SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

ACTUARIAL FUNDING POLICY

I. INTRODUCTION

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

This Statement of Actuarial Funding Policy supersedes any previous statements. It is a working document and may be modified as the Board deems necessary.

II. GOALS OF ACTUARIAL FUNDING POLICY

1. To achieve long-term full funding of the cost of benefits provided by SDCERA;
2. To seek reasonable and equitable allocation of the cost of benefits over time;
3. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals; and,
4. To support the general public policy goals of accountability and transparency.

Policy goal #1 means that contributions should equal the cost of current service plus amortization payments or credits to fully fund or recognize any unfunded or overfunded past service costs (or surplus).

Policy goals #2 and #3 reflect two aspects of the general policy objective of interperiod equity (IPE). The "demographic matching" goal of #2 seeks to have each generation of taxpayers incur the cost of benefits for the employees who provide service to those taxpayers, rather than deferring those costs to future taxpayers. The "volatility management" goal of #3 seeks to have the cost incurred by taxpayers in any period compare equitably to the cost for just before and after.

Policy goal #4 allows for a clear identification and understanding of the distinct role of the above goals in managing both the current costs and the possible variations in those costs if future experience is different from the assumptions.

III. FUNDING REQUIREMENT AND POLICY COMPONENTS

A. SDCERA's annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

   1. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period;

   2. 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

   3. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

B. Actuarial Cost Method:

   1. The Entry Age method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability (AAL), with the Normal Cost determined as a level percentage of compensation. Both the Normal Cost and the AAL will be determined on an individual basis with the total of the individual Normal Costs expressed as a percentage of total compensation.

C. Asset Smoothing Method:

   1. The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Valuation Value of Assets, shall be recognized in level amount over 5 years in calculating the Actuarial Value of Assets.

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

D. Amortization Policy:

   1. For UAAL identified on or before the June 30, 2012 actuarial valuation, the outstanding balance of the UAAL from the June 30, 2004 valuation is amortized over a declining period with 12 years remaining as of June 30, 2012. Any other UAALs established as a result of actuarial gains or losses or as a result of changes in actuarial assumptions or methods are amortized over a period of 20 years;

2. Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years;
3. Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years;
4. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
5. With the exception noted in b. below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;
6. The increase in UAAL resulting from a temporary retirement incentive will be funded over 5 years;
7. UAAL shall be amortized over "closed" amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation;
8. 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; and
9. 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 as the first of a new series of amortization layers, using the above amortization periods. If the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of CalPEPRA, such actuarial surplus and any subsequent surpluses in excess of 20% of the AAL will be amortized over an "open" amortization period of 30 years.

IV. OTHER POLICY CONSIDERATIONS

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

1. In order to allow the employer to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of SDCERA's UAAL in the following valuation.

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

B. **Determination of Normal Cost Rates for non-CalPEPRA Tiers**

1. Currently, the employer Normal Cost contribution rates for all General Tiers (including Tier 1, Tier A and Tier B) and for all Safety Tiers (including Tier A and Tier B) before the introduction of Tier C due to the California Public Employees' Pension Reform Act of 2013 (CalPEPRA) are calculated on a pooled or aggregate basis in order to help stabilize the employer Normal Cost rates for each of the General and Safety plans. As part of the future implementation of CalPEPRA, the employer Normal Cost rate for these tiers may have to be calculated on a separate basis by Tier.

C. **Actuarial Assumptions Guidelines**

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

   Actuarial assumptions are generally grouped into two major categories:

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

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

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

D. **Glossary of Terms**

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

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

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

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

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

Valuation Value of Assets – The value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

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

Valuation Date – June 30 of every year.

REVIEW

This policy shall be reviewed by the Board at least every three (3) years and may be amended at any time.

HISTORY

June 5, 2014	Adopted, effective immediately