ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CALIFORNIA 92701

GOVERNANCE COMMITTEE MEETING
October 19, 2022
9:00 a.m.

Members of the Committee
Arthur Hidalgo, Chair
Richard Oates, Vice-Chair
Shari Freidenrich
Adele Tagaloa

Pursuant to Assembly Bill 361, signed into law on September 16, 2021 as urgency legislation; Governor Newsom's Proclamation of a State of Emergency on March 4, 2020, which Proclamation is still in effect; and Board of Retirement Resolution 2022-10, this meeting will be conducted by video/teleconference, in compliance with Government Code section 54953 as amended by Assembly Bill 361. In addition, members of the Committee and the public are welcome to participate in the meeting via Zoom from the OCERS Boardroom located at 2223 E. Wellington Ave., Santa Ana, CA. However, none of the other locations from which the Committee members participate by teleconference will be open to the public.

Members of the public who wish to observe and/or participate in the meeting may do so (1) from the OCERS Boardroom or (2) via the Zoom app or telephone from any location. Members of the public who wish to provide comment during the meeting may do so by "raising your hand" in the Zoom app, or if joining by telephone, by pressing * 9 on your telephone keypad. Members of the public who participate in the meeting from the OCERS Boardroom and who wish to provide comment during the meeting may do so from the podium located in the OCERS Boardroom.

<table>
<tr><th colspan="2">OCERS Zoom Video/Teleconference information</th></tr>
<tr><td>Join Using the Zoom App (Video & Audio)

https://ocers.zoom.us/j/86170142748

Meeting ID: 861 7014 2748
Passcode: 872675

Go to https://www.zoom.us/download to download Zoom app before meeting
Go to https://zoom.us to connect online using any browser.</td>
<td>Join by Telephone (Audio Only)
Dial by your location
+1 669 900 6833 US (San Jose)
+1 253 215 8782 US (Tacoma)
+1 346 248 7799 US (Houston)
+1 929 436 2866 US (New York)
+1 301 715 8592 US (Washington DC)
+1 312 626 6799 US (Chicago)

Meeting ID: 861 7014 2748
Passcode: 872675</td></tr>
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AGENDA

This agenda contains a brief general description of each item to be considered. The Committee may take action on any item listed on this Agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the Agenda. The Committee may consider matters included on the agenda in any order, and not necessarily in the order listed.

OPEN SESSION

CALL MEETING TO ORDER AND ROLL CALL

PUBLIC COMMENT

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Committee; and (2) any matter appearing on the Consent Agenda. Members of the public who wish to provide comment at this time may do so by "raising your hand" in the Zoom app, or if joining by telephone, by pressing * 9 on your telephone keypad. When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

In addition, public comment on matters listed on this agenda will be taken at the time the item is addressed.

CONSENT AGENDA

C-1 APPROVE GOVERNANCE COMMITTEE MEETING MINUTES

Governance Committee Meeting Minutes August 3, 2022

ACTION ITEMS

NOTE: Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee's discussion of the item. **Persons attending the meeting in person and wishing to provide comment on a matter listed on the agenda should fill out a speaker card located at the back of the Boardroom and deposit it in the Recording Secretary's box located near the back counter.**

A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

A-2 TRIENNIAL REVIEW OF THE WITHDRAWING EMPLOYER (FULLY SATISFIED OBLIGATION) POLICY
Presentation by Suzanne Jenike, Asst. CEO External Operations

Recommendation: Approve and recommend the Board adopt the proposed revisions to the Withdrawing Employer (Fully Satisfied Obligation) Policy as presented.

A-3 TRIENNIAL REVIEW OF THE WITHDRAWING EMPLOYER (CONTINUING OBLIGATION) POLICY
Presentation by Suzanne Jenike, Asst. CEO External Operations

Recommendation: Approve and recommend that the Board of Retirement (Board) approve, proposed revisions to the Withdrawing Employer (Continuing Obligation) Policy as presented.

A-4 TRIENNIAL REVIEW OF THE DECLINING PAYROLL POLICY
Presentation by Suzanne Jenike, Asst. CEO, External Operations

Recommendation: Approve and recommend the Board adopt the proposed revisions to the Declining Payroll Policy as presented.

A-5 TRIENNIAL REVIEW OF THE ACTUARIAL FUNDING POLICY
Presentation by Andy Yeung, Segal

Recommendation: Approve and recommend the Board adopt the proposed revisions to the Actuarial Funding Policy as presented.

A-6 OUT OF CYCLE REVIEW OF THE INTEREST CREDITING AND RESERVES POLICY
Presentation by Andy Yeung, Segal

Recommendation: Approve and recommend the Board of Retirement approve proposed revisions to the Interest Crediting and Reserves Policy as presented.

A-7 REVIEW OF THE TRAVEL POLICY
Presentation by Steve Delaney, Chief Executive Officer

Recommendation: Approve and recommend the Board of Retirement approve proposed revisions to the Travel Policy as presented.

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

DISABILITY COMMITTEE MEETING
November 14, 2022
8:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

REGULAR BOARD MEETING
November 14, 2022
9:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

INVESTMENT COMMITTEE MEETING
November 16, 2022
9:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

AVAILABILITY OF AGENDA MATERIALS - Documents and other materials that are non-exempt public records distributed to all or a majority of the members of the OCERS Board or Committee of the Board in connection with a matter subject to discussion or consideration at an open meeting of the Board or Committee of the Board are available at the OCERS' website: https://www.ocers.org/board-committee-meetings. If such materials are distributed to members of the Board or Committee of the Board less than 72 hours prior to the meeting, they will be made available on the OCERS' website at the same time as they are distributed to the Board or Committee members. Non-exempt materials distributed during an open meeting of the Board or Committee of the Board will be made available on the OCERS' website as soon as practicable and will be available promptly upon request.

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at adminsupport@ocers.org or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CALIFORNIA 92701

GOVERNANCE COMMITTEE MEETING
August 3, 2022
9:00 a.m.

MINUTES

The Chair called the meeting to order at 9:00 a.m.

Ms. Nih administered the roll call.

Present via Zoom Video conference pursuant to Government Code § 54953, as amended by AB 361:
Arthur Hidalgo, Chair; Richard Oates, Vice Chair;

Also present:
Adele Tagaloa, Board Member; Shari Freidenrich, Board Member; Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO, Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Manuel Serpa, Staff Attorney; Cynthia Hockless, Director of Human Resources; Anthony Beltran, Audio Visual Technician; Carolyn Nih, Recording Secretary

CONSENT AGENDA

C-1 APPROVE GOVERNANCE COMMITTEE MEETING MINUTES

Governance Committee Meeting Minutes May 3, 2022

MOTION by Ms. Tagaloa, **seconded** by Mr. Oates, to approve the Minutes.

The motion passed **unanimously**.

ACTION ITEMS

A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

No items were trailed from the Consent Agenda.

A-2 TRIENNIAL REVIEW OF THE TRAVEL POLICY
Presentation by Steve Delaney, Chief Executive Officer

Recommendation: Approve, and recommend the Board adopt, revisions to the Travel Policy.

MOTION by Mr. Oates, **seconded** by Ms. Freidenrich, to approve the changes to the Travel Policy.

The motion passed **unanimously**.

A-3 TRIENNIAL REVIEW OF THE TRUSTEE EDUCATION POLICY
Presentation by Steve Delaney, Chief Executive Officer

Recommendation: Approve, and recommend the Board adopt, revision to the Trustee Education Policy.

MOTION by Ms. Freidenrich, **seconded** by Ms. Tagaloa, to approve the changes to the Trustee Education Policy.

The motion passed **unanimously**.

A-4 TRIENNIAL REVIEW OF THE MONITORING AND REPORTING POLICY
Presentation by Steve Delaney, Chief Executive Officer

Recommendation: Approve, and recommend the Board adopt, revisions to the Monitoring and Reporting Policy.

Amended MOTION by Ms. Freidenrich, **seconded** by Ms. Tagaloa, to approve the changes to the Monitoring and Reporting Policy while adding a column to Section 2 to indicate responsible staff member or staff position to clarify expectations.

The motion passed **unanimously**.

A-5 TRIENNIAL REVIEW OF THE MEMBER SERVICES CUSTOMER SERVICE POLICY
Presentation by Suzanne Jenike, Asst. CEO, External Operations

Recommendation: Approve, and recommend the Board adopt, revisions to the Member Services Customer Service Policy.

MOTION by Ms. Freidenrich, **seconded** by Ms. Tagaloa, to approve the Member Services Customer Service Policy. Amended to add that the policy will likely return to the committee for review more regularly as technology and communication capabilities change.

The motion passed **unanimously**.

A-6 REVIEW OF THE BOARD OF RETIREMENT CHARTER
Presentation by Gina M. Ratto, General Counsel

Recommendation: Consider and thereafter recommend to the Board (1) whether to add a subsection to Section 9 of the Board of Retirement Charter to provide that "the Board may, in its discretion, extend the term of office of a sitting Chair and/or Vice Chair for one calendar year"; and (2) whether extending the term of office of the Chair and/or Vice Chair should require a supermajority vote of the Board.

MOTION by Ms. Freidenrich, **seconded** by Mr. Oates, to approve staff recommendations on the Board of Retirement Charter. Further, an agenda item to confirm the appointment of the new chair will be added to the December Board Meeting.

The motion passed **unanimously**.

COMMITTEE MEMBER COMMENTS

The Committee Members decided to move the October 19 committee meeting from 9:30am to 9:00am.

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS
None

COUNSEL COMMENTS
None

ADJOURNMENT at 10:00 a.m.

Submitted by:	**Approved by:**
___________________________	______________________________
Steve Delaney Secretary to the Board	Arthur Hidalgo, Chair

Memorandum

DATE: October 19, 2022

TO: Members of the Governance Committee

FROM: Suzanne Jenike, Asst. CEO, External Operations

SUBJECT: **TRIENNIAL REVIEW OF THE WITHDRAWING EMPLOYER (FULLY SATISFIED OBLIGATION), WITHDRAWING EMPLOYER (CONTINUING OBLIGATION) AND DECLINING EMPLOYER PAYROLL POLICIES**

Recommendation

Review and recommend the Board approve the following policies:

(1) Withdrawing Employer (Fully Satisfied Obligation) Policy
(2) Withdrawing Employer (Continuing Obligation) Policy
(3) Declining Employer Payroll Policy

Background/Discussion

This is the triennial review of three employer policies: the *Withdrawing Employer (Fully Satisfied Obligation)* and *Withdrawing Employer (Continuing Obligation)* Policies as well as the *Declining Employer Payroll* Policy. All three policies have been reviewed by Staff as well as Segal and we have no recommended changes at this time.

The *Withdrawing Employer Policy (Fully Satisfied Obligation)* applies to the Employer who wants to fully satisfy their OCERS pension obligations and "walk-away" without any future payments to OCERS.

The *Withdrawing Employer (Continuing Obligation)* policy applies to employers who cease enrolling new employees into the System but who continue to be a financially viable entity.

The *Declining Employer Payroll* policy applies to instances when a financially viable employer has a change to their expected payroll resulting in a change in the methodology used to collect required contributions.

Submitted by:

SJ-APPROVED

Suzanne Jenike
Asst. CEO, External Operations

OCERS Board Policy

Withdrawing Employer (Fully Satisfied Obligation) Policy

Purpose and Background

The purpose of this policy is to establish guidelines by which a participating employer (other than the County of Orange) in the Orange County Employees Retirement System (OCERS) may withdraw from OCERS and fully satisfy at the time of such withdrawal the employer's obligation to pay all Unfunded Actuarial Accrued Liability (UAAL) attributable to the employer's active, retired and deferred employees by reason of their prior service as OCERS' members.

Policy Objectives

1. The objectives of this policy are, among other things, to ensure compliance with County Employees Retirement Law of 1937, California Government Code sections 31450 et seq., as amended (CERL) and other applicable provisions of law:

    a. Pursuant to CERL sections 31564.2, 31580.1, 31584, 31585 and other applicable provisions of law, an employer remains liable, and must make the required appropriations and transfers, to OCERS for the employer's share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability and related benefits from OCERS.

    b. CERL section 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."

2. The general principle applied in this policy is to establish the funding obligation of withdrawing employers as:

    a. The value of future benefits to be paid to OCERS members credited with service while employed with the withdrawing employer calculated at a "risk free" discount rate as determined by OCERS in consultation with its actuary, as of the date the employer initiated its withdrawal; *minus*

    b. The OCERS assets accumulated from contributions of the withdrawing employer and its employees, as determined by OCERS' actuary, and earnings on such contributions determined on a market value basis.

    A "risk free" discount rate for purposes of this policy generally refers to the set of market-based interest assumptions used by the Pension Benefit Guaranty Corporation (PBGC) to measure the sufficiency of assets for a corporate employer that is terminating its single-employer defined benefit pension plan. These PBGC rates are generally lower than the expected earnings based discount rate used in OCERS' actuarial valuation.

3. Where it is the Board's intent that the employer settle its liabilities to OCERS in full upon the employer's withdrawal (or it is the employer's desire to do so), this policy provides the guidelines to do so.

4. This policy necessarily covers any withdrawing employers that are going out of business, dissolving or ceasing to exist as a separate entity by reason of bankruptcy, loss of funding, or merger, or similar circumstance. This policy may also be applied to other going concern employers if mutually agreed by OCERS and such employers.

Policy Guidelines

Absent unique and compelling circumstances or unless otherwise expressly approved by the Board at a duly-noticed meeting, the guidelines for implementing this policy are set forth below.

5. Upon notice that a participating employer seeks to terminate its membership in OCERS and to fully settle its liabilities to OCERS upon withdrawal, and on the advice and recommendation of its actuary, OCERS will segregate on its books all assets and liabilities attributable to the employer as determined by OCERS' actuary.

6. OCERS' actuary will determine, and certify to the Board, the withdrawing employer's UAAL calculated as of the date of withdrawal.

7. The value of the assets used to determine the withdrawing employer's UAAL will be based on a market value basis allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiates its withdrawal.

   The value of assets will be determined in two steps. In the first step, the assets will be allocated on a valuation value of assets (VVA) (a smoothed value) basis. In the second step, the assets as determined on the VVA basis are marked to a market value basis, taking into account any deferred investment gains/losses not yet recognized in the valuation value of assets.

   The value of the assets used in the first step to determine the withdrawing employer's initial funding obligation for its UAAL will be based on the VVA allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiated its withdrawal based upon all of OCERS' then current actuarial assumptions and methodologies, including the use of a pro-rata allocation of UAAL (and VVA) within its rate group (if any) based on payroll.

   Alternatively, based on the recommendation of OCERS' actuary, the Board may determine that the VVA allocated to the withdrawing employer be determined using a pro-rata allocation based on the Actuarial Accrued Liabilities (AAL) for the withdrawing employer.

8. The present value of future benefits owed to the withdrawing employer's active, retired, deferred and disabled officers and employees and their surviving beneficiaries (present value of accrued benefits, or "liabilities") will be redetermined on a market value basis by using a "risk free" discount rate as described above, together with modifications to other actuarial assumptions

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Withdrawing Employer (Fully Satisfied Obligation) Policy

as appropriate for a settlement of liabilities as recommended by OCERS' actuary. Such assumptions could include, for example, mortality tables, salary increases and expected dates of retirement.

9. The withdrawing employer will pay the full amount of the UAAL calculated in accordance with this policy on or before the date set by OCERS as a condition to withdrawal from OCERS.

Policy Review

10. The Board will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

Policy History

11. The Board adopted this policy on December 16, 2019.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney

12/16/2019

Steve Delaney
Secretary of the Board

Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Withdrawing Employer (Continuing Obligation) Policy

Purpose and Background

From time to time, a participating OCERS employer ceases to provide OCERS' benefits to certain of its employees. *This Withdrawing Employer (Continuing Obligation) Policy* (Policy) is designed to assure that OCERS continues to collect from the employer all contributions necessary to fund all Unfunded Actuarial Accrued Liability (UAAL) attributable to the employer's active, retired and deferred employees covered OCERS' service. Consistent with applicable law and this Policy, OCERS will enter into a Withdrawing Employer (Continuing Obligation) Agreement (Continuing Obligation Agreement) with any such employer.

Policy Objectives

1. The objectives of this policy are, among other things, to ensure compliance with County Employees Retirement Law of 1937, California Government Code sections 31450 et seq., as amended (CERL) and other applicable provisions of law:

   a. Pursuant to CERL sections 31564.2, 31580.1, 31584, 31585 and other applicable provisions of law, an employer remains liable, and must make the required appropriations and transfers, to OCERS for the employer's share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability and related benefits from OCERS. This obligation continues after the employer withdraws any or all of its officers' and employees' service from the OCERS plan until the employer pays all UAAL attributable to its active, retired and deferred officers and employees by reason of their prior service as OCERS' members.

   b. CERL section 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."

2. The general principle applied in this policy is to establish the funding obligation of withdrawing employers as:

   a. The value of future benefits to be paid to OCERS members credited with service while employed with the withdrawing employer; *minus*

   b. The OCERS assets accumulated from contributions of the withdrawing employer and its employees, as determined by OCERS' actuary, and earnings on such contributions.

3. It is the OCERS Board of Retirement's (Board) intent to allow a withdrawing employer to satisfy its funding obligation in a manner that provides the employer reasonable flexibility; however, primary consideration will be given to ensuring the funding obligation of the withdrawing employer is properly determined and satisfied. This will generally require

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

redetermination of the funding obligation of the employer for several years following the date the employer initiates its withdrawal.

4. This policy covers *only* those withdrawing employers (i) who cease to provide OCERS membership for their active officers and/or employees (i.e., both current actives and new hires), (ii) who are financially viable entities when the withdrawal is initiated, and (iii) who are expected to continue in existence as financially viable entities. This policy does not cover any other situation – whether a withdrawing employer, a terminating employer or otherwise – including, without limitation, an employer that is going out of business by reason of bankruptcy, loss of funding, or merger, or an employer who gradually winds down its active officers' and employees' continued participation in OCERS either through attrition or through a decision to have officers and employees hired after a specific date to not become members of OCERS (e.g., to participate in a retirement arrangement other than OCERS).

Policy Guidelines

Absent unique and compelling circumstances or unless otherwise expressly approved by the Board at a duly-noticed meeting, the guidelines for implementing this policy are set forth below.

5. Upon notice that a participating employer seeks to terminate OCERS' membership for its active employees' future service, and on the advice and recommendation of its actuary, OCERS will segregate on its books all assets and liabilities attributable to the employer as determined by OCERS' actuary, and will maintain such separate accounting for the employer until all of its liabilities have been fully satisfied.

6. OCERS and the withdrawing employer will enter into a Continuing Contribution Agreement, the purposes of which are to:

   a. 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 OCERS service and related benefits;

   b. provide a funding mechanism acceptable to OCERS for the withdrawing employer to timely satisfy its existing and continuing funding obligations to OCERS, the payment of which must be over a period which is not longer than the period over which OCERS' remaining unfunded liability is being amortized (see CERL section 31564.2(c));

   c. require the withdrawing employer to provide OCERS with updated employee census and payroll data requested by OCERS in the years following the date the employer initiates its withdrawal;

   d. provide a mechanism for adjusting the withdrawing employer's obligations and payments due to OCERS based on periodic actuarial experience analysis; and

e. provide a mechanism by which OCERS will consider the transfer of any Final Surplus, as defined below, to the withdrawing employer or a successor retirement system, as appropriate.

7. Pursuant to the terms of the Continuing Contribution Agreement, OCERS' actuary will determine, and certify to the Board, the withdrawing employer's initial funding obligation for its UAAL calculated as of the date of withdrawal. Absent unique and compelling circumstances, the amortization schedule for payment of the employer's initial funding obligation will not exceed a period of five (5) years.

8. 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 of OCERS' then current actuarial assumptions and methodologies, including the use of a pro-rata allocation of UAAL (and VVA) within its rate groups (if any) based on payroll. Alternatively, based on recommendation of OCERS' actuary, the Board may determine VVA allocated to the withdrawing employer be determined using a pro-rata allocation based on the Actuarial Accrued Liabilities (AAL) for the withdrawing employer.

   Later values (i.e., those used in "true-ups" described below) will be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the Total OCERS smoothed (VVA) earnings rate.

9. 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 OCERS' then current actuarial assumptions and methodologies. In determining the present value of accrued benefits, benefit service will be frozen for the withdrawing employer's active employees but, for members who transfer to a system that has reciprocity with OCERS, pay will be projected based on OCERS' then salary growth assumptions.

10. Periodically after the date the employer initiated its withdrawal, in periods not to exceed three (3) years' duration, following an experience analysis, OCERS' actuary will remeasure (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 OCERS.

    Absent unique and compelling circumstances, the amortization schedule for payment of the employer's periodic true-up funding obligations will not exceed a period of three (3) years. OCERS will hold any negative UAAL (Surplus) to be applied against any future UAAL of the withdrawing employer.

OCERS Board Policy

Withdrawing Employer (Continuing Obligation) Policy

11. If any surplus remains after the withdrawing employer has satisfied *all* of its UAAL obligations (Final Surplus), OCERS will distribute the Final Surplus in accordance with the terms of the Continuing Contribution Agreement and applicable law.

12. Notwithstanding anything to the contrary herein, the OCERS 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" (CERL section 31564.2(d)). 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, or if the employer's funding obligations become so small that the Board, in its sole discretion, determines it is not administratively feasible to continue to accept ongoing payments from the employer, the Board may assess the projected full amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board) using a "risk free" discount rate as determined by OCERS in consultation with its actuary, and require an immediate lump sum payment.

    A "risk free" discount rate for purposes of this policy generally refers to the set of market-based interest assumptions used by the Pension Benefit Guaranty Corporation (PBGC) to measure the sufficiency of assets for a corporate employer that is terminating its single-employer defined benefit pension plan. These PBGC rates are generally lower than the expected earnings based discount rate used in OCERS' actuarial valuation.

Policy Review

13. The Board will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

Policy History

14. The Board adopted this policy on February 17, 2015, and revised on December 16, 2019.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

2/17/15

Steve Delaney
Secretary of the Board

Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Declining Employer Payroll Policy

Purpose and Background

1. A participating employer in the Orange County Employees Retirement System (OCERS or the System) may experience an actual or expected material decline in the payroll attributable to its OCERS' active members (OCERS-covered payroll). This Declining Employer Payroll Policy (Policy) is intended to establish guidelines to assure that such employer will continue to satisfy its obligation to timely pay all unfunded actuarial accrued liability (UAAL) attributable to the employer's active, retired and deferred employees and their beneficiaries by reason of their prior and future service as OCERS' members.

Background and Objectives

2. As a general rule, employers' contribution obligations for UAAL are determined by applying a contribution rate determined by OCERS' actuary to the employer's OCERS-covered payroll (the percentage-of-payroll methodology). For employers whose payrolls are generally consistent with OCERS' actuarial assumptions regarding payroll growth, the percentage-of-payroll methodology is appropriate. However, for employers whose OCERS-covered payroll is declining or is expected to decline materially over time, the OCERS Board of Retirement (Board) has determined that the percentage-of-payroll methodology is not the appropriate method of collecting employer contributions owed to the System. The objectives of this Policy are to (i) to ensure equitable and adequate funding of UAAL in cases involving employers with declining payrolls, (ii) approve procedures for identifying employers who should be subject to this Policy, and (iii) approve a different methodology for determining any UAAL attributable to such employers and setting the amount and schedule of the contributions needed to fund such UAAL. This Policy does *not* change the methodology regarding how contributions for "normal cost" are determined for participating employers.
3. Generally, the objectives of this Policy also are to ensure compliance with County Employees Retirement Law of 1937, California Government Code sections 31450 et seq., as amended, and other applicable provisions of law. Pursuant to Gov't. Code sections 31453, 31453.5, 31581, 31582, 31584, 31585, 31586 and other applicable provisions of law, a participating employer remains liable, and must make the required appropriations and transfers, to OCERS for the employer's share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability and related benefits from OCERS. This obligation continues after the employer no longer has active employees or payroll and until the employer has paid all UAAL attributable to the employer's active, retired and deferred employees and their beneficiaries by reason of their prior and future service as OCERS' members.
4. It is the Board's intent to allow an employer covered by this Policy to satisfy its funding obligation in a manner that provides the employer reasonable flexibility; however, primary consideration will be given to ensuring the adequacy of the assets attributable to the employer to satisfy the employer's funding obligations. This will generally require redetermination of the funding obligations of the employer for several years.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Declining Employer Payroll Policy

Policy Procedures and Guidelines

Absent unique and compelling circumstances or unless otherwise expressly approved by the Board at a duly-noticed public meeting, the procedures and guidelines for implementing this Policy are set forth below.

Commencement of Coverage – Triggering Events

5. This Policy covers only those employers for whom the Board determines, based on a recommendation from OCERS' Chief Executive Officer (CEO), that a *triggering event* as described in this section 5 has occurred, *and* who are not excluded from coverage under this Policy as described in sections 6 and 7 below.

    a. *Triggering event resulting from ceasing to enroll new hires.* Some OCERS' participating employers cease to enroll new hires with OCERS but, for a period of time, continue to have at least some previously-enrolled employees maintaining their status as active OCERS members. These employers' OCERS-covered payroll will eventually diminish to zero as their active employees retire or otherwise terminate employment. Examples of employers in this category may include an employer that is acquired by another entity that is not an OCERS participating employer, or an OCERS employer that is taken over by a state agency whose employees are covered by another pension system such as CalPERS. There may be other examples as well.

    b. *Triggering event resulting from a material and expected long-lasting reduction in OCERS-covered payroll.* Some employers may experience a material reduction in their OCERS-covered payroll, but nevertheless continue to enroll their new hires with OCERS. The reduction may be sudden (e.g., due to a discrete event such as a partial loss of funding or partial outsourcing), or it may be more gradual, over a period of years, and might not be tied to a discreet event. Generally, the Board would determine that this type of triggering event has occurred only if the Board expects that the reduction in employer's OCERS-covered payroll is expected to be permanent, long-lasting or for an indefinite period of time that is greater than a cycle that the employer may typically experience, or a cycle similarly experienced by the other employers, if any, in the same OCERS' rate group. Generally, by its nature, the determination whether this type of triggering event has occurred is more subjective than that described in section 5.a. above.

Exclusions from Coverage; Terminations of Coverage

6. This Policy covers *only* those employers (i) who are financially-viable entities when a triggering event occurs, *and* (ii) whom OCERS expects to continue indefinitely thereafter to be financially-viable entities. This Policy does not cover any other situation, including, without limitation, an employer going out of business by reason of dissolution, loss of funding, consolidation or merger (unless there is a surviving financially-viable entity that is acceptable to the Board that will make the ongoing payments under the Policy). This Policy also does not cover a "withdrawing employer" who ceases to provide OCERS membership for *all* of the employer's active OCERS members (*i.e.*, as of a date certain, withdraws both new hires and existing actives from membership with OCERS).

7. The Board recognizes that participating employers covered by this Policy will have UAAL funding obligations for several years. If concerns arise during that period of time regarding the employer's ongoing existence as a financially-viable entity, or if the employer's funding oblibations become so small that the Board, in its sole discretion, determines it is not administrtatively feasible to continue to apply this Policy to said employer, the Board may remove the employer from coverage under this Policy and/or take any other measures that may be available to ensure the actuarial soundness of the retirement system or that are administratively convenient and reasonable, including, without limitation, assessing the projected full amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board), applying a "risk free" discount rate as determined by OCERS in consultation with its actuary, and requiring an immediate lump sum payment.

   A "risk free" discount rate for purposes of this Policy generally refers to the set of market-based interest assumptions used by the Pension Benefit Guaranty Corporation (PBGC) to measure the sufficiency of assets for a corporate employer that is terminating its single-employer defined benefit pension plan. These PBGC rates are generally lower than the expected earnings based discount rate used in OCERS' actuarial valuation.

Procedures

8. The CEO will work with OCERS' staff, service providers (*e.g.,* the actuary), and participating employers to obtain the information (*e.g.*, OCERS-covered payroll history, financial reports) needed for the Board to make determinations regarding triggering events and exclusions from, or terminations of, coverage.
9. Upon a recommendation from the CEO and notice to the affected participating employer, the Board will make a determination at a duly-noticed public meeting regarding (i) whether a triggering event has occurred for the employer, (ii) whether the employer is expressly excluded from coverage under this Policy and if not, whether unique and compelling circumstances exist such that the Board should not apply the Policy to the employer, and (iii) for those employers that the Board has previously determined to be covered under the Policy, whether their coverage should be terminated under section 7 above. Employers may be required to provide OCERS with updated employee census and payroll data and financial reports. *See* Gov't. Code section 31543.

Procedures When Board Determines this Policy Should Apply

10. If the Board determines that (i) a triggering event has occurred, (ii) the employer is not expressly excluded from coverage under the Policy, and (iii) unique and compelling circumstances do not exist then, solely for purposes of determining the covered employer's UAAL contribution obligation, the employer will be removed from its rate group (if any); OCERS will segregate on its books all assets and liabilities attributable to the employer based upon the recommendation of OCERS' actuary; and OCERS shall maintain such separate accounting for the employer until all of the employer's obligations to OCERS as determined under sections 11, 12 and 13 below have been fully satisfied.
11. OCERS' actuary will determine, and certify to the Board, the covered employer's funding obligation for its initial UAAL, which obligation shall not be pro-rata based on payroll, but rather based on the employer's actuarial accrued liability (AAL) including inactives. The Board may determine to

require the employer's contributions to be paid in level, fixed-dollar amounts over a period to be determined in the Board's sole discretion, which in no event may exceed the maximum amortization period for losses as defined by the OCERS Actuarial Funding Policy, beginning on July 1 of the calendar year immediately after the year in which the triggering event occurs.

12. The actuary will use the actuarial valuation performed for OCERS as of the end of the calendar year immediately prior to the calendar year in which the triggering event occurs (and based on all of OCERS' then current actuarial assumptions and methodologies) to determine the initial valuation value of assets (VVA), a smoothed value, allocated to the covered employer. That initial VVA will be a pro-rata allocation based on the employer's AAL (*i.e.,* based on the employer's initial UAAL allocation determined in accordance with section 11 above). Later values of the VVA (i.e., those used in the future valuations described below) shall be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the actual smoothed (VVA) earnings rate on total OCERS assets.

13. Annually, after the determination of the covered employer's initial funding obligation, as part of the regular annual actuarial valuation of the plan, OCERS' actuary will measure any change in the UAAL of the participating employer due to actuarial experience or changes in actuarial assumptions. In addition to the amortized payments for the covered employer's initial UAAL funding obligation determined as of the initial valuation, the employer will be liable for, and must contribute to OCERS, any such new UAAL determined as of subsequent valuations, based upon an amortization schedule recommended by the actuary and adopted by the Board of Retirement. OCERS will hold any negative UAAL (Surplus) to be applied against any future UAAL of the covered employer.

14. If any Surplus remains after the covered employer has satisfied *all* of its UAAL obligations (Final Surplus), OCERS will distribute the Final Surplus in accordance with the terms of applicable law.

Procedures When Board Determines this Policy Should Not Apply

15. The Board may, in its sole discretion, determine that unique and compelling circumstances exist such that the Board should not apply the Policy to the employer. Such determination by the Board should be informed by the objectives of this Policy, which include (i) ensuring equitable and adequate funding of UAAL in cases involving employers with declining payrolls, (ii) approving procedures for identifying employers who should be subject to this Policy, (iii) approving a different methodology for determining any UAAL attributable to such employers and setting the amount and schedule of the contributions needed to fund such UAAL, and (iv) ensuring that the employer remains liable to OCERS and is required to make the required appropriations and transfers to OCERS for the employer's share of liabilities attributable to the its officers and employees who are and may be entitled to receive retirement, disability and related benefits from OCERS. Examples of unique and compelling circumstances include, but are not limited to, a determination that the decline in the employer's payroll is not material; that the impact to the other employers in the rate group resulting from the triggering event is not material; or the employer is willing to pay a premium to mitigate the additional contributions that would otherwise be shifted to the other employers in the rate pool.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Declining Employer Payroll Policy

16. If the Board determines that unique and compelling circumstances exist such that the Policy should not be applied to the employer, then the Board may fashion an alternative for the employer that could include allowing the employer to remain pooled with the other employers in the rate group, and that might also require the employer to pay a premium to mitigate against a shifting of costs to the other employers in the rate group.
17. The CEO will timely report to the Board any instances of triggering events and exclusions from, or terminations of, coverage among any of the participating employers in OCERS.

Policy Review

18. The Board of Retirement will review this Policy at least every three (3) years to ensure that it remains relevant and appropriate.

Policy History

19. The Board of Retirement adopted this Policy on June 15, 2015. The Policy was revised on December 16, 2019.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney

12/16/2019

Steve Delaney
Secretary of the Board

Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Memorandum

DATE: October 19, 2022

TO: Members of the Governance Committee

FROM: Brenda Shott, Assistant CEO Finance and Internal Operations

SUBJECT: **TRIENNIAL REVIEW OF THE ACTUARIAL FUNDING POLICY**

Recommendation

Approve and recommend that the Board of Retirement adopt the proposed revisions to the Actuarial Funding Policy as presented.

Background/Discussion

The Board of Retirement (including the Investment Committee) has formally adopted over 60 policies and charters and has established a review schedule that requires review of every policy and charter every three years.

The Actuarial Funding Policy (Policy) was adopted by the Board on January 21, 2014 and was last reviewed and revised on April 18, 2018. It is scheduled for review and approval by the Board, after review by the Governance Committee, in 2022.

Proposed Revisions

Staff, as well as Segal Consulting, have reviewed the Policy and recommend non-substantive clarifying language and the following additions and deletions:

- Add language to the Policy under the Asset Smoothing Method section that future circumstances may warrant adjustments to change the pattern of the recognition of net deferred investment gains or losses after a period of significant market changes followed by a period of market correction
- Delete a reference that is unrelated to the funding of benefits under the Other Policy Considerations section
- Delete Appendix A which lists all the current actuarial assumptions used in the annual actuarial valuation and is available in the latest actuarial valuation report available on OCERS' website

A copy of the Policy, with proposed changes indicated in underlined/strikeout text, is attached.

<u>Attachment</u>

Submitted by:

OCERS B.M.S - Approved

Brenda Shott
Assistant CEO, Finance and Internal Operations

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Actuarial Funding Policy

Purpose and Background

The Orange County Employees Retirement System (OCERS) is charged with administering defined benefit plans for its members. Administering the system includes establishing systematic funding of current and future benefit payments for members of OCERS. In doing so, the Board of Retirement engages the services of an actuary to assist in establishing contributions that will fully fund the System's liabilities, and that, as a percentage of payroll, will remain as level as possible for each generation of active members. In order for the actuary to perform the requested services, the Board must approve specific funding objectives, methods, and assumptions to be used in the actuarial valuation for the purpose of funding member benefits.

Policy Objectives

- Achieve long-term full funding of the cost of benefits provided by OCERS;
- Seek reasonable and equitable allocation of the cost of benefits over time;
- Minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals; and,
- Support the general public policy goals of accountability and transparency by being clear as to both intent and effect, allowing for an assessment of how and when plan sponsors will meet the funding requirements of the plan.

Definitions

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

2. **Actuarial Funding Method** – A process used to allocate present value of projected benefits among past and future periods of service.

3. **Actuarial Gains and Losses** – The changes in unfunded actuarial accrued liability 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 unfunded actuarial accrued liability, or "actuarial gain" as of the next valuation.

4. **Actuarial Surplus** – The positive difference, if any, between the Valuation Value of Assets and the Actuarial Accrued Liability

5. **Actuarial Value of Assets (AVA)** – The market value of assets less or plus the net deferred investment gains or losses not yet recognized by the asset smoothing method.

6. **Entry Age Method** – An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to produce stable employer and employee contributions in amounts that increase at the same rate as the members' payroll (i.e., level % of payroll).

7. **Market Value of Assets (MVA)** – The fair value of assets of the plan as reported under generally accepted accounting principles.

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

9. **Unfunded Actuarial Accrued Liability (UAAL)** – 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.

10. **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.

11. **Valuation Period** – The year for which the actuarial valuation is being performed, which is the calendar year preceding the December 31 actuarial valuation date.

Policy Guidelines

OCERS 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 process used to allocate the total present value of future benefits to each year (Normal Cost), and all past years (Actuarial Accrued Liability);

b. Asset Smoothing Method: the process used that spreads 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.

Actuarial Cost Method

The Entry Age cost method with Normal Cost developed as a level percentage of pay shall be applied to each member's retirement benefit in determining the Normal Cost and the Actuarial Accrued Liability.

Asset Smoothing Method

The investment gains or losses of each Valuation Period, as a result of comparing the actual return on the Market Value of Assets at the end of the period with what the expected return on the Market Value of Assets would have been if the assumed rate of return on assets was realized during the period, shall be recognized in a level amount over a fixed five (5) years in calculating the Actuarial Value of Assets.

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 OCERS' 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), but the recognition of that net deferred amount is markedly non-level. Any such adjustment would be made subject to the following conditions:

- The net deferred investment gains or losses are unchanged as of the date of the adjustment; and,
- The period over which the net deferred investment gains and losses are fully recognized is unchanged as of the date of the adjustment.

Amortization Policy

a. The Unfunded Actuarial Accrued Liability, the difference between the Actuarial Accrued Liability and the Valuation Value of Assets, shall be amortized over various periods of time, depending on how the unfunded liability arose;

b. The total Unfunded Actuarial Accrued Liability as of December 31, 2013 (which consists of the outstanding balance of the UAAL from the December 31, 2012 valuation and any new actuarial gains or losses from calendar year 2013) shall be amortized over twenty (20) years;

c. Actuarial Gains or Losses incurred in a single year shall be amortized over twenty (20) years;

d. Changes in actuarial assumptions and cost methods shall be amortized over twenty (20) years;

e. Plan amendments other than Early Retirement Incentives shall be amortized over fifteen (15) years;

f. Early Retirement Incentives shall be amortized over a period not to exceed five (5) years;

g. Unfunded Actuarial Accrued Liabilities shall be amortized in multiple layers by source over “closed” amortization periods;

h. Unfunded Actuarial Accrued Liabilities 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;

i. If an overfunding or “surplus” exists (i.e., the Valuation Value of Assets is greater than the Actuarial Accrued Liability) and the amount of such surplus is in excess of 20% of the AAL and the other conditions of Section 7522.52 of the California Public Employee’s Pension Reform Act are met, such actuarial surplus 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 as the first of a new series of amortization layers, using the above amortization periods.

j. These amortization policy components will generally apply separately to each of OCERS’ UAAL rate groups with the exception that the conditions of Section 7522.52 apply to the total plan.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Actuarial Funding Policy

Other Policy Considerations

a. In order to allow Plan Sponsors to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each actuarial valuation (as of December 31) will generally apply to the fiscal year beginning eighteen months after the Actuarial Valuation date. The UAAL contribution rates in the current actuarial valuation are adjusted to account for any shortfall or excess contributions as a result of the implementation lag;

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

c. When calculating both employer and member contribution rates (basic and COLA portions) for Legacy members, the actuary shall include an assumption for the additional cash out of accumulated annual leave, sick leave or compensatory leave both earned and permitted to be cashed out during the final average measuring period, applied on a pooled basis (General, Safety-Probation, Safety-Law and Safety-Fire).

d. The actuarial assumptions adopted by the Board for use in the actuarial valuation affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expense 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:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
- 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 OCERS 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. The Board will review all assumptions triennially. The current assumptions used by the actuary can be found in the latest actuarial valuation report available on OCERS' website..

Policy Review

The Board of Retirement will review this policy every three years or more frequently if recommended by the actuary to ensure that it remains relevant and appropriate.

Policy History

The Board adopted this policy on January 21, 2014. This policy was revised on December 15, 2014 and April 18, 2018.

OCERS Board Policy

Actuarial Funding Policy

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this Policy.

Steve Delaney Secretary of the Board	**04/18/2018** Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Actuarial Funding Policy

Purpose and Background

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- Achieve long-term full funding of the cost of benefits provided by OCERS;
- Seek reasonable and equitable allocation of the cost of benefits over time;
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4. **Actuarial Surplus** – ~~the~~The positive difference, if any, between the Valuation Value of Assets and the Actuarial Accrued Liability

5. **Actuarial Value of Assets (AVA)** – The market value of assets less or plus the net deferred investment gains or losses not yet recognized by the asset smoothing method.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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6. **Entry Age Method** ~~–~~ – An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to produce stable employer and employee contributions in amounts that increase at the same rate as the members' payroll (i.e., level % of payroll).

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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~~Valuation Value of Assets ~~(after adjustment for non-valuation reserves)~~ in a systematic manner.

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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- The net deferred investment gains or losses are unchanged as of the date of the adjustment; and,
- The period over which the net deferred investment gains and losses are fully recognized is unchanged as of the date of the adjustment.

Amortization Policy

a. The Unfunded Actuarial Accrued Liability, the difference between the Actuarial Accrued Liability and the ~~Actuarial~~Valuation Value of Assets ~~(after again adjustment for non-valuation reserves),~~, shall be amortized over various periods of time, depending on how the unfunded liability arose;

b. ~~he~~The total Unfunded Actuarial Accrued Liability as of December 31, 2013 (which consists of the outstanding balance of the UAAL from the December 31, 2012 valuation and any new actuarial gains or losses from calendar year 2013) shall be amortized over twenty (20) years;

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d. Changes in actuarial assumptions and cost methods shall be amortized over twenty (20) years;

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f. Early Retirement Incentives shall be amortized over a period not to exceed five (5) years;

g. Unfunded Actuarial Accrued Liabilities shall be amortized in multiple layers by source over “closed” amortization periods;

h. Unfunded Actuarial Accrued Liabilities 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;

i. If an overfunding or “surplus” exists (i.e., the ~~adjusted Actuarial~~Valuation Value of Assets is greater than the Actuarial Accrued Liability) and the amount of such surplus is in excess of 20% of the AAL ~~per~~ and the other conditions of Section 7522.52 of the California Public ~~Employee~~Employee’s Pension Reform Act are met, such actuarial surplus 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 as the first of a new series of amortization layers, using the above amortization periods.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Actuarial Funding Policy

j. These amortization policy components will generally apply separately to each of OCERS' UAAL rate groups with the exception that the conditions of Section 7522.52 apply to the total plan.

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

~~c. When calculating a retirement benefit amount under allowable optional benefit allowances per Government Code sections 31761-31764(known as Options 2, 3 and 4), the actuary shall include a cost of living assumption;~~

~~d.~~c. When calculating both employer and member contribution rates (basic and COLA portions) for Legacy members, the actuary shall include an assumption for the additional cash out of accumulated annual leave, sick leave or compensatory leave both earned and permitted to be cashed out during the final average measuring period, applied on a pooled basis (General, Safety-Probation, Safety-Law and Safety-Fire).

~~e.~~d. The actuarial assumptions adopted by the Board for use in the actuarial valuation affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expense 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:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
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The actuarial assumptions represent the Board's best estimate of anticipated experience under OCERS 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. The Board will review all assumptions triennially. The current assumptions used by the actuary ~~are listed~~can be found in ~~Appendix A.~~the latest actuarial valuation report available on OCERS' website..

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Actuarial Funding Policy

Policy Review

The Board of Retirement will review this policy every three years or more frequently if recommended by the actuary to ensure that it remains relevant and appropriate.

Policy History

The Board adopted this policy on January 21, 2014. This policy was revised on December 15, 2014~~.~~ and April 18, 2018.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this Policy.

	04/18/2018
Steve Delaney Secretary of the Board	Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

~~Appendix A~~

~~The following are current assumptions used by the actuary when producing the annual actuarial valuation for OCERS.~~

~~Economic Assumptions~~

~~INFLATION~~

~~2.75% per annum, retiree cost of living adjustments are subject to a 3.0% maximum change per year.~~

~~INVESTMENT RETURN~~

~~7.00% per annum net of investment and administrative expenses.~~

~~EMPLOYEE CONTRIBUTION CREDITING RATE:~~

~~5.00%, compounded semi-annually.~~

~~INDIVIDUAL SALARY INCREASES:~~

- ~~Inflationary increases: 2.75%~~
- ~~Real "across the board" increases: 0.50%~~
- ~~Merit and promotion increases:~~

~~YEARS OF SERVICE~~	~~GENERAL~~	~~SAFETY~~
~~Less than 1~~	~~9.00%~~	~~14.00%~~
~~1~~	~~7.25~~	~~10.00~~
~~2~~	~~6.00~~	~~7.75~~
~~3~~	~~5.00~~	~~6.00~~
~~4~~	~~4.00~~	~~5.50~~
~~5~~	~~3.50~~	~~4.50~~
~~6~~	~~2.50~~	~~3.75~~
~~7~~	~~2.25~~	~~3.25~~
~~8~~	~~1.75~~	~~2.50~~
~~9~~	~~1.50~~	~~2.25~~
~~10~~	~~1.50~~	~~1.75~~
~~11~~	~~1.50~~	~~1.75~~
~~12~~	~~1.50~~	~~1.75~~
~~13~~	~~1.50~~	~~1.75~~
~~14~~	~~1.50~~	~~1.75~~

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~~YEARS OF SERVICE~~	~~GENERAL~~	~~SAFETY~~
~~15~~	~~1.50~~	~~1.75~~
~~16~~	~~1.00~~	~~1.50~~
~~17~~	~~1.00~~	~~1.50~~
~~18~~	~~1.00~~	~~1.50~~
~~19~~	~~1.00~~	~~1.50~~
~~20 & over~~	~~1.00~~	~~1.50~~

~~Note: in addition to the individual salary increase assumptions, also assume an average two hours of additional salary annually for leap-year salary adjustment.~~

~~ACTIVE MEMBER PAYROLL INCREASES~~

~~3.25% per annum~~

~~Non-Economic Assumptions~~

~~Post-Retirement Mortality Rates:~~

~~HEALTHY~~

- ~~For General Members and all Beneficiaries: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table, projected generationally with the two-dimensional MP-2016 scale.~~
- ~~For Safety Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table set back four years, projected generationally with the two-dimensional MP-2016 scale.~~

~~DISABLED~~

- ~~For General Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table set forward five years, projected generationally with the two-dimensional MP-2016 scale.~~
- ~~For Safety Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected generationally with the two-dimensional MP-2016 scale.~~

~~BENEFICIARIES~~

- ~~Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who is receiving a service (non-disability) retirement.~~

~~EMPLOYEE CONTRIBUTION RATES~~

- ~~For General Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females) projected 20 years with the two-dimensionalmortality improvement scale MP-2016 scale, weighted 40% male and 60% female.~~
- ~~For Safety Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table set back four years (separate tables for males and females), projected 20 years with the two-dimensional mortality improvement scale MP-2016 scale, , weighted 80% male and 20% female.~~

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~~PRE-RETIREMENT MORTALITY RATES~~

~~For General and Safety Members; Headcount-Weighted RP-2014 Employee Mortality Table times 80% projected generationally with the two-dimensional MP-2016 projection scale.~~

~~Termination Rates Before Retirement~~

	~~RATE (%) MORTALITY~~[i]			
	~~General~~		~~Safety~~	
~~Age~~	~~Male~~	~~Female~~	~~Male~~	~~Female~~
~~25~~	~~0.05~~	~~0.02~~	~~0.05~~	~~0.02~~
~~30~~	~~0.05~~	~~0.02~~	~~0.05~~	~~0.02~~
~~35~~	~~0.05~~	~~0.03~~	~~0.05~~	~~0.03~~
~~40~~	~~0.06~~	~~0.04~~	~~0.06~~	~~0.04~~
~~45~~	~~0.10~~	~~0.07~~	~~0.10~~	~~0.07~~
~~50~~	~~0.17~~	~~0.11~~	~~0.17~~	~~0.11~~
~~55~~	~~0.27~~	~~0.17~~	~~0.27~~	~~0.17~~
~~60~~	~~0.45~~	~~0.24~~	~~0.45~~	~~0.24~~
~~65~~	~~0.78~~	~~0.36~~	~~0.78~~	~~0.36~~
~~70~~	~~1.27~~	~~0.59~~	~~1.27~~	~~0.59~~

~~Note that generational projections beyong the base year (2014) are not reflected in the above mortality rates.~~

~~All General pre-retirement deaths are assumed to be non-service connected. For Safety, 90% of pre-retirement deaths are assumed to be non-service connected. The other 10% are assumed to be service connected.~~

	~~RATE (%)DISABILITY~~			
~~Age~~	~~General All Other~~[(1)]	~~General OCTA~~[(2)]	~~Safety-Law & Fire~~ [(3)]	~~Safety-Probation~~ [(4)]
~~20~~	~~0.00~~	~~0.00~~	~~0.00~~	~~0.00~~
~~25~~	~~0.00~~	~~0.00~~	~~0.01~~	~~0.03~~
~~30~~	~~0.01~~	~~0.03~~	~~0.04~~	~~0.08~~
~~35~~	~~0.03~~	~~0.20~~	~~0.14~~	~~0.10~~
~~40~~	~~0.08~~	~~0.36~~	~~0.23~~	~~0.13~~

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	~~RATE (%)DISABILITY~~			
~~45~~	~~0.13~~	~~0.43~~	~~0.40~~	~~0.21~~
~~50~~	~~0.18~~	~~0.48~~	~~1.10~~	~~0.28~~
~~55~~	~~0.23~~	~~0.65~~	~~2.40~~	~~0.42~~
~~60~~	~~0.31~~	~~1.26~~	~~4.80~~	~~0.20~~

~~(1) 60% of General All Other disabilities are assumed to be service connected disabilities. The other 40% are assumed to be non-service connected.~~

~~(2) 65% of General – OCTA disabilities are assumed to be service connected disabilities. The other 35% are assumed to be non-service connected.~~

~~(3) 100% of Safety – Law Enforcement, Fire and Probation disabilities are assumed to be service connected disabilities.~~

~~(4) 75% of Safety Probation disabilities are assumed to be service connected disabilities. The other 25% are assumed to be non-service connected.~~

	~~RATE (%) TERMINATION~~			
~~Years of Service~~	~~General All Other (1)~~	~~General OCTA (1)~~	~~Safety- Law & Fire (2)~~	~~Safety – Probation (2)~~
~~0~~	~~11.0~~	~~17.50~~	~~4.50~~	~~14.00~~
~~1~~	~~7.50~~	~~11.00~~	~~2.50~~	~~13.00~~
~~2~~	~~6.50~~	~~9.00~~	~~2.00~~	~~10.00~~
~~3~~	~~5.0~~	~~8.50~~	~~1.50~~	~~5.00~~
~~4~~	~~4.50~~	~~7.50~~	~~1.25~~	~~4.00~~
~~5~~	~~4.25~~	~~7.00~~	~~1.00~~	~~3.50~~
~~6~~	~~3.75~~	~~4.50~~	~~0.95~~	~~2.75~~
~~7~~	~~3.25~~	~~4.00~~	~~0.90~~	~~2.00~~
~~8~~	~~3.00~~	~~3.50~~	~~0.85~~	~~2.00~~
~~9~~	~~2.75~~	~~3.00~~	~~0.80~~	~~1.75~~
~~10~~	~~2.50~~	~~3.00~~	~~0.75~~	~~1.75~~
~~11~~	~~2.00~~	~~3.00~~	~~0.65~~	~~1.50~~
~~12~~	~~2.00~~	~~3.00~~	~~0.60~~	~~1.25~~
~~13~~	~~1.75~~	~~2.50~~	~~0.55~~	~~1.00~~
~~14~~	~~1.50~~	~~2.50~~	~~0.50~~	~~0.75~~
~~15~~	~~1.40~~	~~2.50~~	~~0.45~~	~~0.75~~

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	~~RATE (%) TERMINATION~~			
~~16~~	~~1.30~~	~~2.00~~	~~0.40~~	~~0.75~~
~~17~~	~~1.20~~	~~1.80~~	~~0.35~~	~~0.25~~
~~18~~	~~1.10~~	~~1.60~~	~~0.30~~	~~0.25~~
~~19~~	~~1.00~~	~~1.40~~	~~0.25~~	~~0.25~~
~~20 or more~~	~~.90~~	~~1.20~~	~~0.20~~	~~0.25~~

~~Proportion of Total Termination Assumed to Withdraw Contributions~~

	~~Election for Withdrawal of Contributions (%)~~			
~~Years of Service~~	~~General ALL Other~~	~~General OCTA~~	~~Safety Law and Fire~~	~~Safety Probation~~
~~0-4~~	~~35.0~~	~~40.0~~	~~20.0~~	~~25.0~~
~~5-9~~	~~30.0~~	~~35.0~~	~~20.0~~	~~25.0~~
~~10-14~~	~~25.0~~	~~30.0~~	~~20.0~~	~~25.0~~
~~15 or more~~	~~20.0~~	~~20.0~~	~~20.0~~	~~25.0~~

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~~Retirement Rates~~

	~~RATE (%)~~							
~~Age~~	~~General Enhanced~~	~~General – Non-Enhanced (1)~~	~~General SJC (31676.12)~~	~~Safety – Law (31664.1) (2)~~	~~Safety – Law (31664.2) (2)~~	~~Safety – Fire (31664.1) (2)~~	~~Safety – Fire (31664.2) (2)~~	~~Safety – Probation (2)~~
~~48~~	~~0.00~~	~~0.00~~	~~0.00~~	~~0.00~~	~~0.00~~	~~0.00~~	~~0.0~~	~~0.0~~
~~49~~	~~30.00~~	~~25.00~~	~~0.00~~	~~12.00~~	~~0.00~~	~~2.00~~	~~0.00~~	~~0.00~~
~~50~~	~~2.50~~	~~2.00~~	~~3.00~~	~~18.00~~	~~11.50~~	~~5.00~~	~~8.00~~	~~3.25~~
~~51~~	~~2.00~~	~~2.00~~	~~3.00~~	~~18.00~~	~~12.00~~	~~7.00~~	~~10.00~~	~~3.25~~
~~52~~	~~2.50~~	~~2.00~~	~~3.00~~	~~17.00~~	~~12.70~~	~~9.50~~	~~11.00~~	~~4.25~~
~~53~~	~~2.50~~	~~2.75~~	~~3.00~~	~~17.00~~	~~17.90~~	~~10.50~~	~~12.00~~	~~4.25~~
~~54~~	~~5.50~~	~~2.75~~	~~3.00~~	~~22.0~~	~~18.80~~	~~15.00~~	~~14.00~~	~~7.00~~
~~55~~	~~15.00~~	~~3.25~~	~~4.00~~	~~22.0~~	~~30.70~~	~~18.00~~	~~24.00~~	~~12.00~~
~~56~~	~~10.00~~	~~3.50~~	~~5.00~~	~~20.00~~	~~20.00~~	~~20.00~~	~~23.00~~	~~12.00~~
~~57~~	~~10.00~~	~~5.50~~	~~6.00~~	~~20.00~~	~~20.00~~	~~21.00~~	~~27.00~~	~~18.00~~
~~58~~	~~11.00~~	~~5.50~~	~~7.00~~	~~20.00~~	~~25.00~~	~~28.00~~	~~27.00~~	~~18.00~~
~~59~~	~~11.00~~	~~6.5~~	~~9.00~~	~~26.00~~	~~30.00~~	~~28.00~~	~~36.00~~	~~18.00~~
~~60~~	~~12.00~~	~~9.25~~	~~11.00~~	~~35.00~~	~~40.00~~	~~30.00~~	~~40.00~~	~~20.00~~
~~61~~	~~12.00~~	~~12.00~~	~~13.00~~	~~35.00~~	~~40.00~~	~~30.00~~	~~40.00~~	~~20.00~~
~~62~~	~~14.00~~	~~16.00~~	~~15.00~~	~~40.00~~	~~40.00~~	~~35.00~~	~~40.00~~	~~25.00~~
~~63~~	~~16.00~~	~~16.00~~	~~15.00~~	~~40.00~~	~~40.00~~	~~35.00~~	~~40.00~~	~~40.00~~
~~64~~	~~16.00~~	~~18.00~~	~~20.00~~	~~40.00~~	~~40.00~~	~~35.00~~	~~40.00~~	~~40.00~~
~~65~~	~~22.00~~	~~22.00~~	~~20.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~40.00~~	~~100.00~~
~~66~~	~~22.00~~	~~28.00~~	~~24.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~67~~	~~23.00~~	~~24.00~~	~~24.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~68~~	~~23.00~~	~~24.00~~	~~24.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~69~~	~~23.00~~	~~20.00~~	~~24.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~70~~	~~25.00~~	~~20.00~~	~~50.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~71~~	~~25.00~~	~~25.00~~	~~50.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~

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	~~RATE (%)~~							
~~72~~	~~25.00~~	~~25.00~~	~~50.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~73~~	~~25.00~~	~~25.00~~	~~50.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~74~~	~~25.00~~	~~25.00~~	~~50.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~75~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~

~~(1) These assumptions are also used for the CalPEPRA 1.62% @ 65 formula (Plan T and Plan W).~~

~~(2) Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings.~~

	~~RATE (%)~~			
~~Age~~	~~CalPEPRA 2.5% @ 67 General Formula~~	~~CalPEPRA Safety – Probation Formula (1)~~	~~CalPEPRA Safety – Law Formula (1)~~	~~CalPEPRA Safety – Fire Formula (1)~~
~~50~~	~~0.00~~	~~2.50~~	~~11.00~~	~~6.00~~
~~51~~	~~0.00~~	~~2.50~~	~~11.50~~	~~7.00~~
~~52~~	~~4.00~~	~~3.00~~	~~12.00~~	~~9.00~~
~~53~~	~~1.50~~	~~3.00~~	~~16.00~~	~~10.00~~
~~54~~	~~1.50~~	~~5.50~~	~~17.00~~	~~11.50~~
~~55~~	~~2.50~~	~~10.00~~	~~28.00~~	~~21.00~~
~~56~~	~~3.50~~	~~10.00~~	~~18.00~~	~~20.00~~
~~57~~	~~5.50~~	~~15.00~~	~~17.50~~	~~22.00~~
~~58~~	~~7.50~~	~~20.00~~	~~22.00~~	~~25.00~~
~~59~~	~~7.50~~	~~20.00~~	~~26.00~~	~~30.00~~
~~60~~	~~7.50~~	~~40.00~~	~~40.00~~	~~40.00~~
~~61~~	~~7.50~~	~~40.00~~	~~40.00~~	~~40.00~~
~~62~~	~~14.00~~	~~40.00~~	~~40.00~~	~~40.00~~
~~63~~	~~14.00~~	~~40.00~~	~~40.00~~	~~40.00~~
~~64~~	~~14.00~~	~~40.00~~	~~40.00~~	~~40.00~~
~~65~~	~~18.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~66~~	~~22.00~~	~~100.00~~	~~100.00~~	~~100.00~~

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	~~RATE (%)~~			
~~67~~	~~23.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~68~~	~~23.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~69~~	~~23.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~70~~	~~25.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~71~~	~~25.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~72~~	~~25.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~73~~	~~25.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~74~~	~~25.00~~	~~100.00~~	~~100.00~~	~~100.00~~
~~75~~	~~100.00~~	~~100.00~~	~~100.00~~	~~100.00~~

~~(1) Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings~~

~~Retirement Age and Benefit for Deferred Vested Members:~~	~~For deferred vested members, the following assumptions are made:~~ ~~General Retirement Age: 59~~ ~~Safety Retirement Age: 53~~ ~~Assume that 15% of future General and 25% of future Safety deferred vested members are reciprocal. For reciprocals, assume 4.25% compensation increases for General and 4.75% for Safety per annum.~~
~~Liability Calculation for Current Deferred Vested Members:~~	~~Liability for a current deferred vested member is calculated based on salary, service, and eligibility for reciprocal benefit as provided by the Retirement System. For those members without salary information that have 3 or more years of service, use an average salary. For those members without salary information that have less than 3 years of service or for those members~~

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	~~without service information, assume a refund of account balance.~~
~~Future Benefit Accruals:~~	~~1.0 year of service per year of employment. There is no assumption to anticipate conversion of unused sick leave at retirement.~~
~~Unknown Data for Members:~~	~~Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.~~
~~Form of Payment~~	~~All members are assumed to elect the unmodified option at retirement.~~
~~Percent married:~~	~~75% of male members and 55% of female members are assumed to be married at retirement or time of pre-retirement death.~~
~~Age of Spouse:~~	~~Female (or male) three years younger (or older) than spouse.~~
~~Additional Cashout Assumptions For Non-CalPEPRA Formulas~~	~~Additional compensation amounts are expected to be received during a member's final average earnings period. The percentages used in this valuation are:~~

	~~Final One Year Salary~~	~~Final Three Year Salary~~
~~General Members~~	~~3.00%~~	~~2.80%~~
~~Safety – Probation~~	~~3.80%~~	~~3.40%~~
~~Safety – Law~~	~~5.20%~~	~~4.60%~~
~~Safety – Fire~~	~~2.00%~~	~~1.70%~~

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	~~The additional cashout assumptions are the same for service and disability retirements.~~
~~Additional Cashout Assumptions For CalPEPRA Formulas~~	~~None~~

Memorandum

DATE: October 19, 2022

TO: Members of the Governance Committee

FROM: Brenda Shott, Assistant CEO Finance and Internal Operations

SUBJECT: **OUT OF CYCLE REVIEW OF THE RESERVES AND INTEREST-CREDITING POLICY**

Recommendation

Approve and recommend that the Board of Retirement approve proposed revisions to the Reserves and Interest-Crediting Policy as presented.

Background/Discussion

The Board of Retirement (including the Investment Committee) has formally adopted over 60 policies and charters and has established a review schedule that requires review of every policy and charter every three years.

The Reserves and Interest-Crediting Policy (Policy) was adopted by the Board on December 18, 2017 and was last reviewed and revised on November 16, 2020. The Policy was scheduled for review and approval by the Board, after review by the Governance Committee, in 2023; however, it is being brought to the Committee out of the next regular triennial cycle to coincide with the triennial review of the related Actuarial Funding Policy.

Proposed Revisions

Staff, as well as Segal Consulting, have reviewed the Policy and recommend several nomenclature changes that, although not substantive, are aimed at clarifying the order of distribution of available earnings and interest crediting to the reserve accounts and create consistency with terminology used in the Annual Comprehensive Financial Report.

A copy of the Policy, with proposed changes indicated in underlined/strikeout text, is attached.

Attachment

Submitted by:

OCERS B.M.S - Approved

Brenda Shott
Assistant CEO, Finance and Internal Operations

OCERS Board Policy

Reserves and Interest-Crediting Policy

Purpose and Background

1. The purpose of this policy is to document the existing reserve structure created and maintained by OCERS and the distribution of available earnings and interest-crediting to the reserve accounts consistent with Government Code §§31591, 31592 and 31592.2.

Policy Objectives

2. The objectives of this policy are to:

   a. Identify all the reserves maintained by OCERS, and how funds are distributed to and from the relevant reserve.

   b. In the event of excess earnings in any fiscal year, provide guidance to OCERS' staff to ensure appropriate application of excess earnings (Undistributed Earnings) to reserve accounts.

Definitions

The System’s reserves are book-keeping accounts and do not represent an actual separation of funds; the sum of all reserves equals the net position restricted for pension, other postemployment benefits and employer and fall into these categories: Valuation Reserves, Non-Valuation Reserves, Health Care Plan and Custodial Fund Reserves.

3. **Valuation Reserves** consist of the reserves used by the actuary in calculating the valuation value of assets. The total of the Valuation Reserves equals the value of the system’s assets used by the actuary in determining current funding levels. The following are OCERS’ Valuation Reserve accounts:

   a. **Employer Contribution Reserve**—represents employer contributions for active and deferred members plus interest for future retirement benefits. Additions include employer contributions for active members and interest credited semi-annually. Deductions include transfers to the Pension Reserve to fund retirement benefits, disability benefits and death benefits.

   b. **Employee Contribution Reserve—**represents employee contributions for active and deferred members plus interest for future retirement benefits. Additions include member contributions and interest credited semi-annually. Deductions include member refunds and transfer of funds to the Annuity Reserve for retirement benefits of newly retired members.

   c. **Pension Reserve**—represents funding originally from employer contributions for retirement and disability benefit payments for retired members plus interest. Additions include transfers from the Employer Contribution Reserve as current active members retire, transfers from other reserves as described below and interest credited semi-annually. Deductions include benefit payments to retired and disabled members, and their beneficiaries.

   d. **Annuity Reserve**—represents funding originally from employee contributions for retirement and disability benefit payments for retired members plus interest. Additions include transfers from the Employee Contribution Reserve as current active members retire and interest credited semi-annually. Deductions include benefit payments to retired and disabled members, and their beneficiaries.

e. **UAAL Contribution Reserve**—represents the cumulative additional employer contributions made for their unfunded actuarial accrued liability in excess of the required contribution plus interest. This reserve is included as part of the Employer Contribution Reserve in the financial statements of the System. Additions include employer contributions to their UAAL, and interest credited semi-annually. Deductions will include transfers to the Pension Reserve to fund retirement benefits, disability benefits and death benefits if Employer Contribution Reserves are insufficient.

f. **STAR COLA (Supplemental Targeted Adjustment for Retirees Cost-of-living Adjustment) Reserve**—represents employer contributions for retirees whose retirement benefit has lost more than 20 percent of its purchasing power since retirement. Additions to this reserve include contributions received from employers. Deductions include monthly benefit payments made to eligible retired members and transfers to the Pension Reserve for any differences between amounts contributed and benefits paid.

g. **ERI (Early Retirement Incentive) Contribution Reserve**—represents employer contributions for future retirement payments to active employees who were offered an incentive for early retirement by their employer plus interest. This reserve is included as part of the Employer Contribution Reserve in the financial statements of the System. Additions include annual employer contributions paid from 2002 through 2017 and interest credited semi-annually. Deductions include transfers to the Pension Reserve to fund the early retirement benefits for eligible members. There are currently no active early incentive retirement programs that require contributions to this reserve.

h. **Contra Account**—is an accounting informational mechanism, not a reserve. The balance in the account represents the accumulation of any prior shortfall in interest crediting to the valuation reserve accounts which could not be funded from available earnings.

i. **Contingency Reserve**—provides a buffer against deficiencies for payment of retirement benefits due to interest and earnings fluctuations, changes in assumptions or some other unforeseen contingency. The County Employees Retirement Law provides that when the Contingency Reserve exceeds one percent of total assets, the retirement board may transfer all or any part of the surplus as specified in Government Code § 31592.2. Additions to this reserve are transfers from the Undistributed Earnings. Deductions are transfers to other reserve funds as required by this policy. If no Undistributed Earnings are available, this reserve may be unfunded.

4. **Non-Valuation Reserves** are special purpose reserves for specific employers and retirees and are not used by the actuary in determining current funding levels. The following are OCERS' Non-Valuation Reserves:

   a. **County Investment Account Reserve—**represents the remaining proceeds from the County of Orange's 1994 Pension Obligation Bond issuance. The remaining proceeds are utilized, in accordance with a long-standing agreement between OCERS and the County of Orange, to offset a portion of the annual actuarially determined contributions for the County of Orange at their sole discretion. Additions to this reserve include interest credited as stated in the agreement (at the actual market rate of return). Deductions represent transfers to the Employer Contribution Reserve as provided in the aforementioned agreement.

b. **Medicare/Medical Insurance Reserve**—represents funds received from the County to subsidize Medicare benefits for a small group of retirees in settlement of a retiree healthcare lawsuit back in the 1970's. There are no additions to this reserve. Deductions to this reserve represent payments to the few remaining retirees who are entitled to this benefit. Once there are no longer any retirees entitled to this benefit, any remaining funds will be transferred to the Pension Reserve. For financial statement reporting purposes only, this reserve is currently included with the Pension Reserve.

c. **EPA (Employee Purchased Annuity) Reserve—**represents additional after-tax contributions made by employees pursuant to Government Code §31627 for the purpose of providing additional benefits. Under this plan, active employees were given the choice of receiving a lump sum benefit upon retirement, or a monthly distribution for 60 to 120 months, then a lifetime additional retirement benefit. The plan was closed as of December 31, 2002 and only a few retirees are receiving this additional benefit. Interest had been credited at the assumed rate of return minus 0.5%, but the balance in this reserve has been exhausted. Activity in this reserve is limited to deductions for the monthly additional benefit for the remaining retirees. For financial reporting purposes, the negative balance in this reserve is offset against the Pension Reserve.

d. **OCSD UAAL Deferred Reserve**—represents payments by the Orange County Sanitation District (OCSD) for its deferred unfunded actuarial accrued liability (UAAL). This non-valuation reserve was established by a memorandum of understanding (MOU) adopted on January 17, 2017 to track the funding of the actuarial deferred losses attributed to OCSD that is to be applied against their UAAL in future years. Additions to this reserve include payments made by OCSD and interest credited annually at the actual market rate of return. Deductions to this reserve are transfers made to the Employer Reserve Account to offset OCSD UAAL as calculated by the actuary. As of December 18, 2018, the full balance of this reserve had been used to offset OCSD's UAAL and a new MOU was adopted on October 21, 2019 to track the funding of an additional payment by OCSD for its deferred UAAL.

e. **Actuarial Deferred Returns**—represents the amount of deferred earnings created by a five-year smoothing of actual gains and losses compared to the assumed investment rate of return. A positive balance represents accumulated earnings above the assumed investment rate of return. A negative balance represents accumulated earnings below the assumed investment rate of return. Changes to this amount are determined based on the actuarial valuation completed at the end of the year. This amount may also be referred to as "Net Unrecognized Gains/ (Losses)" or "Reserve for Market Stabilization."

5. **Health Care Plan Reserves** include funds held for the special purpose to pay medical benefits for eligible recipients. The following are the Health Care Plan Reserve accounts:

   a. **Health Care Plan Reserve—County—**represents assets held to pay retiree medical benefits for eligible participants of the County 401(h) health care plan. Additions include employer contributions and investment earnings. Deductions include medical premium payments and administrative expenses.

b. **Health Care Plan Reserve—OCFA (Orange County Fire Authority) —**represents assets held to pay retiree medical benefits for eligible participants of the OCFA 401(h) health care plan. Additions include employer contributions and investment earnings. Deductions include medical premium payments and administrative expenses.

6. **Custodial Fund Reserve –** represents custodial assets held by OCERS in an investment capacity for the Orange County Transportation Authority (OCTA) health care plan. Additions include other postemployment benefit contributions and investment earnings. Deductions include other postemployment benefits and administrative expenses.

7. **Other Related Terms**

   a. **Undistributed Earnings** are the most recent annual earnings of the fund.

   b. **Unallocated Fund Balance** is the amount remaining after all the required reserves have been funded and interest has been credited to those reserves. An Unallocated Fund Balance will only occur when earnings have more than exceeded expectations and the required Contingency Reserve has been funded.

   c. **Available Earnings** are Undistributed Earnings, as defined above, plus any balance in the Unallocated Fund Balance and Contingency Reserves.

Policy Guidelines

8. Available Earnings of OCERS will be allocated in the following order:

   a. Payment of administrative and investment expenses

   b. Credit of interest at actual market rate of return per terms of applicable agreement to the following non-valuation reserves:

      a. County Investment Account Reserve

      b. OCSD UAAL Deferred Reserve

   c. Credit of regular interest compounded semi-annually on June 30 and December 31 to all contributions in the retirement fund which have been on deposit for six months prior to that date as specified in Government Code § 31591:

      1. Employee (EE) Contribution Reserve at an annual rate of 5%

      2. Employer (ER) Contribution Reserve at the annual assumed rate of return plus the excess between the annual assumed rate of return and 5% credited for employee interest

      3. Annuity Reserve at the annual assumed rate of return

      4. Pension Reserve at the annual assumed rate of return

      5. Early Retirement Incentive (ERI) Reserve at the annual assumed rate of return

      6. UAAL Contribution Reserve at the annual assumed rate of return

   d. Maintain a Contra Account to track any shortfall of available earnings relative to full regular interest on the valuation reserves, after crediting interest to the County Investment Account Reserve and OCSD UAAL Deferred Reserve.

9. The Board adopts the allocation of the remaining balance of Undistributed Earnings after making the allocations described in Section 8 in the following order:

   a. Replenish the Contra Account until it is zero

   b. Replenish the Contingency Reserves to 1% of assets

   c. Credit to Employer (ER) Contribution and Pension Reserves so as to reduce the unfunded actuarial accrued liability (UAAL) of the System to zero

   d. Credit the balance to the Unallocated Fund Balance

Policy Review

10. This Policy is subject to change in the exercise of the Board's judgment. The Board will review this policy at least every three years to ensure that it remains relevant and appropriate. In the event of legislative changes to the pertinent sections addressed in this policy, the Board will review the policy as appropriate.

Policy History

11. The Board adopted the Undistributed Earnings policy on November 23, 2009.

12. The Undistributed Earnings Policy was last reviewed on January 21, 2014.

13. The Reserves and Interest-Crediting Policy superseded the prior Undistributed Earnings Policy and was approved by the Board on December 18, 2017.

14. The Reserves and Interest Crediting Policy was reviewed on December 18, 2017 and November 16, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney

11/16/2020

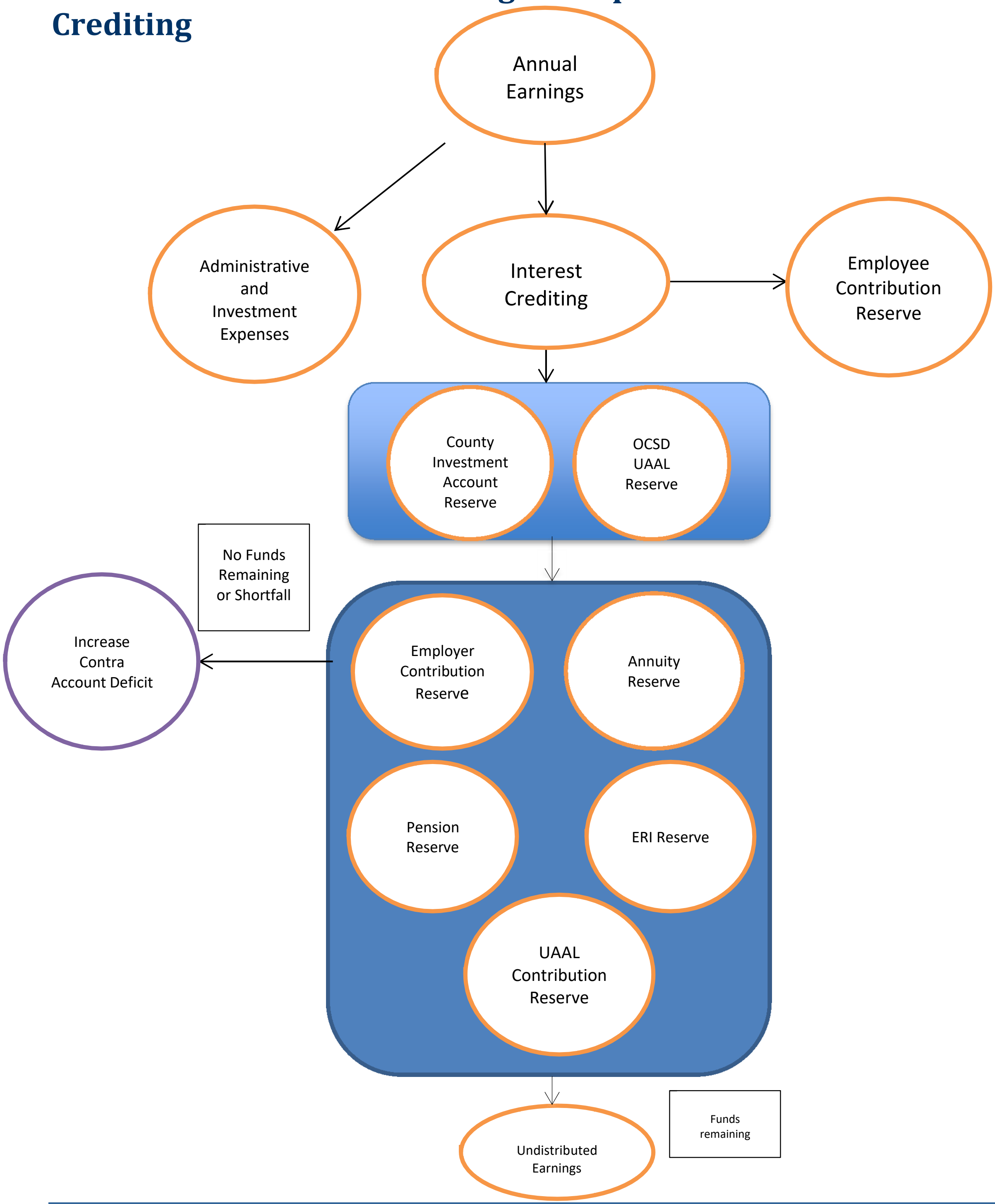
Steve Delaney
Secretary of the Board

Date

OCERS Board Policy

Reserves and Interest-Crediting Policy

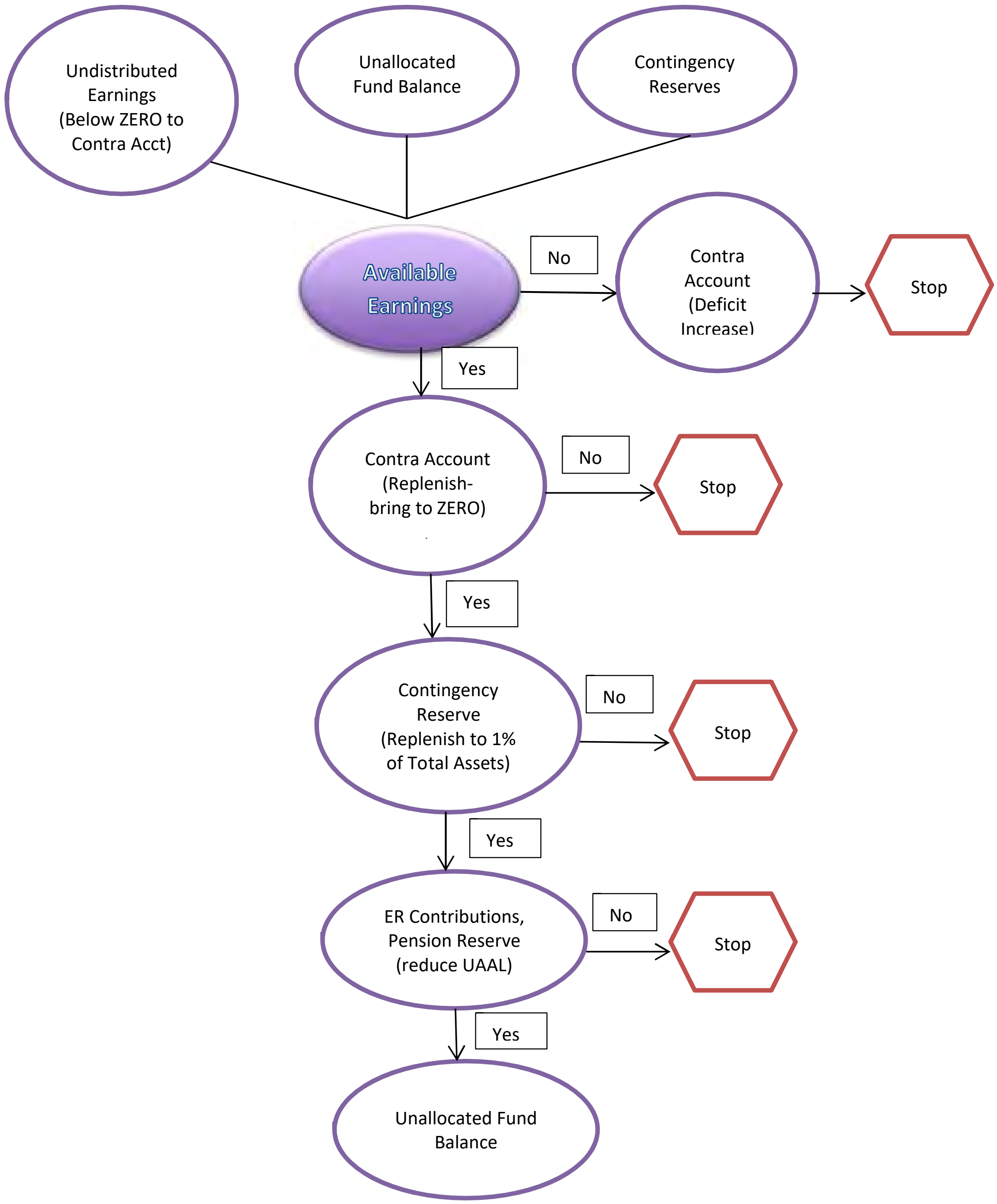
Distribution of Annual Earnings to Expenses and Interest-Crediting



OCERS Board Policy

Reserves and Interest-Crediting Policy

Allocation of Undistributed Earnings and Available Earnings



ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Reserves and Interest-Crediting Policy

Purpose and Background

1. The purpose of this policy is to document the existing reserve structure created and maintained by OCERS and the distribution of available earnings and interest-crediting to the reserve accounts consistent with Government Code §§31591, 31592 and 31592.2.~~.~~

Policy Objectives

2. The objectives of this policy are to:

   a. Identify all the reserves maintained by OCERS, and how funds are distributed to and from the relevant reserve.

   b. In the event of excess earnings in any fiscal year, provide guidance to OCERS' staff to ensure appropriate application of excess earnings (Undistributed Earnings) to reserve accounts.

Definitions

The System's reserves are book-keeping accounts and do not represent an actual separation of funds; the sum of all reserves equals the net position restricted for pension, other postemployment benefits and ~~OPEB 115~~employer and fall into these categories: Valuation Reserves, Non-Valuation Reserves, Health Care Plan and ~~OPEB 115~~Custodial Fund Reserves.

3. **Valuation Reserves** consist of the reserves used by the actuary in calculating the valuation value of assets. The total of the Valuation Reserves equals the ~~market~~ value of the system's assets used by the actuary in determining current funding levels. The following are OCERS' Valuation Reserve accounts:

   a. **Employer Contribution Reserve**—represents employer contributions for active and deferred members plus interest for future retirement benefits. Additions include employer contributions for active members and interest credited semi-annually. Deductions include transfers to the Pension Reserve to fund retirement benefits, disability benefits and death benefits.

   b. **Employee Contribution Reserve—**represents employee contributions for active and deferred members plus interest for future retirement benefits. Additions include member contributions and interest credited semi-annually. Deductions include member refunds and transfer of funds to the Annuity Reserve for retirement benefits of newly retired members.

   c. **Pension Reserve**—represents funding originally from employer contributions for retirement and disability benefit payments for retired members~~.~~ plus interest. Additions include transfers from the Employer Contribution Reserve as current active members retire, transfers from other reserves as described below and interest credited semi-annually. Deductions include benefit payments to retired and disabled members, and their beneficiaries.

   d. **Annuity Reserve**—represents funding originally from employee contributions for retirement and disability benefit payments for retired members~~.~~ plus interest. Additions include transfers from the Employee Contribution Reserve as current active members retire and interest credited semi-annually. Deductions include benefit payments to retired and disabled members, and their beneficiaries.

e. **UAAL Contribution Reserve**—represents the cumulative additional employer contributions made for their unfunded actuarial accrued liability in excess of the required contribution~~.~~ plus interest. This reserve is included as part of the Employer Contribution Reserve in the financial statements of the System. Additions include employer contributions to their UAAL, and interest credited semi-annually. Deductions will include transfers to the Pension Reserve to fund retirement benefits, disability benefits and death benefits if Employer Contribution Reserves are insufficient.

f. **STAR COLA (Supplemental Targeted Adjustment for Retirees Cost-of-living Adjustment) Reserve**—represents employer contributions for retirees whose retirement benefit has lost more than 20 percent of its purchasing power since retirement. Additions to this reserve include contributions received from employers. Deductions include monthly benefit payments made to eligible retired members and transfers to the Pension Reserve for any differences between amounts contributed and benefits paid.

g. **ERI (Early Retirement Incentive) Contribution Reserve**—represents employer contributions for future retirement payments to active employees who were offered an incentive for early retirement by their employer~~.~~ plus interest. This reserve is included as part of the Employer Contribution Reserve in the financial statements of the System. Additions include annual employer contributions paid from 2002 through 2017 and interest credited semi-annually. Deductions include transfers to the Pension Reserve to fund the early retirement benefits for eligible members. There are currently no active early incentive retirement programs that require contributions to this reserve.

h. **Contra Account**—is an accounting informational mechanism, not a reserve. The balance in the account represents the accumulation of ~~the~~any prior shortfall in interest crediting to the valuation ~~reserves~~reserve accounts which ~~cannot~~could not be funded from available earnings.

i. **Contingency Reserve**—provides a buffer against deficiencies for payment of retirement benefits due to interest and earnings fluctuations, changes in assumptions or some other unforeseen contingency. The County Employees Retirement Law provides that when the Contingency Reserve exceeds one percent of total assets, the retirement board may transfer all or any part of the surplus as specified in Government Code § 31592.2. Additions to this reserve are transfers from the Undistributed Earnings. Deductions are transfers to other reserve funds as required by this policy. If no Undistributed Earnings are available, this reserve may be unfunded.

4. **Non-Valuation Reserves** are special purpose reserves for specific employers and retirees and are not used by the actuary in determining current funding levels. The following are OCERS' Non-Valuation Reserves:

   a. **County Investment Account Reserve—**represents the remaining proceeds from the County of Orange's 1994 Pension Obligation Bond issuance. The remaining proceeds are utilized, in accordance with a long~~-~~-standing agreement between OCERS and the County of Orange, to offset

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy
Reserves and Interest-Crediting Policy

a portion of the annual actuarially~~-~~ determined contributions for the County of Orange~~.~~ at their sole discretion. Additions to this reserve include interest credited as stated in the agreement~~.~~ (at the actual market rate of return). Deductions represent transfers to the Employer Contribution Reserve as provided in the aforementioned agreement.

b. **Medicare/Medical Insurance Reserve**—represents funds received from the County to subsidize Medicare benefits for a small group of retirees in settlement of a retiree healthcare lawsuit back in the 1970's. There are no additions to this reserve. Deductions to this reserve represent payments to the few remaining retirees who are entitled to this benefit. Once there are no longer any retirees entitled to this benefit, any remaining funds will be transferred to the Pension Reserve. For financial statement reporting purposes only, this reserve is currently included with the Pension Reserve.

c. **EPA (Employee Purchased Annuity) Reserve—**represents additional after-tax contributions made by employees pursuant to Government Code §31627 for the purpose of providing additional benefits. Under this plan, active employees were given the choice of receiving a lump sum benefit upon retirement, or a monthly distribution for 60 to 120 months, then a lifetime additional retirement benefit. The plan was closed as of December 31, 2002 and only a few retirees are receiving this additional benefit. Interest had been credited at the assumed rate of return minus 0.5%, but the balance in this reserve has been exhausted. Activity in this reserve is limited to deductions for the monthly additional benefit for the remaining retirees. For financial reporting purposes, the negative balance in this reserve is offset against the Pension Reserve.

d. **OCSD UAAL Deferred Reserve**—represents payments by the Orange County Sanitation District (OCSD) for its deferred unfunded actuarial accrued liability (UAAL). This non-valuation reserve was established by a memorandum of understanding (MOU) adopted on January 17, 2017 to track the funding of the actuarial deferred losses attributed to OCSD that is to be applied against their UAAL in future years. Additions to this reserve include payments made by OCSD and interest credited annually at the actual market rate of return. Deductions to this reserve are transfers made to the Employer Reserve Account to offset OCSD UAAL as calculated by the actuary. As of December 18, 2018, the full balance of this reserve had been used to offset OCSD's UAAL and a new MOU was adopted on October 21, 2019 to track the funding of an additional payment by OCSD for its deferred UAAL.

e. **Actuarial Deferred Returns**—represents the amount of deferred earnings created by a five-year smoothing of actual gains and losses compared to the assumed investment rate of return. A positive balance represents accumulated earnings above the assumed investment rate of return. A negative balance represents accumulated earnings below the assumed investment rate of return. Changes to this amount are determined based on the actuarial valuation completed at the end of the year. This amount may also be referred to as "Net Unrecognized Gains/ (Losses)" or "Reserve for Market Stabilization."

5. **Health Care Plan Reserves** include funds held for the special purpose to pay medical benefits for eligible recipients. The following are the Health Care Plan Reserve accounts:

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Reserves and Interest-Crediting Policy

a. **Health Care Plan Reserve—County—**represents assets held to pay retiree medical benefits for eligible participants of the County 401(h) health care ~~plans~~plan. Additions include employer contributions and investment earnings. Deductions include medical premium payments and administrative expenses.

b. **Health Care Plan Reserve—OCFA (Orange County Fire Authority) —**represents assets held to pay retiree medical benefits for eligible participants of the OCFA 401(h) health care ~~plans~~plan. Additions include employer contributions and investment earnings. Deductions include medical premium payments and administrative expenses.

6. **~~OPEB 115 Plan~~Custodial Fund Reserve –** represents custodial assets held by OCERS in an investment capacity for the Orange County Transportation Authority (OCTA) health care plan. Additions include other postemployment benefit contributions and investment earnings. Deductions include other postemployment benefits and administrative expenses.

7. **Other Related Terms**

   a. **Undistributed Earnings** are the most recent annual earnings of the fund.

   b. **Unallocated Fund Balance** is the amount remaining after all the required reserves have been funded and interest has been credited to those reserves. An Unallocated Fund Balance will only occur when earnings have more than exceeded expectations and the required Contingency Reserve has been funded.

   c. **Available Earnings** are Undistributed Earnings, as defined above, plus any balance in the Unallocated Fund Balance and Contingency Reserves.

Policy Guidelines

8. Available Earnings of OCERS will be allocated in the following order:

   a. Payment of administrative and investment expenses

   b. Credit of interest at actual market rate of return per terms of applicable agreement to the following non-valuation reserves:

      a. County Investment Account Reserve

      b. OCSD UAAL Deferred Reserve

   ~~b.~~c. Credit of regular interest compounded semi-annually on June 30 and December 31 to all contributions in the retirement fund which have been on deposit for six months prior to that date as specified in Government Code § 31591:

      1. Employee (EE) Contribution Reserve at an annual rate of 5%

      2. Employer (ER) Contribution Reserve at the annual assumed rate of return plus the excess between the annual assumed rate of return and 5% credited for employee interest

      3. Annuity Reserve at the annual assumed rate of return

      4. Pension Reserve at the annual assumed rate of return

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5. Early Retirement Incentive (ERI) Reserve at the annual ~~-~~assumed rate of return
6. UAAL Contribution Reserve at the annual assumed rate of return

~~c. Credit~~Maintain a Contra Account to track any shortfall of available earnings relative to full regular interest ~~per terms of applicable agreement to~~ on the ~~following non-~~valuation reserves~~:~~

d. , after crediting interest to the County Investment Account Reserve and OCSD UAAL Deferred Reserve.

~~a. OCSD UAAL Deferred Reserve~~

~~10.~~9. The Board adopts the allocation of the remaining balance of Undistributed Earnings after making the allocations described in Section 8 ~~-~~in the following order:

a. Replenish the Contra Account until it is zero

b. Replenish the Contingency Reserves to 1% of assets

c. Credit to Employer (ER) Contribution and Pension Reserves so as to reduce the unfunded ~~accrued~~ actuarial accrued liability (UAAL) of the System to zero

d. Credit the balance to the Unallocated Fund Balance

Policy Review

~~11.~~10. This Policy is subject to change in the exercise of the Board's judgment. The Board will review this policy at least every three years to ensure that it remains relevant and appropriate. In the event of legislative changes to the pertinent sections addressed in this policy, the Board will review the policy as appropriate.

Policy History

~~12.~~11. The Board adopted the Undistributed Earnings policy on November 23, 2009.

~~13.~~12. The Undistributed Earnings Policy was last reviewed on January 21, 2014.

~~14.~~13. The Reserves and Interest-Crediting Policy superseded the prior Undistributed Earnings Policy and was approved by the Board on December 18, 2017.

~~15.~~14. The Reserves and Interest Crediting Policy was ~~last~~ reviewed on December 18, 2017 and November 16, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Reserves and Interest-Crediting Policy

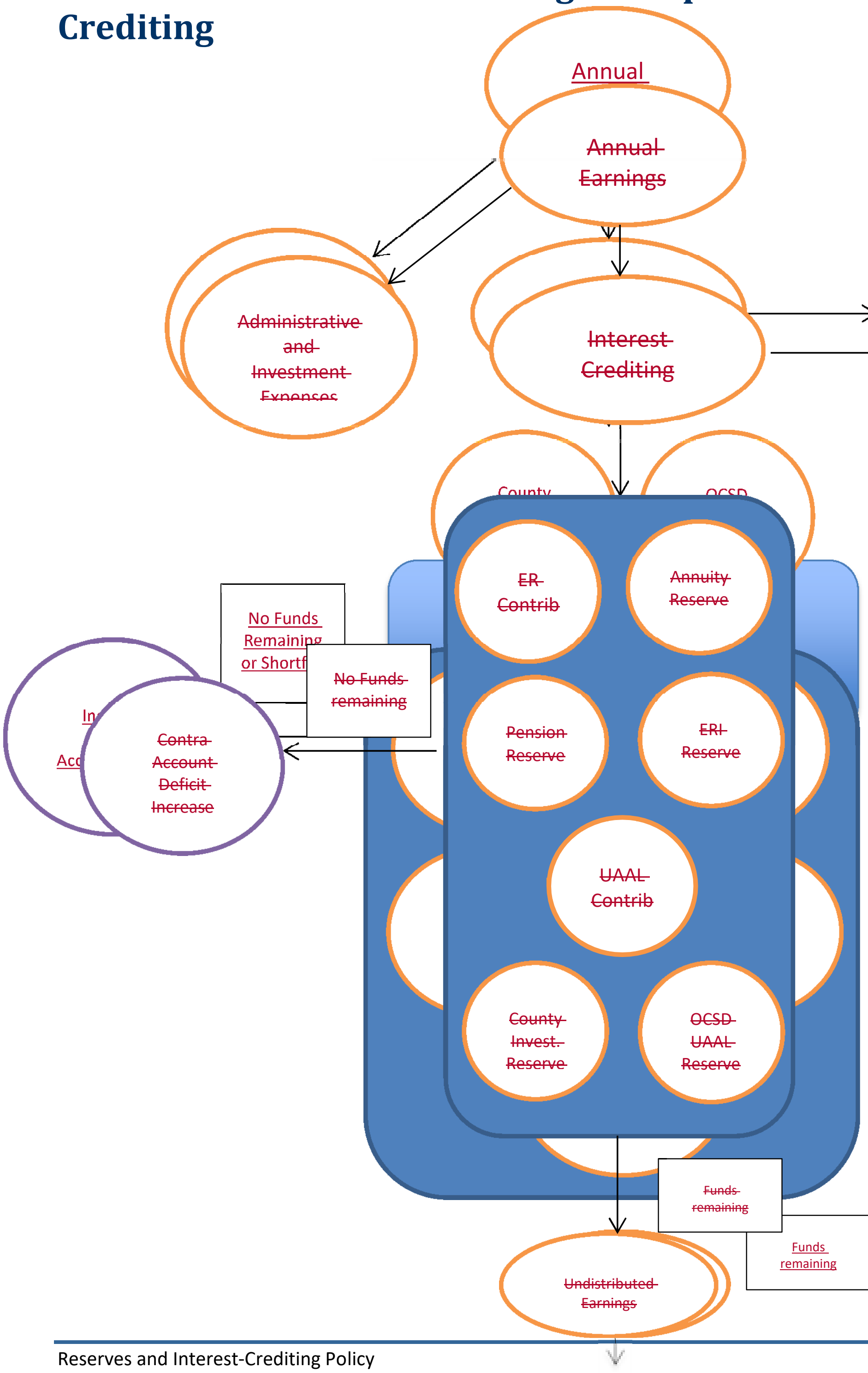
Steve Delaney Secretary of the Board	11/16/2020 Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Reserves and Interest-Crediting Policy

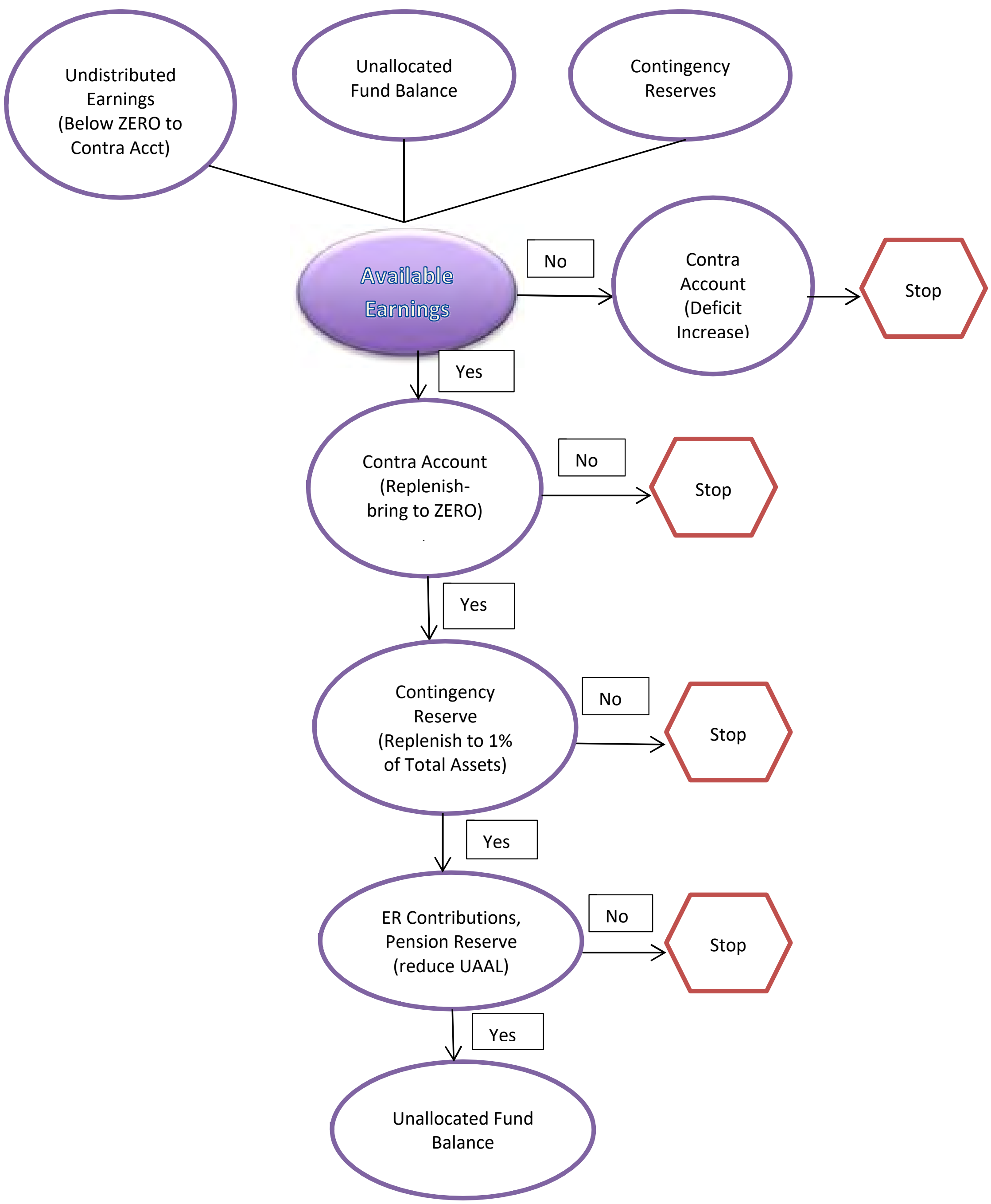
Distribution of Annual Earnings to Expenses and Interest-Crediting



OCERS Board Policy

Reserves and Interest-Crediting Policy

Allocation of Undistributed Earnings and Available Earnings



ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Memorandum

DATE: October 19, 2022

TO: Members of the Governance Committee

FROM: Steve Delaney, Chief Executive Officer

SUBJECT: **REVIEW OF THE TRAVEL POLICY**

Recommendation

Approve and recommend that the Board approve revisions to the Travel Policy as presented.

Background/Discussion

The Governance Committee performed its triennial review of the Travel Policy at the Committee's last meeting on August 3, 2022, and approved several non-substantive revisions to the policy at that time. However, just before the policy was to be presented to the Board for the Board's concurrence in the revisions approved by the Committee, another revision to the Travel Policy was suggested by the Committee Chair. This agenda item is for the purpose of reviewing the additional revision.

Proposed Revision

A revision to the Travel Policy is suggested to permit reimbursement of business or first class flights for international travel. The following revision to Section 33 of the Travel Policy is proposed:

Airline Travel

33. OCERS' Board members and staff will use good judgment to obtain airline tickets at competitive prices. OCERS will not reimburse a Board or staff member to fly business or first class except in the case of international travel or other extraordinary circumstances, and then only with the approval of the Board Chair or Vice Chair where the traveler is a Board member or the Chief Executive Officer, or the approval of the Chief Executive Officer where the traveler is a staff member. In addition, for travel that exceeds four hours in length, additional legroom seats or premium economy fees will be reimbursed. An individual may, at his or her own expense, pay to upgrade travel to business or first class.

The revisions approved by the Committee in August and the proposed revision to Section 33 are set forth in underlined/strikeout text in the attached copy of the policy.

Attachment

Submitted by:

SD - Approved

Steve Delaney
Chief Executive Officer

OCERS Board Policy

Travel Policy

Purpose

1. Prudent oversight of a public sector pension plan requires that trustees and staff occasionally travel to business meetings and educational conferences or seminars, held in or outside of the state of California. Travel and related costs incurred in doing so not only represent legitimate expenses of the plan, but are a sound investment in the ongoing success of the organization in meeting the needs of the membership.
2. The purpose of the Travel Policy is to encourage and facilitate the pursuit of relevant educational and business related initiatives by trustees and staff. The policy is designed to assist them in meeting their fiduciary duties to administer the pension plan, ensure that expenditures incurred in the education and travel process are prudent and cost-effective, and to mitigate the risk of improprieties arising from travel or business related activities. Exceptions to any provision of this policy for a Board member or the Chief Executive Officer require the pre-approval of the Board Chair or Vice Chair; and require the pre-approval of the Chief Executive Officer in the case of an exception for a staff member.

Content Requirements

3. As a general rule, and with the exception of public retirement system meetings discussed below, unless a conference/seminar agenda contains an average of five (5) hours of substantive educational content per day, attendance at the particular conference/seminar will not be approved and related travel expenses will not be reimbursed. Educational forums, conferences and seminars that routinely and consistently satisfy this requirement will automatically qualify for Board approval for attendance. The Chief Executive Officer will screen and determine those conferences or seminars that meet the five (5) hour requirement and provide a list thereof to the Board members and appropriate staff members. Authorization to attend and receive travel expense reimbursement for a client conference organized or sponsored by a single company or firm shall be restricted to those conferences sponsored by firms who have a contractual relationship with OCERS. Board members or staff members who have independent relationships with a conference sponsor are not automatically entitled to attend such conferences at OCERS' expense. The Board of Retirement shall consider each request individually regardless of any Board or staff affiliation.

Board Member

4. The term "Board Member" shall include a designee of the Treasurer, provided such person is designated in writing to act as the designee, has taken the oath of office and has filed the written designation with the County Clerk, County Auditor and OCERS.

Travel Authorization

5. Except as otherwise provided herein, reimbursement of travel expenses for a Board member to attend an educational conference or seminar (or other type of meeting or event) requires the prior approval of the Board of Retirement.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy
Travel Policy

6. All reimbursement of travel expenses for an employee of OCERS to attend an educational conference or seminar (or other type of meeting or event) or for administrative purposes requires the prior approval of the Chief Executive Officer or his or her designee.

7. Travel on OCERS' business within the Southern California region by Board members or staff need not be approved in advance provided that overnight accommodations are not required. The Southern California region shall include the counties of Orange, Los Angeles, San Bernardino, Riverside, San Diego, Imperial, Ventura, Santa Barbara and Kern.

Limitation on Meeting for Business Purpose

8. No more than four members of the Board are authorized to meet together for business purposes within the State of California unless there is appropriate public notice of the meeting. Attendance at educational conferences, seminars and social activities by more than four members of the Board is not a violation of this provision.

Cost of Administration

9. Approved education and travel expenses for Board and staff members shall be direct costs of administration of OCERS (or directly charged to Investments in the case of education, due diligence, and travel expenses for Investments staff) ~~shall be~~ paid by OCERS, and shall not be paid through third party contracts or otherwise without express written authorization of the Board of Retirement. All approved travel and education expenses shall be included in the OCERS annual budget approved by the Board of Retirement. ~~Due Diligence expenses, as authorized by the Board, shall not be treated as costs of administration.~~

Pre-Approved Conferences and Meetings

10. Board members and the OCERS staff members designated by the Chief Executive Officer are automatically authorized and encouraged to attend the following:

    a. Regular meetings of the State Association of County Retirement Systems (SACRS);

    b. Conferences of the National Conference on Public Employee Retirement Systems (NCPERS);

    c. CALAPRS annual General Assembly and Round Table meetings;

    d. Conferences of the National Association of State Retirement Administrators (NASRA);

    e. Conferences of the National Institute on Retirement Security (NIRS);

    f. Conferences sponsored by the Board of Retirement's retained consultants and/or investment managers;

    g. Conferences sponsored by the California Retired County Employees Association (CRCEA);

    h. Conferences sponsored by the National Association of Police Organizations (NAPO); and

    i. Conferences sponsored by a firm that has a contractual relationship with OCERS.

    In addition, the OCERS staff members designated by the Chief Executive Officer are automatically authorized and encouraged to attend the following:

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy
Travel Policy

j. Annual Conference of the Public Pension Financial Forum (P2F2);

k. Conferences of the National Association of Public Pension Attorneys (NAPPA);

l. Conferences sponsored by the Government Finance Officers Association (GFOA); and

m. Conferences sponsored by CEM Benchmarking.

11. ~~Staff members designated by the Chief Executive Officer and~~ Board members and staff members designated by the Chief Executive Officer who are appointed or elected to serve on committees and/or the Board of Directors of the organizations named in paragraph 10 are automatically authorized to attend meetings of the committee(s) to which they have been appointed or elected.

12. Board members and ~~the OCERS~~ staff members designated by the Chief Executive Officer are automatically authorized to attend each of the following full curriculum pension management programs and courses:

    a. Basic and advance educational programs sponsored by CALAPRS – once during each Board member's term, and one time only for OCERS staff members;

    b. Basic and advanced educational programs sponsored by SACRS – once during each Board member's term, and one time only for OCERS staff members;

    c. Basic and advanced investment programs sponsored by the Wharton School -- one time only for Board members and staff; provided, however, if the Wharton School does not offer an advanced investment program, the basic program may be taken a second time after three years of initially completing the program; and

    d. Global Financial Markets Institute, Inc. ~~--~~ – various programs are available; Board members and staff may attend each program only once.

13. New Board members, other than those with prior experience administering a public retirement system or pension fund, are encouraged to attend one of the courses listed in paragraph 12 within the first year after their election or appointment.

14. The Chief Executive Officer has identified the following conferences/seminars that Board members and designated staff members are automatically authorized to attend, subject to the limits set forth in paragraph 16, at OCERS expense:

    a. Conferences and Programs (CAPP) sponsored by the International Foundation of Employee Benefit Plans (IFEBP);

    b. Conferences sponsored by the Pension Real Estate Association (PREA);

    c. Conferences sponsored by Pension and Investments;

    d. Conferences sponsored by the Pacific Pension Institute (PPI);

    e. Forums sponsored by Institutional Investor;

    f. Conferences sponsored by the Council of Institutional Investors (CII);

    g. Conferences sponsored by Institutional Real Estate, Inc. (IREI);

    h. Conferences sponsored by the Opal Financial Group;

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy
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i. Conferences sponsored by ~~The Pension Bridge~~WithIntelligence and all of its subsidiaries;

j. Conferences sponsored by the Investment and Wealth Institute~~Management Consultants Association (IMCA)~~;

k. Conferences sponsored by SuperReturn;

l. Conferences sponsored by Global ARC;

m. Conferences sponsored by ~~CIO Magazine~~Institutional Shareholder Services (ISS) Media Solutions and all of its subsidiaries;

n. Conferences sponsored by the Institutional Limited Partners Association;

o. Conferences sponsored by the ~~Falk Marques~~Markets Group; and

p. Conferences sponsored by Public Retirement Information Systems Management (PRISM).

15. The Chief Executive Officer shall provide newly elected or appointed Board members with a list of approved conferences scheduled to take place within the current calendar year.

Limitation on Attendance at Conferences and Seminars

16. A Board member is authorized to attend up to three events (i.e., conferences, seminars, meetings, or courses) that require overnight lodging at OCERS' expense each calendar year. Attendance at the pre-approved events listed in paragraphs 10, 11 and 12 are not subject to the three-event limit imposed by this paragraph even if they require overnight travel.

17. Board members who want to attend events (i.e., conferences, seminars, meetings or courses) that require overnight lodging and that are not automatically authorized under paragraphs 10, 11, 12 or 14 require advance approval by the Board. Staff members who want to attend events (i.e., conferences, seminars, meetings or courses) that require overnight lodging and that are not automatically authorized under paragraphs 10, 11, 12 or 14 require advance approval by the Chief Executive Officer or his or her designee.

18. OCERS will not reimburse overnight lodging for travel within Orange County, regardless of whether the event is pre-approved under any of the provisions of this policy. An exception to this provision may be granted by the Board Chair or Vice Chair upon the request of, and showing of good cause by, a Board member or the Chief Executive Officer; and by the Chief Executive Officer upon the request of, and showing of good cause by, a staff member.

19. In cases where attendance at a particular conference, seminar or other event is limited, the CEO will identify those trustees who will be authorized to attend as follows:

a. first, by giving priority to those trustees who have not previously attended the specific conference, seminar or other event and, if needed, make selections by lottery of the interested trustees in this group;

b. second, if additional opportunities to attend remain available, make selections by lottery of other interested trustees, and

c. third, designate the remaining interested trustees as alternate attendees, who may attend in the event the trustees originally selected are unable to attend.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

Travel Policy

International Travel and Travel Outside the Continental United States

20. Travel by Board members to a destination outside the continental United States requires pre-approval by the Board, regardless of whether the event is pre-approved under any of the provisions of this policy. Travel by staff to a destination outside the continental United States requires pre-approval by the Chief Executive Officer and notification to the Board Chair. Travel to attend a conference, seminar or meeting held outside the continental United States shall not be reimbursed by OCERS unless it can be demonstrated to the satisfaction of the Board (for travel by a Board member or the Chief Executive Officer) or the Chief Executive Officer (for travel by a staff member) that there is significant value to OCERS in attending, and comparable value cannot be obtained within the continental United States within a reasonable period of time.

Travel Reports

21. The Chief Executive Officer shall submit a quarterly report on conference, seminar and educational course attendance by Board members and staff and OCERS' costs related to such events. Such reports shall identify the individual (Board Member or staff), location, purpose and cost of travel. The Board of Retirement will review these reports in January, April, July and October of each calendar year. The report also shall include scheduled travel for the ensuing quarter.

Report on Conference or Seminar

22. Board Members and staff who travel to conferences or seminars that are not automatically authorized in paragraphs 10, 11, 12 or 14 shall file with the Chief Executive Officer a report that briefly summarizes the information and knowledge gained that may be relevant to other Board Members or staff, provides an evaluation of the conference or seminar, and provides a recommendation concerning future participation. Reports by a Board Member or staff will be made on the Conference/Seminar Report form shown in the appendix. ~~The Chief Executive Officer shall cause a~~A copy of the report will be included in the materials for the next meeting of the Board~~to be distributed to each Board Member and to the Chief Investment Officer~~.

Claims for Reimbursement

23. Reimbursement for travel by a Board member or staff shall be submitted on OCERS Expense Reimbursement Forms accompanied by all supporting original receipts or documentation of the expense incurred. All expense claim forms will be reviewed and approved (or disapproved) in accordance with the provisions of this policy. The Board Chair shall approve expense claims for Board members and the Chief Executive Officer. The Vice Chair will approve expense claims for the Chair. The Chief Executive Officer or his or her designee will approve all expense claims for staff. All approvals are subject to ultimate review and concurrence by the Board of Retirement as part of the quarterly report process required in paragraph 21.

Cash Advances

24. Cash advances will be provided upon request only for those conferences, seminars, meetings, and courses identified in paragraphs 10, 11, 12 or 14 of this policy as pre-approved by the Board and Chief Executive Officer. Any and all cash advances for travel and training shall be requested

through the Chief Executive Officer. Cash advances are subject to approval by the Chair of the Board of Retirement and the Chief Executive Officer. Notice of all cash advances for travel and training shall be placed on the Consent Agenda for the next Regular Meeting of the Board of Retirement as an informational item.

Time Limit for Expense Claims

25. Claims for reimbursement pursuant to this policy must be submitted within 30 days following return to Orange County. In no event will a claim for reimbursement be approved if submitted 90 days after the end of the calendar year in which the expense was incurred.

Expenses for Traveling Companions

26. Expenses of family members and/or traveling companions are not reimbursable by OCERS.

Limitation on Time and Expense Allowance

27. Board and staff members will be reimbursed daily travel expenses, such as meals as outlined in paragraph 29, and gratuities as outlined in paragraph 42, for each day of travel when such travel is outside Orange County. Allowance for time and expense shall not exceed that which is reasonable and necessary as claimed by others to that precise destination whether by private automobile or common carrier. Expense reimbursements are limited to those items and amounts considered to be non-taxable income to the recipient by the Internal Revenue Service (IRS). Whenever feasible, Board and staff members are encouraged to travel on the same day of a one-day event and on the first and last days of a multiple-day event, rather than the day before or after, in order to save the System lodging and meal costs. Expense costs for extra days prior to or after a conference will be reimbursed only if such extension results in lower overall trip costs. For staff, cost comparisons for trip extensions shall include the cost of salary for any work days lost by the extension.

Travel and Lodging Cancellations

28. Board members and staff are responsible for the timely cancellation of registration fees, travel and lodging reservations made on his/her behalf that will not be used, so that no unnecessary expense will be incurred by OCERS.

Meals

29. **Meals While Attending Events that Require Overnight Travel.** Meals purchased by a Board or staff member while attending an event (i.e., conference, seminar, meeting or course) that requires overnight travel will be reimbursed at the actual and reasonable cost of the meals, including non-alcoholic beverages, tax and tip, (a) provided that both an itemized receipt and a charge receipt (when a payment card is used) are submitted, and (b) provided further that any meals included and already paid for by OCERS (such as through the conference registration fee) and meals paid for by a third party and subject to reporting requirements under the Political Reform Act will not be reimbursed. If an itemized receipt is not submitted, OCERS will reimburse the Board or staff member up to the GSA rate for that meal, upon request.

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30. **Reimbursement for Meals Consumed and Purchased During a Business-Purpose Meeting Where Travel is Not Involved**. Board and staff members will be reimbursed for the actual and reasonable expense of meals, including non-alcoholic beverages, tax and a reasonable tip, consumed and purchased during meetings where business is conducted during the course of the meal, and no overnight travel is required to attend the meeting. (See paragraph 29 for meal reimbursement during trips with overnight travel.) The Board or staff member must provide both an itemized receipt and a charge receipt (when a payment card is used) for all such meals. The names of the people who attended the business-purpose meeting and a brief description of the business discussed or conducted shall be submitted with the reimbursement request. In the event an itemized receipt is lost or is not available, a Missing Receipt Form must be completed and submitted with the expense reimbursement claim. The Missing Receipt Form includes a certification that only allowable items are included in the request for reimbursement.

Hotels

31. Actual expenses for economical and practical lodging will be reimbursed. Reimbursement will be limited to a room considered to be in a standard class. Whenever possible, a request for a government or conference rate will be made.
32. If, at the conclusion of a business-related trip, it would be impractical for a Board member or staff member to return home the same day, the Board member or staff member will be entitled to be reimbursed for one additional night of lodging.

Airline Travel

33. OCERS' Board members and staff will use good judgment to obtain airline tickets at competitive prices. OCERS will not reimburse a Board or staff member to fly business or first class except in the case of international travel or other extraordinary circumstances, and then only with the approval of the Board Chair or Vice Chair where the traveler is a Board member or the Chief Executive Officer, or the approval of the Chief Executive Officer where the traveler is a staff member. In addition, for travel that exceeds four hours in length, additional legroom seats or premium economy fees will be reimbursed. An individual may, at his or her own expense, pay to upgrade travel to business or first class.
34. If a significant savings can be realized on the airline fare by having a Board member or staff member extend their stay to include a Saturday night, the Board or staff member, at his or her option, may extend his or her stay in order to realize such savings. OCERS will reimburse the additional lodging and meal costs resulting from an extended itinerary, not to exceed the savings in airline fare.

Automobile Mileage

35. A Board member or staff member who uses his/her personal automobile for transportation on OCERS business will keep records of the actual mileage driven on business, and will report such mileage on an OCERS Expense Report Form and will provide documentation of the miles driven (e.g., copy of map and route). Reimbursement will be made at the per-mile rate allowed by the IRS. Mileage will be reimbursed for only those miles incurred beyond the staff member's normal

commute to his or her regular worksite (i.e., if an employee departs from or returns to his or her home instead of the regular worksite, only the mileage in excess of the normal daily commute will be reimbursed).

35. Board members who use their personal automobiles for transportation to OCERS (or to OCERS' offsite meeting locations) to attend meetings of the Board or committees of the Board or for the purpose of conducting other OCERS business will be reimbursed for actual mileage driven at the per-mile rate allowed by the IRS. The Board member will report such mileage on an OCERS Expense Report Form and provide documentation of the miles driven (e.g., copy of map and route).
36. A Board member or staff member who elects to use his/her personal automobile for travel will be reimbursed for mileage and parking fees up to an amount that does not exceed the cost of traveling by air, which will be calculated to include the most economical (least expensive) round-trip ticket between Orange County and the destination city, airline baggage fees, transportation to/from and parking fees at the local airport, and transportation between the destination airport and hotel/conference site.

Parking and Tolls

37. Parking and tolls will be reimbursed at current rates. A receipt is required for amounts over $25.00.

Public Transportation

38. Use of taxis, hired cars, shared ride services (e.g., Uber, Lyft, Sidecar) and public transportation for OCERS business (including attendance by a Board member at meetings of the Board or committees of the Board) will be reimbursed at current rates. The most economical mode of transportation should be used whenever practicable; however, use of a transportation provider with multiple stops (e.g., shuttle) is not required. A receipt is required for amounts over $25.00.

Car Rentals

39. The use of a rental car by a Board member or staff will be reimbursed when it is economically reasonable to rent a vehicle rather than use taxis, hired cars, shared ride services or public transportation. Board members and staff are required to obtain and purchase (and OCERS will reimburse) Loss Damage Waiver and Supplemental Liability Insurance when renting vehicles on OCERS' business. Rental car discounts must be used whenever possible and appropriate. If available, a compact vehicle will be requested, unless several Board members and/or staff will be using the vehicle together.

Incidental Business Expenses

40. Incidental business expenses reasonably incurred in connection with OCERS business, such as telephone, fax, Internet access, and similar business expenses, will be reimbursed. Receipts are required for all amounts.

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Porterage/Housekeeping/Other

41. OCERS will reimburse a maximum of $15 per day of travel for porterage, housekeeping and non-meal related gratuities. Receipts are not required for these expenses.

Excluded Expenses

42. The following expenses will not be reimbursed: Alcoholic beverages, tobacco, in-room movies, barber shop, beauty shop, gifts, magazines, personal telephone calls and mini-bar charges. In the case of a trip longer than five business days or an emergency situation, laundry and dry cleaning expenses will be reimbursed.
43. OCERS will not reimburse or pay for charges for attendance at or participation in networking, social or entertainment type events (e.g., golf, cocktail parties, excursions, outings, etc.) that are in addition to or not included in the general conference registration fee, except that OCERS will pay for NASRA-sponsored networking events that take place during, and are included in the agenda for, NASRA-sponsored conferences.

Staff Travel

44. In furtherance of this policy, the Chief Executive Officer shall have discretionary authority to approve staff travel as necessary to carry out the administrative responsibilities of OCERS, such as attendance at legislative meetings or hearings, conducting on-site visits as part of due diligence evaluation of existing and proposed service providers, participating in continuing education programs, and other duties as directed.

Policy Review

45. This policy shall be reviewed every three years by the Governance Committee and may be amended by the Board of Retirement at any time.

Policy History

46. The Retirement Board adopted this policy on December 16, 2002, and last revised on ~~October 21, 2019~~.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney

~~10/21/19~~

Steve Delaney
Secretary of the Board

Date

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Form

Report of Attendance at Conference or Seminar

Name of Member Attending: ______________________________

Name of Conference/Seminar: ______________________________

Location of Conference/Seminar: ______________________________

Conference/Seminar Sponsor: ______________________________

Dates of Attendance: ______________________________

Total Cost of Attendance: ______________________________

Brief Summary of Information and Knowledge Gained:

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____

Evaluation of the Conference or Seminar:

____

____

Recommendation Concerning Future Attendance:

____

____

____
Signature

Return to: Executive Assistant

Copies to: Board Members
Chief Executive Officer
Assistant Chief Executive Officers