



STATEMENT OF ACTUARIAL FUNDING POLICY

I. INTRODUCTION

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 Sonoma County Employees' Retirement Association (SCERA). The Board establishes this Policy to help ensure future benefit payments for members of SCERA. In addition, this document records certain policy guidelines established by the Board to assist in administering SCERA in a consistent and efficient manner. It is a working document and may be modified as the Board deems necessary.

II. GOALS OF ACTUARIAL FUNDING POLICY

- A. To achieve long-term full funding of the cost of benefits provided by SCERA;
- B. To seek reasonable and equitable allocation of the cost of benefits over time; and
- C. To minimize volatility of the plan sponsor's contributions to the extent reasonably possible, consistent with other policy goals.

III. FUNDING REQUIREMENT AND POLICY COMPONENTS

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

- A. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period;
- 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, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

1. Actuarial Cost Method

The Entry Age Normal method, the level percentage of pay version, shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability.

2. Asset Smoothing Method
 - a. 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 five years in calculating the Actuarial Value of Assets.
 - b. This policy anticipates that future circumstances may warrant adjustments to change the pattern of the recognition of the net deferred investment gains or losses after a period of significant market change followed by a period of market correction, upon receiving an analysis from SCERA's actuary. Such adjustments would be appropriate when the net deferred investment gains or losses are relatively small (i.e., the actuarial and market values are very close together) and the following conditions are met:
 - i. The net deferred investment gains or losses are unchanged as of the date of the adjustment; and
 - ii. The period over which the net deferred investment gains and losses are fully recognized is unchanged as of the date of the adjustment.
3. Amortization Policy
 - a. The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), shall be amortized over separate 20-year amortization layers, both for the outstanding balance as of December 31, 2007¹ and for those new UAAL amounts established in each subsequent valuation;
 - b. The UAAL identified due to the 2008 cash allowance benefit is amortized separately with 17 years remaining as of December 31, 2010;
 - c. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis;
 - i. with the exception noted in ii below, the increase in UAAL as a result of any plan amendments will be amortized over a period of up to 20 years;
 - ii. the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits

¹ Except for the UAAL increase due to the cash allowance benefit, the outstanding balance of the December 31, 2007 UAAL was reamortized over 20 years in the December 31, 2008 valuation.

resulting from additional service permitted in Section 31641.04 of the 1937 CERL, will be funded immediately.

- d. UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation;
- e. 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
- f. If SCERA becomes overfunded (i.e. the total of all UAAL becomes negative so that SCERA has a surplus), such surplus and any subsequent surpluses 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

In order to allow the employers to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of December 31) will apply to the fiscal year beginning at least 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of SCERA’s UAAL in the following valuation.

Currently, there is an 18-month lag between the date of the actuarial valuation and the date the contribution rates are implemented. For example, the contribution rates adopted by the Board based on the December 31, 2010 valuation would apply to the 2012/2013 fiscal year.

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. Adjustments to Contribution Rates to Reflect the Prepayment of UAAL

If the outstanding UAAL is either fully or partially paid off prior to the date at which it is originally scheduled to be amortized, the employer’s contribution rate will be reduced to reflect that payment. The payment will be prorated across all amortization layers with no change in the remaining amortization periods. If some employers do not participate in the prepayment of the outstanding UAAL, the outstanding UAAL for the non-participating employers will not be adjusted to reflect that payment by the participating employers.

C. Stabilization of Employer Contribution Rate from Change in Actuarial Assumptions

The impact on the UAAL portion of the employer contribution rate due to change in actuarial assumptions will be phased in, in accordance with the following schedule:

Net Changes in UAAL Portion of the Employer's Contribution Rate (Percent of Payroll)	Payment/Period
Up to 2%	Total/Immediate
More than 2% but not more than 4%	2%/Immediate Balance/Year 2
More than 4%	½ Total/Immediate; Balance/Year 2

All other changes in the contribution rates are implemented immediately following the timeline outlined in Item A. Any shortfall or excess contributions as a result of the phase-in will be amortized as part of SCERA's UAAL in subsequent valuations.

D. Actuarial Assumptions Guidelines

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

1. Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
2. Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

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

V. HISTORY

The Board adopted this policy on 5/19/2011.

Reviewed and revised 6/18/2015 and 10/27/2016.

APPENDIX A
GLOSSARY OF TERMS

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

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

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

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

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

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 Actuarial Accrued Liability from the Valuation Value of Assets.

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.

Valuation Year: The year for which the actuarial valuation is being performed, which is the calendar year following the December 31 actuarial valuation date.