



Withdrawing Employer Policy

I. Purpose

This Policy establishes guidelines to be applied when a participating ACERA employer ceases to provide ACERA membership for its active ACERA members. Nothing in this Policy limits the Board of Retirement's (Board) authority to take any lawful action it determines is necessary.

II. Objectives

- A. Pursuant to Gov't Code §§ 31454.7, 31564.2, 31580.1, 31584, 31585, and other applicable law, a withdrawing employer remains liable and must make the required appropriations and transfers to ACERA for the employer's share of liabilities attributable to its officers and employees.
- B. Gov't Code §31564.2(d) provides, in part, that "[t]he funding of the retirement benefits for the employees of a withdrawing agency is solely the responsibility of the withdrawing agency or the board of supervisors. Notwithstanding any other provision of the law, no contracting agency shall fail or refuse to pay the employer's contributions required by this chapter within the applicable time limitations. In dealing with a withdrawing district, the board of retirement shall take whatever action needed to ensure the actuarial soundness of the retirement system."
- C. Gov't Code §31454.7 provides: "Under all circumstances, the county and districts shall each remain liable to the retirement system for their respective share of any unfunded actuarial liability of the system, as determined by the board."
- D. The general principle applied in this Policy is to establish the funding obligation of withdrawing employers based on:
 - 1. The value of future benefits expected to be paid by ACERA to the withdrawing employer's employees, retirees, beneficiaries and deferred members; minus
 - 2. The value of ACERA assets allocated to the withdrawing employer.
 - 3. In cases involving members who worked at more than one ACERA employer or who earned service at a County department before it was spun off into a District,

the Board retains discretion on how liabilities for such members should be allocated to the withdrawing employer.

- E. It is the Board's intent to allow a withdrawing employer to satisfy its funding obligation in a manner that provides the employer reasonable flexibility, but primary consideration will be given to ensuring the funding obligation of the withdrawing employer is properly determined and satisfied. This may require redetermination of the funding obligation of the employer following the date the employer initiates its withdrawal.
- F. This Policy covers only those withdrawing employers (i) who cease to provide ACERA membership for their active employees (i.e., both current actives and new hires), (ii) who are financially viable entities when the withdrawal is initiated, and (iii) for whom ACERA expects thereafter to continue to be financially viable entities. This Policy does not cover other situations, which the Board will address as it deems appropriate.

III. Guidelines

Absent exigent circumstances or unless otherwise approved by the Board, the guidelines for implementing this Policy are set forth below.

- A. The governing body of a participating employer must adopt, in an open, public meeting, an intent to withdraw from ACERA before ACERA will calculate the cost of the withdrawal. The participating employer must provide ACERA with a copy of the formal action evidencing an intention to withdraw.
- B. Upon notice that a participating employer seeks to terminate ACERA's membership for its active employees' future service, and on the advice and recommendation of its actuary, ACERA will segregate on its books all assets and liabilities attributable to the employer as determined by ACERA's actuary, and shall maintain such separate accounting for the employer until all its liabilities have been fully satisfied.
- C. ACERA and the withdrawing employer will enter into a Continuing Contribution Agreement, the purposes of which are to:
 - 1. Evidence the withdrawing employer's obligations as of the date the employer initiates its withdrawal, as well as its continuing funding obligations for the ongoing benefits owed to its retired, deferred and disabled officers and employees and their surviving beneficiaries, for their accumulated ACERA service and related benefits;
 - 2. Provide a funding mechanism acceptable to ACERA for the withdrawing employer to timely satisfy its existing and continuing funding obligations to ACERA, the

payment of which must be over a period which is not longer than the period over which ACERA's remaining unfunded liability is being amortized (see Gov't Code §31564.2(c)). The amortization schedule for payment of the employer's initial funding obligation normally will not exceed a period of five years.

3. Require the withdrawing employer to provide ACERA with updated employee census and payroll data requested by ACERA in the years following the date the employer initiates its withdrawal;
 4. Provide a mechanism for adjusting the withdrawing employer's obligations and payments due to ACERA based on periodic actuarial experience analysis; and
 5. Provide a mechanism by which ACERA will determine the disposition of any Final Surplus, as defined below.
- D. Per the Continuing Contribution Agreement, ACERA's actuary will determine, and certify to the Board, the withdrawing employer's initial funding obligation for its Unfunded Actuarial Accrued Liability (UAAL) calculated as of the date of withdrawal.
- E. If the withdrawing employer does not agree to a Continuing Contribution Agreement, the Board will require the contributions it deems necessary to enforce the employer's obligations in the courts if necessary.
- F. A detailed description of the methodology that will be used in determining the initial value of the assets is provided in Exhibit One. The initial value of the assets used to determine the withdrawing employer's initial funding obligation for its UAAL will be based on the valuation value of assets (VVA) (a smoothed value) allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiated its withdrawal (or later date if the Continuing Contribution Agreement so provides), based upon all ACERA's then current actuarial assumptions and methodologies. Later values (i.e., those used in "true-ups" described below) shall be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the Total ACERA smoothed (VVA) earnings rate. No consideration will be given to current assets that are accumulated in the Supplemental Retiree Benefit Reserve (SRBR) to pay future benefits paid out of the SRBR.
- G. The present value of future benefits owed to the withdrawing employer's retired, deferred and disabled officers and employees and their surviving beneficiaries (present value of accrued benefits, or "liabilities") will be determined using ACERA's then current actuarial assumptions and methodologies. In determining the present value of accrued benefits,

benefit service shall be frozen for the withdrawing employer's active employees but, for members who transfer to a system that has reciprocity with ACERA, pay shall be projected based on ACERA's then salary growth assumptions. No consideration will be given to future Board provided benefits paid out of the SRBR.

- H. Periodically after the date the employer initiated its withdrawal, in periods not to exceed three years' duration, following an experience analysis, ACERA's actuary will re-measure (true-up), and certify to the Board, any additional obligation of the withdrawing employer for UAAL. In accordance with the terms of the Continuing Contribution Agreement and applicable law, the withdrawing employer is liable for, and must contribute, any new UAAL determined in the true-up experience analysis, based upon an amortization schedule recommended by the actuary and adopted by ACERA.

The amortization schedule for payment of the employer's periodic true-up funding obligations normally will not exceed three years. ACERA will hold any negative UAAL (Surplus) to be applied against any future UAAL of the withdrawing employer.

- I. If any Surplus remains after the withdrawing employer has satisfied all its UAAL obligations (Final Surplus), ACERA will account for the Final Surplus in accordance with the terms of the Continuing Contribution Agreement and applicable law.
- J. The Board reserves the right to pursue any other remedies under applicable law that, depending on the circumstances, may be available to "ensure the actuarial soundness of the retirement system" (Gov't Code §31564.2(d) and ensure that "the county and districts shall each remain liable to the retirement system for their respective share of any unfunded actuarial liability of the system, as determined by the board." (Gov't Code §31454.7). For example, notwithstanding the employer's obligations under the Continuing Contribution Agreement, if concerns arise regarding the employer's ongoing existence as a financially viable entity, the Board may assess the projected entire amount of the employer's UAAL using a lower discount rate and payable in a single sum immediately due.

IV. Policy Review

The Operations Committee will review this Policy at least every three years to ensure that it remains relevant and appropriate.

V. Policy History

- A. The Board adopted this Policy on October 18, 2018.
- B. The Board revised this Policy on October 21, 2021 and September 19, 2024.