VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL FUNDING POLICY

I. Background and Objectives

1) The purpose of this Actuarial Funding Policy is to formally document the funding objectives and policy set by the Board of Retirement (Board) for the Ventura County Employees' Retirement Association (VCERA). The Board establishes this Actuarial Funding Policy to help ensure the systematic funding of future benefit payments for members of VCERA. In addition, this document records certain guidelines established by the Board to assist in administering VCERA in a consistent and efficient manner.

   This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies.

2) The objectives of this policy are to:

   a) To achieve long-term full funding of the cost of benefits provided by VCERA;

   b) To seek reasonable and equitable allocation of the cost of benefits over time; and,

   c) To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.

II. Funding Guidelines and Policy Components

3) VCERA'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:

   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 Actuarial Value of Assets in a systematic manner.

4) Actuarial Cost Method: The Entry Age Normal method shall be applied to the projected 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.

5) Asset Smoothing Method: The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets.

6) Amortization Policy:

   a) The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2011 shall continue to be amortized over separate 15-year period amortization layers based on the valuations during which each separate layer was previously established.

   b) 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 15 years.

   c) Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years.

   d) 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 15 years;

      ii) the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL (Golden Handshake), will be funded over a period of up to 5 years.

   e) UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.

   f) 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.

g) If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus), such surplus and any subsequent 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 15 years as the first of a new series of amortization layers.

h) These amortization policy components will apply separately to each of VCERA's UAAL cost groups.

IV. Other Policy Considerations

7) 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 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 VCERA's UAAL in the following valuation.

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

9) The Basic UAAL contribution rate for General Tier 1 and Tier 2 is determined as a combined rate based on both of those tiers. The COLA UAAL contribution rate for General Tiers that have a Cost-of-Living Adjustment (COLA) is determined as a combined rate based on those tiers.

V. Glossary of Funding Policy Terms

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

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

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

13) Entry Age Normal 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.

14) 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.

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

16) Actuarial Value of Assets (AVA) or smoothed value: a market-related value of the plan assets for determining contribution requirements. The AVA tracks the market value of assets over time, smoothes out short term fluctuations in market values and produces a smoother pattern of contributions than would result from using market value.

17) 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 non-valuation reserves.

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

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

20) Actuarial Value Funded Ratio: the ratio of the VVA to the AAL.

21) Market Value Funded Ratio: the ratio of the MVA to the AAL.

22) 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 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. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

23) Valuation Date: June 30 of every year.

VI. Process Review

24) This is a working policy document and may be modified as the Board deems necessary. The Board will review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

VII. Process History

25) The Board reviewed and approved this policy on February 23, 2018. The Board previously approved this policy on May 21, 2012.