumptions under the premise that future experience of ACERA would be consistent with those assumptions. While those assumptions are generally reviewed every three years (with the assumptions from the last triennial experience study adopted by the Board of Retirement for use starting with the December 31, 2023 valuation), there is a risk that emerging results may differ significantly as actual experience is fluid and will not completely track current assumptions.

It is important to note that this risk assessment is based on plan assets as of December 31, 2024. The Plan's funded status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. While it is impossible to determine the market conditions and other demographic experience of the plan in future valuations, the single year investment return scenario test included within this report provides an illustration of the impact of short-term market fluctuations on the plan. Additionally, Segal is available to prepare other projections of selected potential outcome scenarios upon request.

### Actuarial standard of practice on risk assessment

The Actuarial Standards Board approved the Actuarial Standard of Practice No. 51 (ASOP 51) regarding risk assessment when performing a funding valuation and it was effective with ACERA's December 31, 2018 actuarial valuation for benefits provided by the Pension Plan. ASOP 51 requires actuaries to identify and assess risks that "may reasonably be anticipated to significantly affect the plan's future financial condition." Examples of key risks listed that are particularly relevant to ACERA are asset/liability mismatch risk, investment risk, and longevity and other demographic risks. ASOP 51 also requires an actuary to consider if there is any ongoing contribution risk to the plan; however, it does not require the actuary to evaluate the ability or willingness of contributing entities to make contributions when due, nor does it require the actuary to assess the likelihood or consequences of future changes in applicable law.

The actuary's assessment can be strictly a qualitative discussion about potential adverse experience and the possible effect on future results, but it may also include quantitative numerical demonstrations where informative. The actuary is also encouraged to

Alameda County Employees' Retirement Association - Risk Assessment as of December 31, 2024



consider a recommendation as to whether a more detailed risk assessment would be significantly beneficial for the intended user to examine particular financial risks. When making that recommendation, the actuary will consider such factors as the plan's design, risk profile, maturity, size, funded status, asset allocation, cash flow, possible insolvency and current market conditions. This report incorporates a more detailed risk assessment as agreed upon with ACERA.

Besides information for the Pension Plan, we have included as part of the Plan design under Article 5.5 of the Statute the amount of "excess earnings" allocated from the Association's total investment portfolio to the Supplemental Retiree Benefit Reserve (SRBR) and the change in the sufficiency periods for benefits paid out of the SRBR. Based on our understanding of the Statute which authorizes the SRBR, the investment return assumption used in the funding valuation has been developed without considering the impact of any future excess earnings allocation to the SRBR. However, for informational purposes, we have included in this report the same disclosure of such allocation that we have previously included in our funding valuation report.

### Plan risk assessment

In Section 2, we start by discussing some of the historical factors that have caused changes in ACERA's funded status and employer contribution rates. It is important to understand how the combination of decisions and experience has led to the current financial status of the plan.

We follow this with a discussion of the most significant risk factors going forward. Based on our discussions with ACERA, we have provided a more detailed risk assessment that illustrates the impact on the funded status and employer contribution rates using relevant economic scenario tests. These tests illustrate the effect of future investment returns on the Plan's portfolio coming in differently from the current 7.00% annual investment return assumption used in the December 31, 2024 valuation.

ASOP 51 also requires disclosure of plan maturity measures and other historical information that are significant to understanding the risks associated with the Pension Plan and this information is included at the end of *Section 2*.

## **Executive summary**

### Historical funded status and employer contribution rates

The following table provides a summary of financial changes to the Pension Plan over the last 10 valuations. In the December 31, 2015 through December 31, 2024 valuations, the unfunded actuarial accrued liability (UAAL) and contribution rates decreased primarily as a result of additional voluntary County Safety and Livermore Area Recreation and Park District (LARPD)



General contributions made by the two employers to reduce their UAAL and associated contribution rates,<sup>1</sup> expected contributions made by all employers to reduce the UAAL principal, and favorable investment experience, offset somewhat by the strengthening of the actuarial assumptions (which increased the UAAL by \$621 million and increased the employer contribution rate by 5.47% of payroll) used in preparing the valuations and non-investment experience. More details on the impact of actuarial assumption changes on the UAAL and the total aggregate employer contribution rates can be found on pages 9 and 14, respectively.

Valuation Date	Funded Status Market Value Basis	UAAL Market Value Basis	Funded Status Valuation Value Basis	UAAL Valuation Value Basis	Employer Employer Contribution Rate (% of Payroll)
December 31, 2015	73.9%	\$2,055 million	77.3%	\$1,791 million	24.89%
December 31, 2024	87.6%	\$1,525 million	88.0%	\$1,477 million	23.67%

### **Supplemental Retiree Benefit Reserve**

In the 10 valuations from December 31, 2014 to 2023, the assets available in the SRBR have increased from about \$792 million to about \$1,192 million. We have not included the results from the December 31, 2024 SRBR valuation as the finalized results from that valuation will not be available until later in 2025. During this 10-year period, about \$382 million in excess earnings were allocated to the SRBR. In the December 31, 2014 valuation, it was estimated that the assets in the SRBR would be sufficient to pay OPEB SRBR benefits for about 23 years (until around 2037) and non-OPEB SRBR benefits for about 20 years (until around 2034). In the December 31, 2023 valuation, it was estimated that the assets in the SRBR would be sufficient to pay OPEB SRBR benefits for about 25 years (until around 2048) and non-OPEB SRBR benefits for about 24 years (until around 2047).<sup>2</sup>

### Future funded status and employer contribution rates

In this report, we highlight key factors besides assumption changes that may affect the financial profile of the Plan going forward. As investment experience in the past 10 years has had a significant impact on the funded status and employer contribution rates, we have also provided deterministic projections (using select scenarios for illustration) under hypothetical favorable and unfavorable future market experience so that the impact of market performance can be better understood.



<sup>&</sup>lt;sup>1</sup> The County made voluntary County Safety contributions of \$800 million on around June 29, 2021, and LARPD also made voluntary LARPD General contributions of \$12.611 million on around June 29, 2021.

<sup>&</sup>lt;sup>2</sup> During the past 10 years, the Board took several actions to preserve the sufficiency period to pay benefits from the SRBR. For instance, the Board eliminated the Active Death Equity Benefit and froze the maximum Monthly Medical Allowance for several years. In addition, there was a one-time transfer of \$54.2 million in assets as of December 31, 2023 from the OPEB SRBR to the non-OPEB SRBR to equalize the sufficiency periods to pay OPEB and non-OPEB benefits.

The total aggregate employer contribution rate for the Pension Plan is 23.67% of payroll in the December 31, 2024 valuation. Using a deterministic projection, this report shows the effect of unfavorable (0.00%), baseline (7.00%) or favorable (14.00%) hypothetical market returns for 2025 on key valuation results. In particular, the projected changes in the total aggregate employer contribution rate, relative to the total aggregate employer contribution rate of 23.67% in the December 31, 2024 valuation, in the December 31, 2025 valuation and in the December 31, 2030 valuation (after recognizing deferred investment gains or losses under the five-year asset smoothing period) are shown in the following table. These projections assume no further assumption changes or method changes, and no non-investment experience that differs significantly from the assumptions.

### Total Aggregate Employer Contribution Rate Change

Valuation Date	0.00% Return for 2025	7.00% Return for 2025	14.00% Return for 2025
December 31, 2025	+0.3% of payroll	-0.1% of payroll	-0.3% of payroll
December 31, 2030	+3.8% of payroll	-0.2% of payroll	-4.7% of payroll

Under the favorable (14.00%) hypothetical market return scenario for 2025, the Association would be expected to reach full funding by December 31, 2031 and the total employer contribution rate would be comprised of only normal cost contributions, resulting in a larger relative change from the baseline than the unfavorable (0.00%) hypothetical market return scenario (as provided in *Chart 6*). Furthermore, under all three hypothetical market return scenarios for 2025, the Association would be expected to reach full funding within 16 years and the total employer contribution rate would be expected to approach about 10% of payroll.<sup>1</sup> These scenarios illustrate that the Board's funding policy is very effective in achieving the general policy goal of achieving the long-term full funding of the costs of the benefits paid by ACERA.

### **Plan maturity measures**

During the past 10 valuations, the Association has become more mature as evidenced by an increase in the ratio of members in pay status (retirees and beneficiaries) to active members (as shown in *Section 2, Chart 12* on page 32) and by an increase in the ratios of plan assets and liabilities to active member payroll (as shown in *Section 2, Chart 13* and *Chart 14* on pages 33 and 34). We expect these trends to continue going forward. This is significant for understanding the volatility of both historical and future employer contribution rates because any increase in UAAL due to unfavorable investment and non-investment experience for the relatively larger group of non-active members would have to be amortized and funded over the payroll of the relatively smaller group of active members. Put another way, as a plan grows more mature, its contribution rate becomes more sensitive to investment volatility and

<sup>1</sup> This is the estimated normal cost rate for the employer, assuming no further assumption changes, method changes or experience that differs significantly from assumptions.



liability changes. As ACERA continues to mature with time, its risk profile will continue to evolve in this way and contributions will grow more sensitive to plan experience.



# **Evaluation of historical trends**

### Funded status and change in unfunded actuarial accrued liabilities

One common measure of ACERA's financial status is the funded ratio. This ratio compares the valuation and market value of assets to the actuarial accrued liabilities (AAL) of ACERA. The overall level of funding of ACERA has increased mainly as a result of additional voluntary County Safety and LARPD General contributions made by the two employers in 2021 to reduce their UAAL and associated contribution rates, expected contributions made by all employers to reduce the UAAL principal, and favorable investment experience. The strengthening of the economic and non-economic assumptions especially in the last three triennial experience studies has had a somewhat offsetting impact. Those new actuarial assumptions were used starting in the December 31, 2017, 2020, and 2023 valuations. The funded ratios and the unfunded actuarial accrued liabilities for the past 10 valuations from December 31, 2015 to 2024 measured using both actuarial and market value of assets bases are provided in *Chart 1*.

The factors that caused the changes in the UAAL in the past 10 valuations from December 31, 2015 to December 31, 2024 are specified in *Chart 2a*. The results in *Chart 2a* show the impact of the changes in the investment return assumption (from 7.60% to 7.25% in the December 31, 2017 valuation and from 7.25% to 7.00% in the December 31, 2020 valuation) together with the changes in the mortality tables and other assumptions. The changes in the assumptions from the last three triennial experience studies have a relatively large impact on the UAAL for ACERA; however, this impact was more than offset by the additional voluntary County Safety and LARPD General contributions in 2021. In particular, the assumption changes included in the last 10 valuations have had the following impact on the UAAL:

Valuation Date	Total UAAL Change
December 31, 2017	\$396 million
December 31, 2020	\$322 million
December 31, 2023	\$(97) million
Net Change	\$621 million

### UAAL Impact from Assumption Changes



*Chart 2a* shows that the investment experience has overall been favorable in the past 10 valuations, while there was unfavorable non-investment experience. *Chart 2a* also shows the strength of the Association's adopted funding policy working to reduce the unfunded liability consistently each year.

*Chart 2b* displays the aggregate change in unfunded liability by source over the last 10 years. In particular, it shows the continued effort made by ACERA in strengthening the actuarial assumptions. It is important to note that ACERA has taken strides in risk management and resulting long-term plan sustainability. This includes strengthening of assumptions, particularly the expected investment rate of return and mortality assumption (amount-weighted generational mortality tables for the Pension Plan) and adopting a funding policy that eliminates negative amortization and promotes intergenerational equity. Assumptions will continue to be reviewed in future experience studies to reflect the Plan's experience as well as future expectations. Those changes may result in higher contributions in the short term, but in the medium to longer term **avoid** both deferring contributions and allowing unmanaged growth in the UAAL. We believe these actions are essential for ACERA's fiscal health going forward.





### UAAL (\$ in Millions) and Funded Ratio as of December 31

Alameda County Employees' Retirement Association – Risk Assessment as of December 31, 2024



Chart 2a

### Factors that Changed UAAL for Year Ended December 31 (\$ in Millions)





Chart 2b



Combined Factors that Changed UAAL in the December 31, 2015 to 2024 Valuations (\$ *in Millions*)

**Note:** This summation of UAAL changes by source does not account for the timing of when they occurred nor any resulting compounding effects. Also, the investment experience shown is investment returns after asset smoothing compared to the expected returns.



### **Employer contribution rates**

The total (normal cost plus UAAL payment) aggregate employer contribution rates<sup>1</sup> determined in the December 31, 2015 to December 31, 2024 valuations are provided in *Chart 3*. The factors that caused the changes in the total aggregate employer rates are provided in *Chart 4*.

The employer's aggregate normal cost rates in *Chart 3* have stayed relatively flat during the last 10 years. There had been increases in the employer's normal cost rates due to the changes in the actuarial assumptions. However, those increases were offset to some degree by the plan changes under the Public Employees' Pension Reform Act of 2013 (PEPRA) as new members have been enrolled in the lower cost PEPRA benefit tiers starting on January 1, 2013. *Chart 4* shows that the changes in the investment return assumption (from 7.60% to 7.25% in the December 31, 2017 valuation and from 7.25% to 7.00% in the December 31, 2020 valuation), mortality tables and other assumptions from the last three triennial experience studies have by far the most impact on increasing the UAAL contribution rates for the employers. These UAAL rate increases were more than offset by the effect of the additional voluntary County Safety and LARPD General contributions in 2021.

Valuation Date	Total Aggregate Employer Contribution Rate Change
December 31, 2017	3.49% of payroll
December 31, 2020	2.44% of payroll
December 31, 2023	-0.46% of payroll
Net Change	5.47% of payroll

### Employer Contribution Rate Impact from Assumption Changes

<sup>1</sup> There are separate contribution rates determined in the valuation for the General and Safety membership groups and for the different benefit tiers and employers. The aggregate contribution rates have been calculated based on an average of those rates weighted by the payrolls of the active members reported in those valuations.





Employer Contribution Rates Calculated as of December 31 (% of Payroll)



# Factors that Affected Employer Contribution Rates Calculated as of December 31 (% of Payroll)





### **Supplemental Retiree Benefit Reserve**

As part of the Plan design, under Article 5.5 of the Statute, excess earnings<sup>1</sup> are allocated from the Association's total investment portfolio to the SRBR. As a result, besides paying benefits from the Pension Plan, ACERA also provides benefits using assets available in the SRBR. In the most recent actuarial study for the SRBR as of December 31, 2023, there was about \$1,192 million in assets available at the Board's discretion to provide non-vested retiree health subsidies<sup>2</sup> (other postemployment benefits or OPEB) and pension benefits<sup>3</sup> (non-OPEB). We have not included the results from the December 31, 2024 SRBR valuation as the finalized results from that valuation will not be available until later in 2025.

In the 10 valuations from December 31, 2014 to 2023, the assets available in the SRBR have increased from about \$792 million to about \$1,192 million. During this 10-year period, about \$382 million in excess earnings were allocated to the SRBR. In the December 31, 2014 valuation, it was estimated that the assets in the SRBR would be sufficient to pay OPEB SRBR benefits for about 23 years (until around 2037) and non-OPEB SRBR benefits for about 20 years (until around 2034). In the December 31, 2023 valuation, it was estimated that the SRBR would be sufficient to pay OPEB SRBR benefits for about 25 years (until around 2048) and non-OPEB SRBR benefits for about 24 years (until around 2047).<sup>4</sup>



<sup>&</sup>lt;sup>1</sup> In general, under the Board's interest crediting policy, earnings at one-half of the assumed annual valuation rate is credited every six months to reserves for the Pension Plan and the SRBR. After accumulating a 1% Contingency Reserve, any remaining earnings (excess earnings) are allocated on a 50/50 basis between the Pension Plan and the SRBR.

<sup>&</sup>lt;sup>2</sup> The non-vested OPEB benefits include the Monthly Medical Allowance, reimbursement for premiums required for dental, vision and enrollment in Medicare Part B program.

<sup>&</sup>lt;sup>3</sup> The non-vested pension benefits include supplemental COLAs and \$1,000 lump sum retiree death benefits.

<sup>&</sup>lt;sup>4</sup> During the past 10 years, the Board took several actions to preserve the sufficiency period to pay benefits from the SRBR. For instance, the Board eliminated the Active Death Equity Benefit and froze the maximum Monthly Medical Allowance for several years. In addition, there was a one-time transfer of \$54.2 million in assets as of December 31, 2023 from the OPEB SRBR to the non-OPEB SRBR to equalize the sufficiency periods to pay OPEB and non-OPEB benefits.



**Note:** There was a one-time transfer of \$54.2 million in assets as of December 31, 2023 from the OPEB SRBR to non-OPEB SRBR to equalize the sufficiency period to pay OPEB and non-OPEB benefits.



### Assessment of primary risk factors going forward

As discussed under the evaluation of historical trends section, the funded ratios and the employer contribution rates have changed mainly as a result of additional voluntary County Safety and LARPD General contributions made by the two employers in 2021 to reduce their UAAL and associated contribution rates, expected contributions made by all employers to reduce the UAAL principal, and favorable investment experience, offset somewhat by the changes in actuarial assumptions and non-investment experience.

In general, we anticipate the following risk factors to have an ongoing influence on those metrics in our future valuations:

• Asset/liability mismatch risk – the potential that future plan experience does not affect asset and liability values in the same way, causing them to diverge.

The most significant asset/liability mismatch risk to ACERA is investment risk, as defined below. In fact, investment risk has the potential to impact asset/liability mismatch in two ways. The first mismatch is evident in annual valuations; when asset values deviate from assumptions, those changes are typically independent from liability changes. The second mismatch can be caused when systemic asset deviations from assumptions may signal the need for an assumption change, which causes liability values and contribution rates to move in the opposite direction from any change in the expected experience of asset growth rates.

Asset/liability mismatch can also be caused by longevity and other demographic assumption risks, which affect liabilities but have no impact on asset levels. These risks are also discussed below.

It may be informative to use the asset volatility and liability volatility ratios and associated contribution rate impacts provided in the following plan maturity measures section when discussing with the employers the effect of unfavorable or favorable actuarial experience on the assets and the liabilities of ACERA.

• **Investment risk** – the potential that future market returns will be different from the current expected 7.00% annual return assumption.

The investment return assumption is a long-term, deterministic assumption for valuation purposes even though in reality market experience can be quite volatile in any given year. We have included deterministic scenario tests later in this section so that ACERA can better understand the risk associated with earning either less or more than the assumed rate.

The Board has a policy of reviewing the investment return and the other actuarial assumptions generally every three years, with the next triennial experience study (recommending assumptions for the December 31, 2026 actuarial valuations) scheduled to be performed in 2026.



• Longevity and other demographic risks – the potential that mortality or other demographic experience will be different than expected.

The move to using generational amount-weighted mortality tables that reflect data from public sector retirement plans was made in the 2020 experience study for use in the December 31, 2020 valuations. As can be observed from *Chart 2a, Chart 2b*, and *Chart 4*, there has been a relatively small impact on the UAAL and employer contribution rates due to non-investment related experience relative to the assumptions used in the last 10 valuations. Future mortality risks should be further mitigated by the updated tables.

• **Plan design considerations** – the potential SRBR excess earnings allocations and the impact to investment return for the Pension Plan.

As we have previously disclosed in the funding valuation report, the 7.00% investment return assumption used in the valuation for the Pension Plan has been developed without considering the impact of any future 50/50 excess earnings allocation to the SRBR. This is based on our understanding that Article 5.5 of the Statute, which authorizes the allocation of 50% of excess earnings to the SRBR, does not allow for the use of a different investment return for funding than is used for interest credit. This would appear in effect to preclude the prefunding of the SRBR through the use of an assumption lower than the market earnings assumption of 7.00%.

Using a "stochastic" projection approach, we estimated that the 50/50 allocation of future excess earnings would have about the same impact as an "outflow" (i.e., assets not available to fund the benefits in the Pension Plan) that would average approximately 0.75% of assets over time. We note that the amount of deferred and unrecognized investment gains/losses as of the date of the valuation could have an impact on the measurement of the 50/50 allocation of excess earnings in the short term. However, as the amount of deferred and unrecognized investment gains/losses has fluctuated over time<sup>1</sup>, we have continued to disregard those deferred and unrecognized investment gains/losses in measuring the 0.75% of assets impact.<sup>2</sup>

For informational purposes only, when we applied the results of our stochastic model to the December 31, 2024 valuation, we have estimated the approximate 0.75% of assets annual outflow would increase the actuarial accrued liability in that valuation using a 7.00% investment return assumption by \$1.14 billion and would increase the employer's UAAL contribution rate by about 5.5% - 6.0% of payroll.

• Contribution risk - the potential that actual future contributions will be different from expected future contributions.

ASOP 51 does not require the actuary to evaluate the ability or willingness of the plan sponsor or other contributing entity to make contributions to the plan when due. However, it does require the actuary to consider the potential for actual contributions deviating from expected in the future. ACERA's employers have a well-established practice of making the actuarially determined contribution



<sup>&</sup>lt;sup>1</sup> For instance, there were deferred and unrecognized investment **gains** of \$1,133 million as of December 31, 2021 and deferred and unrecognized **losses** of \$83 million as of December 31, 2024.

<sup>&</sup>lt;sup>2</sup> The impact of the 50/50 allocation of future excess earnings will be updated when we perform the next triennial experience study recommending assumptions for use starting with the December 31, 2026 valuation.

(ADC) determined in the annual actuarial valuations, based on the Board of Retirement's Actuarial Funding Policy. As a result, in practice ACERA has essentially no contribution risk.

Furthermore, when ADCs determined in accordance with ACERA's Actuarial Funding Policy are made in the future by the employers (and contributions required by the statute are made by the employees), it is anticipated that the Association would have enough assets to provide all future benefits promised to the current members enrolled in the Association, if all of the actuarial assumptions used in the valuation are met.

ASOP 51 also lists interest rate risk as an example of a potential risk to consider. However, the valuations of the Plans' liabilities are not linked directly to market interest rates, so the resulting interest rate risk exposure is minimal.

### Scenario tests

Since the funded ratio, UAAL and the employer contribution rates have fluctuated as a result of deviations in investment experience in the last 10 valuations, in this section we have examined this risk for ACERA using projections under a deterministic approach.

To measure such risk, we have included scenario tests to study the change in the UAAL and employer contribution rates if ACERA were to earn a market return higher or lower than the assumed rate of 7.00% in the year following the December 31, 2024 valuation. In *Charts 6, 7,* and *8*, we show the total aggregate employer contribution rates, funded ratios, and UAAL, respectively, for the Plan, assuming the Plan's portfolio market return in 2025 will be as follows:

- Scenario 1: 0.00% market return for 2025
- Scenario 2: 7.00% market return for 2025 (baseline)
- Scenario 3: 14.00% market return for 2025

All other assumptions used in the projections can be found in *Appendix A*, including the assumption that ACERA will earn the assumed 7.00% market return per year beginning January 1, 2026 under all three scenarios.

The following table summarizes the projected total aggregate employer contribution rate changes for the Plan, relative to the total aggregate employer contribution rate of 23.67% in the December 31, 2024 valuation, in the next valuation (i.e., December 31, 2025) as well as in the December 31, 2030 valuation after recognizing deferred investment gains and losses in the (smoothed) actuarial value of assets. These results assume no further assumption changes, method changes or experience that differs significantly from the assumptions.



Total Aggregate	Employer	Contribution	Rate	Change
Total Aggregate	Linployer	Contribution	Nate	Change

Valuation Date	0.00% Return for 2025	7.00% Return for 2025	14.00% Return for 2025
December 31, 2025	+0.3% of payroll	-0.1% of payroll	-0.3% of payroll
December 31, 2030	+3.8% of payroll	-0.2% of payroll	-4.7% of payroll

Under the favorable (14.00%) hypothetical market return scenario for 2025, the Association would be expected to reach full funding by December 31, 2031 and the total employer contribution rate would be comprised of only normal cost contributions, resulting in a larger relative change from the baseline than the unfavorable (0.00%) hypothetical market return scenario (as provided in *Chart 6*). Furthermore, under all three hypothetical market return scenarios for 2025, the Association would be expected to reach full funding within 16 years and the total employer contribution rate would be expected to approach about 10% of payroll.<sup>1</sup> These scenarios illustrate that the Board's funding policy is very effective in achieving the general policy goal of achieving the long-term full funding of the costs of the benefits paid by ACERA.

While we have not assigned a probability on the 2025 market return coming in at these rates, the Board and other stakeholders monitoring ACERA can use these results to interpolate in order to estimate the funded status and employer contribution rates for the December 31, 2025 and next several valuations as the actual investment experience for the 2025 year becomes available. Additionally, comparable experience in upcoming future years is likely to have a similar impact on the Association absent any significant plan or assumption changes.

### Surplus management considerations

Depending on the actuarial experience, ACERA could surpass 100% funded within the next 10 years, which would put ACERA "in surplus." It is important to keep in mind that in an actuarial funding context, surplus differs from the common dictionary definition of "an amount left over after all requirements are met" and instead means that a plan is at or ahead of its funding schedule at a specific measured point in time. In other words, surplus indicates that current assets are sufficient to cover all costs associated with members' past service.

The Government Finance Officers Association (GFOA) recommends that every public plan's funding policy include a specific section on surplus, described as a "surplus management policy."<sup>2</sup> This surplus management policy would be "a proactive policy that helps guide the system in the prudent management of potential surplus, including considerations for items such as contribution levels, risk



<sup>&</sup>lt;sup>1</sup> This is the estimated normal cost rate for the employer, assuming no further assumption changes, method changes or experience that differs significantly from assumptions.

<sup>&</sup>lt;sup>2</sup> See GFOA's Best Practice on "Core Elements of a Funding Policy for Governmental Pension and OPEB Plans."

reduction opportunities, stabilization reserves and benefit levels." ACERA's funding policy does anticipate the possibility of surplus and requires any surplus over 120% (and after other conditions in PEPRA are met) to be amortized over a rolling 30-year period, which is considered an industry model practice.<sup>1</sup> In addition to the amortization of surplus, the following considerations are recommended by the GFOA:

- Consider current actuarial assumptions and the level of risk inherent in those assumptions.
- Evaluate possible risk reduction strategies, including the risk-reward tradeoff in the current asset portfolio, along with the plan's current funding policies.
- Consider how to mitigate contribution rate volatility in surplus, including buffers<sup>2</sup> above 100% funded before amortizing surplus as a credit, and mechanisms such as smoothing in contribution rate reductions related to surplus.
- Work with the employer to ensure an understanding of what surplus is (and is not) and establish clear guard rails around acceptable conditions for possible benefit enhancements, especially permanent ones.

Generally, Segal agrees that before reaching 100% funded is the ideal time to consider establishing a surplus management policy which considers future contribution volatility mitigation and other potential risk mitigation strategies. Following our discussions with the Board of Retirement on August 15, 2024 and with the Joint Board of Retirement and Board of Supervisors on October 22, 2024, we would continue to follow up with ACERA staff in exploring an opportune time to further solidify some of those strategies that if approved by the Board of Retirement could further stabilize the employers' contribution rates as the Plan approaches 100% funded status. We are available to continue to work with the Board on any surplus management considerations that may be desired.

### **SRBR sufficiency projection**

We also provided in *Charts 9*, *10* and *11* the projection of the SRBR assets as well as the sufficiency period under each of the hypothetical market return Scenarios 1, 2 and 3, respectively. These projections are based on the preliminary results of the SRBR preview letter as of December 31, 2024. In that letter, it was estimated that the assets in the SRBR would be sufficient to pay OPEB SRBR benefits for about 21 years (until around 2045) and non-OPEB SRBR benefits for about 24 years (until around 2048), which is roughly 3 fewer years of sufficiency for the OPEB benefits and 1 additional year for the non-OPEB benefits compared to the prior year's valuation. The main reason for the decrease to the OPEB sufficiency period was the updated estimates of the Plan's higher implicit subsidy reimbursements, which lowered the sufficiency period by almost 2 years. The main reason for the increase in the non-OPEB sufficiency period was the lower actual inflation compared to the COLA assumption, which decreased the supplemental COLA costs. Further details can be found in the December 31, 2024 SRBR preview letter.



<sup>&</sup>lt;sup>1</sup> See the Conference of Consulting Actuaries' white paper on "Actuarial Funding Policies and Practices for Public Pension Plans."

<sup>&</sup>lt;sup>2</sup> As previously mentioned, ACERA's funding policy already includes a buffer of 20% (along with other conditions in PEPRA being met), before any surplus can be amortized.



Projected Employer Contribution Rates Under Hypothetical Market Return Scenarios for 2025 (% of Payroll)

Alameda County Employees' Retirement Association - Risk Assessment as of December 31, 2024

Segal 24

Segal 25



Projected Funded Ratios Under Hypothetical Market Return Scenarios for 2025 (Valuation Value of Assets Basis)

Alameda County Employees' Retirement Association – Risk Assessment as of December 31, 2024

\$2,000

– \$ in Millions)





Chart 8

Segal 26



**Note:** Without any future excess earnings, assets in the SRBR would only be sufficient to pay non-OPEB benefits through 2047 and OPEB benefits through 2043.





**Note:** Without any future excess earnings, assets in the SRBR would only be sufficient to pay non-OPEB benefits through 2048 and OPEB benefits through 2044.





**Note:** Without any future excess earnings, assets in the SRBR would only be sufficient to pay non-OPEB benefits through 2049 and OPEB benefits through 2046.



### Plan maturity measures that affect primary risks

The annual actuarial valuation considers the number and demographic characteristics of covered members, including active members and non-active members (inactive members, retirees and beneficiaries). Over the past 10 valuations from December 31, 2015 to December 31, 2024, ACERA has become more mature as indicated by the continued increase in the ratio of non-active to active members covered by the Association as shown in *Chart 12*. This chart also shows the ratio of members in pay status (retirees and beneficiaries) to active members. This ratio excludes the inactive members who have relatively smaller liabilities. The increase in the ratios is significant because any increase in UAAL due to unfavorable future investment and non-investment experience for a plan with a relatively larger group of non-active members would have to be amortized and funded using the payroll of a relatively smaller group of active members.

Another indicator of a more mature plan is relatively large amounts of assets and/or liabilities compared to active member payroll, which leads to increasing volatility in the level of required contributions. The **Asset Volatility Ratio (AVR)**, which is equal to the market value of assets divided by total payroll, provides an indication of contribution sensitivity to changes in the current level of assets and is detailed in *Chart 13*. The **Liability Volatility Ratio (LVR)**, which is equal to the actuarial accrued liability divided by payroll, provides an indication of the contribution sensitivity to changes in the current level of liability and is also detailed in *Chart 14*. Over time, the AVR should approach the LVR because when a plan is fully funded the assets will equal the liabilities. As such, the LVR also indicates the long-term contribution sensitivity to the asset volatility, as the plan approaches full funding.

In particular, the ACERA's AVR was 7.6 as of December 31, 2024. This means that a 1% asset gain or loss in 2025 (relative to the assumed investment return) would amount to 7.6% of one year's payroll. Similarly, ACERA's LVR was 8.7 as of December 31, 2024, so a 1% liability gain or loss in 2025 would amount to 8.7% of one year's payroll.<sup>1</sup> Based on ACERA's policy to amortize actuarial experience over a period of 20 years, there would be a 0.6% of payroll decrease or increase in the required contribution rate for each 1% asset gain or loss, respectively, and a 0.6% of payroll decrease or increase in the required contribution rate for each 1% liability gain or loss, respectively.

It is also informative to note that the AVR and LVR for ACERA's Safety and General (LARPD) groups are higher than for the General (non-LARPD) groups. This means that both investment volatility and assumption changes will have a greater impact on the contribution rates of the Safety and General (LARPD) groups than on the contribution rates of the General (non-LARPD) groups. This is illustrated in the following table:

<sup>1</sup> The 7.6 and 8.7 are the AVR and LVR, respectively, for the entire Association. There are considerable differences in those ratios for the General and Safety membership groups.



Plan	AVR	10% Investment Loss Compares to	LVR	10% Liability Change Compares to
General (non-LARPD)	6.2	62% of payroll	7.3	73% of payroll
General (LARPD)	20.0	200% of payroll	20.2	202% of payroll
Safety	14.9	149% of payroll	15.7	157% of payroll
Combined	7.6	76% of payroll	8.7	87% of payroll

Alameda County Employees' Retirement Association - Risk Assessment as of December 31, 2024











### Asset Volatility Ratios as of December 31



**Segal** 34



### Liability Volatility Ratios as of December 31

Alameda County Employees' Retirement Association - Risk Assessment as of December 31, 2024

# Appendix A: Actuarial Assumptions and Methods

Unless otherwise noted, the results included in this report have been prepared based on the assumptions and methods used in preparing the December 31, 2024 actuarial valuation.

### **Deterministic projection**

In addition, we have prepared the deterministic projection using the following assumptions and methods applied in the December 31, 2024 actuarial valuation:

- Non-economic assumptions will remain unchanged.
- Retirement benefit formulas will remain unchanged.
- 1937 Act and PEPRA statutes will remain unchanged.
- UAAL amortization method will remain unchanged (i.e., 20-year layers for actuarial gains/losses and assumption changes, 15-year layers for plan changes, and level percent of pay).
- Economic assumptions will remain unchanged, including the annual 7.00% investment earnings and 3.00% active payroll growth assumptions.
- Deferred investment gains and losses will be recognized over a five-year period.
- All other actuarial assumptions used in the December 31, 2024 actuarial valuations will be realized.

## **Other considerations**

This risk report has been prepared for the exclusive use and benefit of ACERA, based upon information provided by ACERA and ACERA's other service providers or otherwise made available to Segal at the time this document was created. The results presented in this report are intended to provide insight into key plan risks that can inform financial preparation and future decision making. However, Segal makes no representation or warranty as to the accuracy of any forward-looking statements and does not guarantee any particular outcome or result. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from





# Appendix A: Actuarial Assumptions and Methods

these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprising of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

This document should only be copied, reproduced, or shared with other parties in its entirety as necessary for the proper administration of the Plan. This document does not constitute legal, tax or investment advice or create or imply a fiduciary relationship. ACERA is encouraged to discuss any issues raised with ACERA's legal, tax and other advisors before taking, or refraining from taking, any action.



# Appendix B: Detailed Scenario Test

The following page contains an illustration of projected employer contribution rates and projected employer actuarially determined contribution amounts.

In addition to the assumptions outlined in *Appendix A* of this report, we have used the following market return assumptions to model three hypothetical market return scenarios:

Scenario 1: Assumed market return of 0.00% for 2025, 7.00% market return thereafter

Scenario 2: Assumed market return of 7.00% for 2025, 7.00% market return thereafter

Scenario 3: Assumed market return of 14.00% for 2025, 7.00% market return thereafter

While we have not assigned a probability on the 2025 market return coming in at these rates, the Association can use these results to interpolate in order to estimate the employer contribution rates and amounts for the December 31, 2025 and next several valuations as the actual investment experience for 2025 becomes available. Additionally, comparable experience in upcoming future years is likely to have a similar impact on the Plan absent any significant plan or assumption changes.



# Appendix B: Detailed Scenario Test

Valuation Date	Employer Rate Scenario 1	Employer Rate Scenario 2	Employer Rate Scenario 3	Calendar Year	Employer Contributions Scenario 1	Employer Contributions Scenario 2	Employer Contributions Scenario 3
December 31, 2024	23.7%	23.7%	23.7%	2025	\$335	\$335	\$335
December 31, 2025	24.0%	23.5%	23.4%	2026	348	346	345
December 31, 2026	26.1%	24.4%	23.2%	2027	370	359	352
December 31, 2027	26.3%	24.3%	21.8%	2028	406	379	355
December 31, 2028	26.8%	23.9%	20.4%	2029	423	387	343
December 31, 2029	27.4%	23.7%	19.4%	2030	444	393	333
December 31, 2030	27.5%	23.5%	19.0%	2031	465	401	328
December 31, 2031	27.3%	23.3%	10.5%	2032	479	409	294
December 31, 2032	16.0%	13.3%	10.2%	2033	440	374	187
December 31, 2033	15.9%	13.2%	10.2%	2034	296	247	189
December 31, 2034	16.4%	10.1%	10.1%	2035	307	238	194
December 31, 2035	17.1%	10.1%	10.1%	2036	326	199	199
December 31, 2036	16.8%	10.1%	10.1%	2037	345	204	204
December 31, 2037	14.2%	10.0%	10.0%	2038	337	210	210
December 31, 2038	13.8%	10.0%	10.0%	2039	304	216	216
December 31, 2039	12.3%	10.0%	10.0%	2040	302	221	221
December 31, 2040	9.9%	9.9%	9.9%	2041	264	227	227
December 31, 2041	9.9%	9.9%	9.9%	2042	233	233	233
December 31, 2042	9.9%	9.9%	9.9%	2043	239	239	239
December 31, 2043	9.9%	9.9%	9.9%	2044	246	246	246
December 31, 2044	9.9%	9.9%	9.9%	2045	253	253	253

### Illustration of Projected Employer Contribution Rates and Amounts (\$ in Millions)

**Note:** The employer contribution rate is effective about six months after the valuation date. Therefore, the dollar contribution for a calendar year is based on the 12/31 valuations right before that calendar year and the 12/31 valuation two years before the calendar year. For example, the contribution for the first six months of calendar year 2025 is based on the December 31, 2023 valuation and the contribution for the last six months of calendar year 2025 is based on the December 31, 2024 valuation.



# Appendix C: Definition of Pension Terms

The following list defines certain technical terms as they relate to ACERA for the convenience of the reader:

Term	Definition
Actuarial accrued liability for actives	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial accrued liability for retirees and beneficiaries	Single-sum present value of the lifetime benefits expected to be paid to the existing retirees and beneficiaries. This sum takes account of life expectancies appropriate to the ages of the annuitants and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial value of assets	The value of the Plan's assets that is equal to the market value of assets less unrecognized returns in each of the last 10 six-month interest crediting periods. Unrecognized returns are equal to the difference between the actual market return and the expected return on the market value and are recognized semi-annually over a five-year period.
Employer normal cost	The portion of the normal cost to be paid by the employer. This is equal to the normal cost less expected member contributions.
Funded ratio	The ratio of the actuarial value of assets to the actuarial accrued liability. Plans sometimes also calculate a market funded ratio, using the market value of assets, rather than the actuarial value of assets.
Generational mortality	A generational mortality table provides dynamic projections of mortality experience for each cohort of current and future retirees. For example, the mortality rate for someone who is 65 next year will be slightly less than for someone who is 65 this year. In general, using generational mortality anticipates increases in the cost of the Plan over time as participants' life expectancies are projected to increase. This is in contrast to updating a static mortality assumption with each experience study as we had proposed in experience studies prior to 2017.
Normal cost	The amount of contributions required to fund the portion of the level cost of the member's projected retirement benefit that is allocated to the current year of service.
Unfunded actuarial accrued liability	The excess of the actuarial accrued liability over the actuarial value of assets. This value may be negative, in which case it may be expressed as a negative unfunded actuarial accrued liability, also called the funding surplus or an overfunded actuarial accrued liability.
Valuation value of assets	The actuarial value of assets reduced by the value of non-valuation reserves.

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