

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

GOVERNANCE COMMITTEE MEETING  
November 7, 2019  
9:00 a.m.

**Members of the Committee**

Shawn Dewane, Chair  
Roger Hilton, Vice Chair  
Chris Prevatt  
David Ball

**AGENDA**

This agenda contains a brief general description of each item to be considered. The Committee may take action on any item included in the 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.

**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. **Persons wishing to provide public comment at this time should fill out a speaker card located on the counter at the back of the room and deposit it in the Recording Secretary's inbox on the wall near the middle of the room.** 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

September 25, 2019

**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 wishing to provide public comment at this time should fill out a speaker card located on the counter at the back of the room and deposit it in the Recording Secretary's inbox on the wall near the middle of the room.**

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

## **A-2 OCERS EMPLOYER POLICIES**

*Presentation by Suzanne Jenike, Assistant CEO, External Operations*

### **Recommendation:**

- (1) Approve and recommend that the Board approve revisions to the ***Declining Employer Payroll Policy***;
- (2) Approve and recommend that the Board approve revisions to the ***Withdrawing Plan Sponsor Policy*** (including a change in the name of the policy to ***Withdrawing Employer Policy (Continuing Contributions)***); and
- (3) Approve and recommend that the Board adopt a new policy, the ***Withdrawing Employer Policy (Fully Satisfied Obligation)***, for participating employers that wish to withdraw from OCERS and fully pay their UAAL at the time of such withdrawal.

## **A-3 INVESTMENT COMMITTEE GOVERNANCE MATTERS INCLUDING MEETING SCHEDULE**

*Presentation by Molly Murphy, Chief Investment Officer*

**Recommendation:** Take appropriate action.

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

**NOTICE OF NEXT MEETINGS**

**PERSONNEL COMMITTEE MEETING**

**November 7, 2019**

**1:30 P.M**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**

**November 18, 2019**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**PERSONNEL COMMITTEE MEETING**

**November 18, 2019**

**1:00 P.M. OR UPON ADJOURNMENT OF THE BOARD MEETING,  
WHICHEVER IS LATER**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

*All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.*

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](mailto: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.

C-1

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

**GOVERNANCE COMMITTEE MEETING  
September 25, 2019  
9:00 a.m.**

**MINUTES**

The Chair called the meeting to order at 9:08 a.m. Attendance was as follows:

Present: Shawn Dewane, Chair; Roger Hilton, Vice Chair; Chris Prevatt  
David Ball was excused

Staff: Steve Delaney, Chief Executive Officer; Gina Ratto, General Counsel; Suzanne Jenike, Assistant CEO, External Operations; Brenda Shott, Assistant CEO, Internal Operations; Cynthia Hockless, Director of Administrative Services; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician

**CONSENT AGENDA**

**C-1 APPROVE GOVERNANCE COMMITTEE MEETING MINUTES**

Governance Committee Meeting Minutes

May 21, 2019

**MOTION** by Hilton, **seconded** by Prevatt, 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 NEW OCERS ADMINISTRATIVE PROCEDURE FOR EVALUATING POTENTIAL NEW EMPLOYERS ENTERING THE OCERS PLAN**

*Presentation by Gina M. Ratto, General Counsel*

**MOTION** by Prevatt, **seconded** by Hilton, to approve, and recommend that the Board adopt, a new OCERS Administrative Procedure for Evaluating Potential New Employers who apply to participate in the OCERS pension plan.

The motion passed **unanimously**.

**A-3 NEW BOARD POLICY: PROTOCOLS FOR HANDLING WORKPLACE COMPLAINTS AGAINST MEMBERS OF THE BOARD AND EXECUTIVE STAFF**

*Presentation by Gina M. Ratto, General Counsel*

**MOTION** by Hilton, **seconded** by Prevatt, to approve, and recommend that the Board adopt, a new Board policy to set forth the protocols for handling workplace complaints against members of the Board and Executive Staff.

The motion passed **unanimously**.

**A-4 REVISIONS TO THE TRAVEL POLICY**

*Presentation by Gina M. Ratto, General Counsel*

**MOTION** by Prevatt, **seconded** by Hilton to approve, and recommend that the Board approve, revisions to the Travel Policy as presented, with the following additional revision to Paragraph 11 of the Travel Policy (revision underlined):

“Staff members designated by the Chief Executive Officer and Board members 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.”

The motion passed **unanimously**.

**A-5 TRIENNIAL REVIEW OF THE OVERPAID AND UNDERPAID BENEFITS POLICY**

*Presentation by Suzanne Jenike, Assistant CEO, External Operations*

**MOTION** by Prevatt, **seconded** by Hilton to approve, and recommend that the Board approve, revisions to the Overpaid and Underpaid Benefits Policy.

The motion passed **unanimously**.

**A-6 TRIENNIAL REVIEW OF THE TRUSTEE EDUCATION POLICY**

*Presentation by Cynthia Hockless, Director of Administrative Services*

**MOTION** by Hilton, **seconded** by Prevatt to approve, and recommend that the Board approve, revisions to the Trustee Education Policy.

The motion passed **unanimously**.

**COMMITTEE MEMBER COMMENTS**

None.

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

None.

**COUNSEL COMMENTS**

Ms. Ratto and Committee Members set November 7, 2019 for the next Governance Committee Meeting.

**ADJOURNMENT**

The meeting adjourned at 9:54a.m.

**Submitted by:**

**Approved by:**

Governance Committee Meeting  
September 25, 2019

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Steve Delaney  
Secretary to the Board

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Shawn Dewane, Chair

A-2



## Memorandum

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**DATE:** November 7, 2019  
**TO:** Members of the Governance Committee  
**FROM:** Suzanne Jenike, Assistant CEO, External Operations  
**SUBJECT: OCERS EMPLOYER POLICIES**

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### Recommendation

1. Approve and recommend that the Board approve revisions to the ***Declining Employer Payroll Policy***;
2. Approve and recommend that the Board approve revisions to the ***Withdrawing Plan Sponsor Policy*** (including a change in the name of the policy to ***Withdrawing Employer Policy (Continuing Contributions)***); and
3. Approve and recommend that the Board adopt a new policy, the ***Withdrawing Employer Policy (Fully Satisfied Obligation)***, for participating employers that wish to withdraw from OCERS and fully pay their UAAL at the time of such withdrawal.

### Background/Discussion

The Board adopted the *Declining Employer Payroll* and *Withdrawing (Employer) Plan Sponsor (Continuing Contributions) Policies* (Policies) on February 17, 2015. The concept of an employer fully withdrawing and paying off all obligations using a risk free discount rate was not contemplated in either policy. Staff worked with Segal Consulting on the revisions to the existing policies as well as to develop a third employer policy, the *Withdrawing Employer Policy (Fully Satisfied Obligation)*.

Staff presents the triennial review of the two existing employer policies to the Committee for review as follows:

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.

- Introduction of a “risk free” discount rate calculation for instances when the declining employer wishes to fully satisfy its OCERS obligations and have no future liability assessments.
- Added detailed procedures on circumstances when an exception to the policy would apply.
- Miscellaneous non-substantive language clean up.

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

- Introduction of a “risk free” discount rate calculation for instances when the declining employer wishes to fully satisfy its OCERS obligations and have no future liability assessments.
- Addition of language outlining the Board’s authority to change the continuing contribution agreement payment schedule if certain criteria are met.
- Miscellaneous non-substantive language clean up.

Finally, Staff presents the newly created *Withdrawing Employer Policy (Fully Satisfied Obligation)* to the Committee for initial review. This policy applies to the Employer who wants to fully satisfy their OCERS pension obligations and “walk-away”.

The Policies, with proposed revisions in redlined text, are attached.

**Submitted by:**



SJ-Approved

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Suzanne Jenike  
Assistant CEO, External Operations

## 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.

## 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 discrete 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).

## **Declining Employer Payroll Policy**

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 obligations become so small that the Board, in its sole discretion, determines it is not administratively 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

## **Declining Employer Payroll Policy**

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.

## **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 [MONTH, DATE], 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  
Secretary of the Board

\_\_\_\_\_

Date

# 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 ~~by which OCERS intends~~ 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, ~~under OCERS' practice in place prior to the adoption of this Declining Payroll Policy, OCERS determined~~ 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 continues to be~~ appropriate. ~~However, But~~ 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~~means of collecting employer contributions owed to the ~~S~~system. The objectives of this ~~Declining Employer Payroll~~ 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 ~~district's~~ 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 ~~of Retirement~~'s intent to allow an employer covered by this Policy to satisfy its funding obligation in a manner ~~that~~which 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.



## Declining Employer Payroll Policy

### Policy Procedures and Guidelines

Absent unique, exigent and compelling circumstances or unless otherwise expressly approved by the Board of Retirement 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 54 has occurred, and who are not excluded from coverage under this Policy as described in sections 65 and 76 below. ~~The Board hereby directs the CEO to work with OCERS' Internal Audit and other staff, and OCERS' service providers (e.g., the actuary) to obtain the information (e.g., OCERS-covered payroll history) needed for the Board to make determinations regarding triggering events. The CEO is further directed to report to the Board, at least annually, regarding these activities.~~
  - 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 discrete 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.subparagraph a) immediately above.

#### *Exclusions from Coverage; Terminations of Coverage*

6. This Policy ~~also~~ 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"

## Declining Employer Payroll Policy

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 ~~of Retirement also~~ recognizes that participating employers covered by this Policy will have UAAL funding obligations for several years. ~~Therefore, 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 obligations become so small that the Board, in its sole discretion, determines it is not administratively 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~~entire amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board), applying using a "risk free" lower discount rate as determined by OCERS in consultation with its actuary, and requiring an immediate lump sum payment payable in a single sum immediately due.

~~7.~~ 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 ~~(i)~~ work with OCERS' ~~Internal Audit and other~~ staff, ~~OCERS'~~ service providers (*e.g.*, the actuary), and ~~OCERS'~~ 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 ~~and (ii) report to the Board, at least annually, regarding these activities.~~
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~~ should be 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~~6 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, ~~and~~ (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

## Declining Employer Payroll Policy

the ~~participating~~ 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 ~~of Retirement~~, 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 not to exceed the maximum amortization period for losses as defined by the OCERS Actuarial Funding Policy twenty (20) years, 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 ~~1110~~ 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

## Declining Employer Payroll Policy

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.

16. If the Board determines that unique and compelling circumstances exist such that ~~the Board~~ 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.

~~14.17.~~ 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

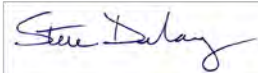
~~15.18.~~ The Board of Retirement will review this Policy at least every three (3) years to ensure that it remains relevant and appropriate.

### Policy History

~~16.19.~~ The Board of Retirement adopted this Policy on June 15, 2015. The Policy was revised on [MONTH, DATE], 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  
Secretary of the Board

~~6/15/15~~

Date

## OCERS Board Policy **Withdrawing Employer (with Continuing Contributions) Policy**

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### **Purpose and Background**

The Withdrawing Employer (with Continuing Contributions) Policy (policy) is intended to establish guidelines by which the Orange County Employees Retirement System (OCERS) will assure that a participating OCERS employer (other than the County of Orange) that ceases to provide OCERS membership for its active OCERS members (i.e., withdraws from the OCERS plan) but is expected to continue to be an ongoing financially viable entity will continue to satisfy its obligation to timely pay all Unfunded Actuarial Accrued Liability (UAAL) attributable to its active, retired and deferred employees by reason of their prior service as OCERS' members. In accordance with applicable law, OCERS will enter into a *Withdrawing Employer and Continuing Contribution Agreement* (Continuing Contribution Agreement) with any such employer consistent with this policy.

### **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 from the OCERS plan until the employer pays all UAAL attributable to its active, retired and deferred 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

## OCERS Board Policy

# Withdrawing Employer (with Continuing Contributions) Policy

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withdrawing employer is properly determined and satisfied. This will generally require 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 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 employees' continued participation in OCERS either through attrition or through a decision to have 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

**OCERS Board Policy**

# **Withdrawing Employer (with Continuing Contributions) Policy**

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- 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 (with Continuing Contributions) Policy**

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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**

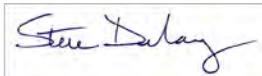
13. The Board will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

## **Policy History**

14. The Board adopted this policy on February 17, 2015, and revised on [MONTH, DATE], 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.



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Steve Delaney  
Secretary of the Board

\_\_\_\_\_

Date



OCERS Board Policy

# Withdrawing Employer Plan Sponsor (with Continuing Contributions) Policy

## Purpose and Background

The Withdrawing Employer (with Continuing Contributions) Plan Sponsor Policy (policy) is intended to establish guidelines by which the Orange County Employees Retirement System (OCERS) ~~will intends to~~ assure that a participating OCERS employer (other than the County of Orange) that ceases to provide OCERS membership for its active OCERS members (i.e., withdraws from the OCERS plan) but is expected to continue to be an ongoing financially viable entity will continue to satisfy its obligation to timely pay all Unfunded Actuarial Accrued Liability (“UAAL”) attributable to its active, retired and deferred employees by reason of their prior service as OCERS’ members. In accordance with applicable law, OCERS will enter into a *Withdrawing Employer and Continuing Contribution Agreement* (Continuing Contribution Agreement) with any such employer consistent with this policy.

## 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 a district~~ remains liable, and must make the required appropriations and transfers, to OCERS for the ~~employer’s district’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 from the OCERS plan until the employer pays all UAAL attributable to its active, retired and deferred 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*

## Withdrawing Employer Plan Sponsor (with Continuing Contributions) Policy

- b. ~~As determined by OCERS' actuary, T~~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~~which 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 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 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 for whom OCERS expects thereafter~~ in existence as to be 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 employees' continued participation in OCERS either through attrition or through a decision to have 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 exigent~~ circumstances or unless otherwise expressly approved by the Board ~~of Retirement~~ 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 shall~~ 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

OCERS Board Policy

## Withdrawing Employer Plan Sponsor (with Continuing Contributions) Policy

- 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 ~~of Retirement~~, the withdrawing employer's initial funding obligation for its UAAL calculated as of the date of withdrawal. Absent unique and compelling exigent 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.
- ~~8.~~ Later values (i.e., those used in "true-ups" described below) will shall 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 shall be frozen for the withdrawing employer's active employees but, for members who transfer to a system that has reciprocity with OCERS, pay will shall 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 ~~of Retirement~~, any additional obligation of the withdrawing employer for UAAL. In accordance with the terms of the Continuing Contribution Agreement and

## Withdrawing Employer Plan Sponsor (with Continuing Contributions) Policy

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 ~~exigent~~ 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.

11. If any ~~S~~urplus 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 ~~of Retirement hereby~~ 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 ~~of Retirement~~ may assess the projected full ~~entire~~ amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board) using a "risk free" lower ~~lower~~ discount rate as determined by OCERS in consultation with its actuary, and require an immediate lump sum payment and payable in a single sum immediately due.

12- 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 ~~of Retirement~~ will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

### Policy History

14. The Board ~~of Retirement~~ adopted this policy on February 17, 2015, and revised on [MONTH, DATE], 2019.



EMPLOYEES RETIREMENT SYSTEM

OCERS Board Policy

# Withdrawing Employer Plan Sponsor (with Continuing Contributions) 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.

A handwritten signature in black ink that reads "Steve Delaney".

2/17/15

Steve Delaney  
Secretary of the Board

Date

OCERS Board Policy  
**Withdrawing Employer (Fully Satisfied Obligations) Policy**

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## 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.

## Withdrawing Employer (Fully Satisfied Obligations) Policy

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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



# OCERS Board Policy Withdrawing Employer (Fully Satisfied Obligations) 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 [MONTH, DATE], 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  
Secretary of the Board

\_\_\_\_\_ Date



A-3

## Memorandum

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**DATE:** November 7, 2019  
**TO:** Members of the Governance Committee  
**FROM:** Molly A. Murphy, CFA, Chief Investment Officer  
**SUBJECT:** INVESTMENT COMMITTEE GOVERNANCE MATTERS INCLUDING MEETING SCHEDULE

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### Recommendation

Based on industry best practices, and in an effort to ensure more efficient use OCERS' resources, human and otherwise, the CIO recommends the following for consideration by the Governance Committee:

- 1) Eliminate the Investment Manager Monitoring Subcommittee – any intra-meeting manager updates to be provided by the CIO at the Chair/Vice Chair/Past Chair calls;
- 2) Reduce Investment Committee meetings to four quarterly meetings, plus eight hours of educational content at the Board Strategic Workshop; and
- 3) Ad hoc meetings of the Investment Committee may be added as needed.

### Background

This agenda topic is a follow up from the discussion of governance best practices at the September Strategic Workshop. At that time, the Board heard CalPERS CEO, Marcie Frost, detail changes at CalPERS that followed extensive governance work by her staff, consultants and Board members. Subsequently, Meketa presented its own survey study covering various Investment Committee best practices that Meketa has observed working with many pensions across the United States.

Steve McCourt, when asked by an OCERS' Board member, commented that OCERS' Investment Committee was covering all of its necessary fiduciary duties, but could look to be more efficient with its time going forward. Mr. McCourt noted that most institutional investors, such as corporate pensions, Taft-Hartley plans, foundations and endowments have quarterly Investment Committee meetings as a best practice. In his experience, as a group, public pensions, especially those in California, are the only type of institutional investor that subscribes to meeting more frequently than quarterly.

It was then suggested that OCERS' staff bring recommendations to the Governance Committee for further discussion. As investment discussions currently occur at the Investment Committee and the Investment Manager Monitoring Subcommittee ("MMS") meetings, recommendations and discussion materials for the future state of both are included for review.

## Memorandum

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### Investment Manager Monitoring Subcommittee

The MMS currently meets quarterly. At the meetings, selected investment managers present information relating to the current state of their markets and provide portfolio performance and firm updates. The history of this subcommittee dates back many years to when the Investment Committee had an obligation, by its charter, to meet with all investment managers every three years. Over time, that language was removed from the Investment Committee Charter. Today, investment manager monitoring is handled by various investment consultants and OCERS' internal investment team.

As OCERS' Investment Committee has delegated manager selection and termination activities to the Chief Investment Officer, in accordance with the CIO Charter, the role of the MMS has diminished over time. The MMS currently focuses on reviewing managers that are on the Watch List or have specific challenges or opportunities in their markets. This narrow focus has helped with the efficiency of the MMS, but still its governance role remains muted.

The concept of the MMS predates OCERS' investments in private markets and other alternatives. These types of investments now make up over a third of OCERS' portfolio. The transparency of public markets allowed for robust information sharing at the MMS for strategies that were prevalent in the OCERS' portfolio when the MMS was created. However, alternative investments do not lend themselves to the structure of the MMS for various reasons:

- 1) Private markets are slow moving and investments cannot be redeemed or terminated easily;
- 2) Alternative strategies may require limited partners to sign non-disclosure agreements;
- 3) Quantitative strategies are opaque and use algorithmic trading, removing discussions about individual stocks; and
- 4) Hedge fund strategies have redemption windows and notice dates that may require quick action.

Mr. David Ball, the MMS Chair for 2019, suggested to OCERS' CEO and CIO that the MMS should be eliminated. He suggested that it would be more beneficial to the organization to move any timely manager updates into the established Investment Committee Chair/Vice Chair/Past Chair calls that occur regularly with the CIO and CEO. Those discussions, he contended, would eliminate bureaucracy without sacrificing oversight. The construct of the calls is very similar to the MMS:

- Held regularly, at least quarterly
- Three members of Investment Committee
- Elected and appointed members

As is done today, the CIO would continue to communicate manager issues to the Investment Committee directly as needed. The Watch List and the quarterly Compliance Report would still be the official record of manager underperformance, compliance issues or key man departures, and would allow all Investment Committee members to receive information pertinent to their fiduciary oversight.

## Memorandum

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### Investment Committee

Currently, the OCERS' Investment Committee meets monthly. Investment performance for the total portfolio is reviewed quarterly, with additional private asset and real estate performance reviewed semi-annually. Committee investment education, driven by market conditions and/or asset allocation changes, is provided at regularly scheduled meetings. Investment Committee members also receive eight hours of dedicated investment-related education at the Board Strategic Workshop, held annually in September.

Included for review are two schedules showing all of the fiduciary reports and activities currently undertaken within the construct of the OCERS' Investment Committee meeting. The 2019 work plan details the actual topics and meeting dates for activities for the current year. The second schedule is a mock-up for 2020 with the same activities, consolidated into four annual meetings to be held quarterly.

Based on the same work load as in 2019, OCERS Investment Committee could accomplish all of its current fiduciary oversight with a quarterly meeting of approximately 180 minutes (3 hours) in duration. Not included in the above, would be ad hoc topics and other business, as well as a customary break. All told, OCERS would be reasonable to assume that Investment Committee meetings, held quarterly, would be approximately 3.5-4 hours in length.

In summary, consolidation of Investment Committee meetings to a quarterly schedule would have a wide range of benefits:

- More efficient use of Committee members' time
- More efficient use of internal staff and consultant time
- Reduction of meeting materials
- Reduction of Administrative staff meeting preparation
- Increase in time available to internal investment staff for investment due diligence
- Potential reduction in consultant meeting attendance expenses
- Better matching of investment horizon and reporting horizon

### Submitted by:



MAM - approved

Molly A. Murphy, CFA

Chief Investment Officer

### Number of Investment Meetings

Number of Plans	27
Average Plan Size	\$44 billion
Median Plan Size	\$8 billion
Number of Plans > \$15 billion	13
Average number of Investment Meetings per year for all Plans	7.6
Average number of Investment Meetings per year for Plans > \$15 billion	7.4
Average number of Investment Meetings per year for Plans < \$15 billion	7.7
Number of Plans with an Annual Retreat/Offsite	11

- We conducted a survey of 27 public pension plans with assets greater than \$1 billion, averaging \$44 billion in size.
- There was not a significant difference in the number of meetings between the larger and smaller plans that were over \$1 billion. Only two of the plans with more than \$15 billion in assets (LACERA and Hawaii ERS) met monthly.
- We have seen a recent trend toward fewer investment meetings. Of the 24 total plans we surveyed, 5 had recently reduced their number of meetings (including CalSTRS, CalPERS, and the Illinois State Board of Investment).
- It remains customary for SACRS funds to meet monthly, which is unusual among the broader public pension plan universe.

**OCERS Investment Committee Meeting  
2019 Work Plan**

	Jan	Feb	March	April	May	June	July	August	Sept (W)	Oct	Nov	Dec
Monthly	Portfolio Summary	Portfolio Summary	Portfolio Summary	Portfolio Summary	Portfolio Summary	Portfolio Summary	Portfolio Summary	Portfolio Summary		Portfolio Summary	Portfolio Summary	Portfolio Summary
Quarterly	Securities Litigation	Total Fund Performance Review Risk Review		Securities Litigation	Total Fund Performance Review Risk Review		Securities Litigation	Total Fund Performance Review Risk Review		Securities Litigation	Total Fund Performance Review Risk Review	
Semi-Annually	RE Performance Review		PE/RA Performance Review				RE Performance Review			PE/RA Performance Review		
Annually		Capital Mkts Assumptions	Custodian Review		Year In Review		Cash Overlay Review	Fee/Expense Review			Proxy Voting Review	Securities Lending Review
Asset Class Review	Risk Mitigating Strategies		Private Equity	Credit		Public Equity	Real Estate			Real Assets		Fixed Income
Education		Economist		Levered Loans		Infrastructure				Energy		

Tri-annually						Asset Allocation						Policy & Charter Review
Guest Speaker							Rescuing Retirement (Tony James)			Geopolitics (Ret. Gen. David Petraeus)		

OCERS Investment Committee Meeting

2020 Proposed Work Plan

Est. Time  
(in mins)

	Q1	Q2	Q3	Sept (W)	Q4	
Quarterly	CIO Comments	CIO Comments	CIO Comments		CIO Comments	15
	Manager Selections & Terminations	Manager Selections & Terminations	Manager Selections & Terminations		Manager Selections & Terminations	10
	Portfolio Summary	Portfolio Summary	Portfolio Summary		Portfolio Summary	0
	Total Fund Performance Review	Total Fund Performance Review	Total Fund Performance Review		Total Fund Performance Review	15
	Risk Review Securities Litigation	Risk Review Securities Litigation	Risk Review Securities Litigation		Risk Review Securities Litigation	15
Semi-Annually	RE Performance Review	PE/RA Performance Review	RE Performance Review		PE/RA Performance Review	15
	Capital Mkts Assumptions	Custodian Review	Fee/Expense Review		Proxy Voting Review	10
Annually	Year In Review	Cash Overlay Review			Securities Lending Review	10
	Bonds (Core FI and Credit)	Equity (Public and Private)	Risk Mitigating Strategies Real Estate		Real Assets	30
Education	Economist	Infrastructure	Levered Loans		Energy	60
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						<b>180</b>

Tri-annually		Asset Allocation			Policy & Charter Review
Guest Speaker				Geopolitics (Petraeus)	
				Rescuing Retirement (James)	