

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL FUNDING POLICY

INTRODUCTION:

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

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

GOALS OF ACTUARIAL FUNDING POLICY:

1. To determine future contributions that, together with current plan assets, are expected to be sufficient to provide for all benefits provided by CCCERA;
2. To seek reasonable and equitable allocation of the cost of benefits over time including the goal that annual contributions should, to the extent reasonably possible, maintain a close relationship to both the expected cost of each year of service and to variations around that expected cost;
3. To manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals; and,
4. To support the general public policy goals of accountability and transparency by being clear as to both intent and effect, allowing for an assessment of whether, how and when the plan sponsors will meet the funding requirements of the plan.

FUNDING REQUIREMENT AND POLICY COMPONENTS:

CCCERA's annual funding requirement is generally 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 four components of this funding policy:

- I. Actuarial Cost Method: Allocates the total present value of future benefits to each year (Normal Cost), including all past years (Actuarial Accrued Liability or AAL);
- II. Asset Smoothing Method: 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. This reduces the effect of short-term market volatility while still tracking the overall movement of the market value of plan assets;

III. Amortization Methods: Determines the length of time and the structure of the increase or decrease in contributions required to systemically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any surplus, i.e., any assets in excess of the AAL; and,

IV. Stabilization of Employer Contribution Rates and Surplus Management Methods: Implements a glide path that provides the structure for a stable change in UAAL contribution rates to mitigate contribution volatility and maintain a strong funded position for the plan.

I. Actuarial Cost Method:

The Entry Age method shall be applied to the projected benefits in determining the Normal Cost and the AAL. The Normal Cost shall be determined as a level percent of payroll on an individual basis for each active member.

II. Asset Smoothing Method:

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

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 CCCERA's actuary. Such adjustments would be appropriate when the net deferred investment gains or losses are relatively small (i.e., the actuarial and market values are very close together), 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.

III. Amortization Methods:

- The UAAL (i.e., the difference between the AAL and the Valuation Value of Assets) as of December 31, 2012 shall continue to be amortized over separate amortization layers based on the valuations during which each separate layer was previously established.
- Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of December 31 will be amortized over a period of 18 years.
- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 18 years.

- Unless the Board adopts an alternative amortization period after receiving an actuarial analysis¹:
 - a. with the exception noted in b., below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 10 years;
 - b. the entire increase in UAAL resulting from a temporary retirement incentive will be funded in full upon adoption of the incentive. If the increase in UAAL is due to the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL (Golden Handshake), the entire increase in UAAL will be funded in full upon adoption of the Golden Handshake.
- UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.
- UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.
- If an overfunding or “surplus” exists (i.e., the Valuation Value of Assets exceeds the AAL, so that the total of all UAAL amortization layers become negative), any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

If the surplus exceeds 20% of the AAL per Section 7522.52 of the Government Code, then the amount of such surplus in excess of 20% of the AAL (and any subsequent surpluses in excess of that amount) will be amortized over an “open” amortization period of 30 years, but only if the other conditions of Section 7522.52 have also been met. If those conditions are not met, then the surplus will not be amortized and the full Normal Cost will be contributed.

- These amortization policy components will generally apply separately to each of CCCERA’s UAAL cost groups with the exception that the conditions of Section 7522.52 apply to the total plan.

IV. Stabilization of Employer Contribution Rates and Surplus Management Methods:

Effective with the December 31, 2025 actuarial valuation, within the calculation of the actuarially determined contribution, a glide path shall be utilized when there is a UAAL contribution rate decrease calculated compared to the prior year’s actuarial valuation. The glide path strategy shall be applied separately to each UAAL Cost Group,² with distinct approaches for General Cost Groups and Safety

¹ In particular, the Board may incorporate into the amortization period demographic matching specific to the plan amendment. This could entail using the remaining active future service for plan changes that affect actives. For plan changes that affect retirees, this could entail using the remaining life expectancy for retirees or the period over which the increased cash flow to retirees is expected to be paid.

² As noted in the Cost Sharing Arrangement section of this policy, the UAAL costs are pooled between Cost Groups 1 and 2, and Cost Groups 7 and 9, respectively.

Cost Groups, respectively.

- If, in a given year, the calculated UAAL contribution rate is lower than the prior year's actual UAAL contribution rate by less than 2% of payroll for a General UAAL Cost Group or less than 3% of payroll for a Safety UAAL Cost Group, maintain the prior year's actual UAAL contribution rate.
- If the calculated UAAL contribution rate is lower than the prior year's actual UAAL contribution rate by 2% of payroll or more for a General UAAL Cost Group or 3% of payroll or more for a Safety UAAL Cost Group, only decrease the actual UAAL contribution rate by 1% of payroll for the General Cost Group or 3% of payroll for the Safety Cost Group from the prior year's actual UAAL contribution rate.
- If the ratio of the Valuation Value of Assets to the AAL for a UAAL Cost Group is at least 100%, decrease the UAAL contribution rate by up to 2% of payroll for a General Cost Group or up to 8% of payroll for a Safety Cost Group (complying with the restrictions of PEPRA) from the prior year's UAAL contribution rate. If in a subsequent year the ratio of the Valuation Value of Assets to the AAL for a UAAL Cost Group falls below 100%, the UAAL contribution rate would be set equal to the greater of the contribution rate determined using the above steps in this section, or the calculated UAAL contribution rate required to amortize the UAAL in that valuation.

Any additional contributions as a result of the above glide path will be amortized as an actuarial gain in the subsequent actuarial valuation.

OTHER POLICY CONSIDERATIONS:

Adjustment for 18-Month Delay in Rate Implementation

In order to allow employers to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of December 31) will apply to the 12-month period beginning 18 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of CCCERA's UAAL in the following valuation.

Implementation of Contribution Rate Change Due to Plan Amendment

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

Cost Sharing Arrangements

Starting with the December 31, 2009 Actuarial Valuation, the Board took action to depool CCCERA's assets, liabilities and Normal Cost by employer when determining employer contribution rates. The Board action included a review of experience back to December 31, 2002. This did not involve recalculation of any employer rates prior to December 31, 2009. However, it did involve establishing the depooled assets so as to reflect the separate experience of the employers in each individual cost group from December 31, 2002 through December 31, 2009. In addition, the Board took action to discontinue certain cost sharing adjustments for both member and employer contribution rates for General Tier 1 and Safety Tier A.

Even under the depooling structure, there are a few remaining cost sharing arrangements. Here is a summary of the ongoing cost sharing arrangements:

- Smaller employers (less than 50 active members) are pooled with the applicable County tier.

From the December 31, 2009 through the December 31, 2018 valuations, safety members from the East Contra Costa Fire Protection District were pooled with safety members of the Contra Costa County Fire Protection District. Starting with the December 31, 2019 valuation, the safety members of the East Contra Costa Fire Protection District were depooled from safety members of the Contra Costa County Fire Protection District, based on the AAL method. Starting with the December 31, 2021 valuation, members of East Contra Costa Fire Protection District were combined with members of Contra Costa County Fire Protection District as a result of the annexation of East Contra Costa Fire Protection District into the Contra Costa County Fire Protection District.

- Due to a statutory requirement, the Superior Court is pooled with the County regardless of how many members the Court has.
- UAAL costs are pooled between Cost Group 1 and Cost Group 2 which represent General County and Small Districts for Tiers 1 and 3. UAAL costs are also pooled for Cost Groups 7 and 9 which are Safety County Tiers A and C.

This was done because Cost Group 1 and Cost Group 7 had active members but were generally closed to new members.³² If the UAAL for these two cost groups is not pooled with another cost group that is open to new active members then the UAAL rate for these generally closed cost groups would increase substantially in future years. This is due to the fact that the UAAL for CCCERA is amortized as a level percent of payroll and the payroll growth for the generally closed cost group would be less than the payroll growth assumption. This will help stabilize the employer contribution rates for the mostly closed Cost Group 1 and Cost Group 7. Normal Cost rates for those cost groups are not pooled.

For Cost Groups 7 and 9, there are some substantial differences between the Safety Tier A Enhanced and Safety Tier C Enhanced benefits, such as the period over which final average salaries are determined and the COLA. However, because the County is the only employer in these two cost groups, they will be the only employer affected by this particular pooling of these UAAL rates.

Employer/Member Cost Sharing

The Cost Impact of Leave Cashouts

CCCERA's Basic and COLA member rates for members with membership dates before

³ That changed when the two Cost Groups became open again with the implementation of new Tiers 4 and D by the employers in Cost Groups 1 and 7, respectively, following the passage of California Public Employees' Pension Reform Act of 2013.

January 1, 2013 are increased to anticipate leave cashouts in the final year of employment using the same leave cashout assumptions adopted by the Board for the actuarial valuation for projecting benefit payments.

The Cost Impact of Service from Unused Sick Leave Conversion

Pursuant to Government Code Section 31641.01, for members with membership dates before January 1, 2013, the cost of this benefit will be charged only to employers and will not affect member contribution rates.

Employer/Member cost sharing arrangements are subject to modification under Government Code Section 31631.5, and any such modifications would be incorporated into the determination of the employer and member contribution rates.

Additional Employer UAAL Payments

Absent any specific action by the Board, any additional employer payments towards the UAAL (including those from Pension Obligation Bonds (POBs)) will be accepted by CCCERA in exchange for a corresponding reduction in the employer's UAAL contribution rate over period(s)

and in a manner consistent with that employer's outstanding UAAL amortization layers and payments.

The outstanding balance of the additional UAAL payment is tracked separately in a manner consistent with the procedure used to track the UAAL amortization layers. It will be credited with earnings at CCCERA's investment return assumption in effect at each valuation date and reduced by the dollar amount of the annual reduction in the employer's UAAL contributions due to the prepayment.

Unless otherwise directed by the Board, the dollar amount of the annual reduction in the employer's UAAL contributions due to the additional UAAL payment will be based on amortizing (as a level percentage of payroll) the outstanding balance of the additional UAAL payment amount over the same period as used for actuarial gains and losses, using CCCERA's investment return and payroll growth assumptions in effect at each valuation date.

The reduction in the UAAL contribution rate will then equal the dollar amount of reduction in the employer's UAAL contributions divided by the employer's expected payroll for the year following the valuation date. If requested by the employer and directed by the Board, the rate reductions will apply starting on July 1 following receipt of the payment and the additional UAAL payment amount will be discounted back to the December 31 valuation date for which the contribution rates from that valuation become effective on that July 1, at CCCERA's investment return assumption in effect at that valuation date. Absent such direction the rate reductions will apply on the July 1 that is 18 months after the December 31 valuation date following receipt of the payment. The additional UAAL payment amount will be credited with earnings semiannually on June 30th and December 31st if such amount has been on deposit for six months immediately prior to that date in accordance with the Board's Interest Crediting and Excess Earnings Policy.

The separate tracking of the outstanding balance applies only to employers that are in a cost group with more than one employer. For employers that are in their own cost group, the additional UAAL payment amount is directly added to the assets of their cost group. Separate tracking of the outstanding balance of the additional UAAL payment is not needed in this situation as the additional UAAL payment will automatically reduce the employer's UAAL contributions.

Employers with Declining Covered Payrolls

Refer to the Declining Employer Payroll Actuarial Funding Policy for more information.

POLICY REVIEW

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

HISTORY

Adopted: 2/26/2014

Amended: 8/13/2014, 5/22/2019, 10/14/2020, 09/13/2023, 02/18/2026

GLOSSARY OF FUNDING POLICY TERMS:

- **Present Value of Benefits (PVB) or total cost:** the “value” at a particular point in time of all projected future benefit payments for current plan members. The “future benefit payments” and the “value” of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all members, including future service and salary increases for active members.
- **Actuarial Cost Method:** allocates a portion of the total cost (PVB) to each year of service, both past service and future service.
- **Normal Cost (NC):** the cost allocated under the Actuarial Cost Method to each year of active member service.
- **Entry Age Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay over the expected working lifetime of the plan’s members.
- **Actuarial Accrued Liability (AAL):** the value at a particular point in time of all past Normal Costs. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true. Note that for inactive members the AAL equals the entire PVB.
- **Market Value of Assets:** the fair value of assets of the plan as reported in the plan’s audited financial statements.
- **Actuarial Value of Assets (AVA) or smoothed value:** a market-related value of the plan assets for determining contribution requirements. The AVA tracks the market value of assets over time, smoothes out short term fluctuations in market values and produces a smoother pattern of UAALs and contributions than would result from using market value.
- **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.
- **Unfunded Actuarial Accrued Liability (UAAL):** the positive difference, if any, between the AAL and the VVA.
- **Surplus:** the positive difference, if any, between the VVA and the AAL.
- **Actuarial Value Funded Ratio:** the ratio of the VVA to the AAL.
- **Market Value Funded Ratio:** the ratio of the MVA to the AAL.

- **Actuarial Gains and Losses:** changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or “actuarial gain” as of the next valuation. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.
- **Valuation Date:** December 31 of every year.