MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)
ACTUARIAL FUNDING POLICY

Adopted: May 4, 2022
Amended: May 3, 2023

I. INTRODUCTION

The purpose of this Policy is to document the funding objectives and methods set by the Board of Retirement (Board) for the Marin County Employees' Retirement Association (MCERA). In addition, this document records certain policy guidelines established by the Board to assist in administering MCERA in a consistent and efficient manner. As such this is a working document and may be modified as deemed necessary by the Board. All funding methods and assumptions are described in the annual actuarial valuation.

II. GOALS OF ACTUARIAL FUNDING POLICY

- Achieve long-term, full funding of the cost of benefits administered by MCERA,
- Maintain reasonable and equitable allocation of the cost of benefits over time, and
- Minimize volatility of contributions required of the plan sponsor County of Marin ("County") and other MCERA participating employers (collectively, "Participating Employers") to the extent reasonably possible, consistent with other policy goals.

III. FUNDING POLICY

MCERA's funding policy is to collect contributions from the Participating Employers and employees equal to the sum of:

- The Normal Cost under the Entry Age Cost Method,
- An amortization payment on the Unfunded Actuarial Liability (UAL), and
- The Plan's expected administrative expenses.

IV. ACTUARIAL METHODS

MCERA's annual actuarial valuation documents the assumptions and methods used to determine the cost of benefits in Appendix B, Statement of Current Actuarial Assumptions and Methods. The following outlines the key funding guidelines:

- Actuarial Cost Method: The actuarial valuation is prepared using the entry age actuarial cost method (Gov. Code § 31453.5). Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit (until maximum retirement age). For members who transferred from outside of MCERA, entry age is based on entry into the system. The Normal Cost for the Plan is based on the sum of the individual Normal Costs for each member (Individual Entry Age Method).

- Valuation of Assets: Effective with the June 30, 2014 valuation, the Board adopted a direct contribution rate smoothing policy. As a result, the smoothed Actuarial Value of Assets was replaced with the Market Value of Assets for valuation purposes. The assets used to compute the UAL are the Market Value of Assets, minus the value of any non-valuation contingency reserves.

- UAL Amortization: The UAL is amortized as a level percentage of the projected salaries of present and future members of MCERA. Effective with the June 30, 2013 valuation, the UAL as of June 30, 2013 is amortized over a closed 17-year period (8 years remaining as of June 30, 2022). The additional UAL attributable to the extraordinary loss from 2008-2009, is being amortized over a separate closed period (16 years as of June 30, 2022). Any subsequent unexpected change in the UAL after June 30, 2013 is amortized over 24 years (22 years for assumption changes) that includes a five-year phase-in and four-year phase-out (three/two years for assumption changes) of the payments/credits for each annual layer.

- Surplus funding: If the total of all UAL becomes negative so that there is a surplus and the amount of such surplus is in excess of 20% of the actuarial accrued liability (per Government Code § 7522.52), such actuarial surplus and any subsequent surpluses will be amortized over an "open" amortization period of 30 years. Any prior UAL amortization layers will be considered fully amortized, and any subsequent UAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

- The amortization period described above will be used in all funding circumstances unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis.

V. <u>OTHER POLICY CONSIDERATIONS</u>

A. Plan Sponsor

The County established MCERA in 1950 under the provisions of the County Employee Retirement Law of 1937 (CERL) to administer the retirement benefits being offered to County employees. The County serves as the plan sponsor. Officers and employees of districts may become members of MCERA as provided in Government Code section 31557, and other applicable law, and such districts also are Participating Employers in MCERA.

B. Participating Employers

In addition to the County, there are eight other Participating Employers:

- City of San Rafael
- Local Agency Formation Commission
- Marin Community Services District
- Marin Sonoma Mosquito Vector Control District
- Marin County Superior Court
- Novato Fire Protection District
- Southern Marin Fire District

- Tamalpais Community Service District

The City of San Rafael ("City") joined MCERA by Agreement between the City, the Board of Supervisors of the County, and MCERA dated May 10, 1977 ("Participation Agreement re City"), which provided in pertinent part that "for such time that City and its employees are members of [MCERA], City and its employees costs will be computed separate and apart from the County's costs and that of its employees and separate actuarial reviews will be performed for each group." Further, the Participation Agreement re City provides that "Each group (Marin County and the City of San Rafael) will be completely independent for retirement purposes. The funds of the two groups may be merged for investment purposes but appropriate accounting procedures should be established to be able to allocate what amount of funds belongs to each group at the time of an actuarial study."

The Novato Fire Protection District ("Novato Fire") joined MCERA by resolution of its governing board dated March 2, 1977, which the MCERA Board accepted on March 14, 1977, subject to a condition that an "administration fee be the same as the City of San Rafael."

Historically, MCERA has conducted separate actuarial valuations annually for the City and Novato Fire. Other Participating Employers are grouped with the County for valuation purposes and a single actuarial valuation is produced for that "County, Court, and Special Districts" group.

C. Lag Between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In allowing the employer to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of MCERA's UAL in the following valuation.

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

D. Phase-in of Increase in Employer Contribution Rates

From time to time, the Board has considered phasing in extraordinary changes in employer contribution rates. The Board reserves the right to exercise such discretion based on facts and circumstances and after receiving input from its Actuary.

E. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur.

These gains (or losses) then serve to reduce (or increase) the future contribution requirements. Experience gains/losses are reflected in the annual actuarial valuation and the triennial Experience Study.

Actuarial assumptions are generally grouped into two major categories:

i. Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.

ii. Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board's best estimate of anticipated experience under MCERA and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only experience but also trends, external forces, and future expectations. Irrespective of the care with which actuarial assumptions are chosen, actual experience over the short term may not match these assumptions.

VI. DEFINITIONS

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

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

Actuarial Valuation: The determination, as of a specified date, of the Normal Cost, Actuarial Liability, Actuarial Value of Assets, and related actuarial present values for a pension plan.

Actuarial Value of Assets: The Actuarial Value of Assets is equal to the Market Value of Assets. The market value represents "snap-shot" or "cash-out" values that provide the principal basis for measuring financial performance from one year to the next.

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

Experience Gains and Losses: The difference between the experience anticipated by the actuarial assumptions and the Plan's actual experience during the period between valuations. If actual experience is financially favorable to the Plan, it is a Gain, (e.g., more deaths than expected or higher investment return than expected). If actual experience is financially less favorable to the Plan, it is a Loss, (e.g., higher salaries than expected or lower investment return than expected).

Extraordinary Actuarial Gain (Loss): An Experience Gain (Loss) determined by the Board to be of such magnitude and rarity to warrant creation of a special amortization policy.

Funded Ratio: The ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability of the Plan.

Inactive Funded Ratio: The ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability of the Plan for members who are not active, including retired members and their beneficiaries, disabled members, and members terminated with a vested benefit.

Normal Cost: The portion of the Present Value of Projected Benefits that is attributed to the current year by the Actuarial Funding Method.

Unfunded Actuarial Liability: The portion of the Actuarial Accrued Liability that is not currently covered by Plan assets. It is calculated by subtracting the Actuarial Accrued Liability from the Valuation Value of Assets.

Valuation Value of Assets: The value of assets used to determine contribution rate requirements. The valuation assets are equal to the market/actuarial value, minus any non-valuation reserves that are to be excluded from the calculation of the Unfunded Actuarial Liability. For MCERA, the only such non-valuation reserves are the Statutory Contingency Reserves, which are established and maintained in accordance with Government Code section 31592.2 and the Plan's Interest Crediting Policy.

Valuation Date: June 30 of every year.

VII. POLICY REVIEW

The Retirement Board shall review this Policy annually in conjunction with its adoption of its actuarial valuation. The Policy may be amended from time to time by majority vote of the Board.

VIII. RETIREMENT ADMINISTRATOR'S CERTIFICATE

I, Jeff Wickman, the duly appointed Retirement Administrator of the Marin County Employees' Retirement Association, hereby certify that this policy was amended on May 3, 2023.

Jeff Wickman