Actuarial Funding Policy

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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 years of service, including all past years;

B. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and

C. Amortization Policy: 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 before the County makes a voluntary additional Safety UAAL contribution will apply to the amounts in the County Safety 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 amounts 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 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.

E. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:

1. 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) and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of 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. 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.

I. These amortization policy components will apply separately to each of ACERA's UAAL cost sharing groups.

V. Other Policy Considerations

A. Timing of Contributions

1. 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.

1. 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 will be adjusted with interest under the Interest Crediting Policy and to account for transfers from that Reserve 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. 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 that Reserve.

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.

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

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

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

Actuarial Accrued Liability (AAL): 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.

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

Actuarial Value of Assets (AVA) or smoothed value: 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.

Valuation Value of Assets (VVA): 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.

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

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

Actuarial Gains and Losses: 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.

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.