Employer Termination Policy

I. PURPOSE AND SCOPE

A. In accordance with section 31564.2 of the California Government Code, the guidelines set forth herein are effective as of May 12, 2017, and establish practices of the San Joaquin County Employees' Retirement Association ("SJCERA", the "Association") with respect to the termination of participation in SJCERA by a participating district/employer ("employer") other than the Plan Sponsor, the County of San Joaquin, whether initiated by the employer or by SJCERA in accordance with the Declining Employer Payroll Policy.

B. 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:

1. 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 SJCERA 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 SJCERA.

2. 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 contribution required by this chapter within the applicable time limitations. In dealing with a withdrawing employer, the Board of Retirement shall take whatever action is needed to ensure the actuarial soundness of the retirement system."

3. This policy is intended to assure that a participating SJCERA employer will fully fund the benefits of its members, such that the other participating employers will not be expected to have their funding requirements increased as a result of the employer's termination of participation in the Association.

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

1. The present value of all future benefits expected to be paid by SJCERA to the terminating employer’s employees, retirees, beneficiaries, and terminated members as of the termination date; minus
2. The value of SJCERA assets allocated to the terminating employer as of the termination date.

D. The policy provides the specific procedures to be used in determining the above components.

II. TERMINATION CONDITIONS

A. The Board shall require the terminating employer to reimburse SJCERA for the actuarial consulting fees incurred for the purpose of determining its terminal funding obligation, if the termination is initiated by the employer.

B. The termination date must be as of the end of a Plan year.

C. In the event that the terminating employer becomes a participating employer with a reciprocal system, the terminating employer must provide SJCERA with updated employee census data in the years following the employer’s termination, as requested by SJCERA for use in determining liabilities and preparing, among other things, SJCERA’s actuarial valuation.

D. As part of the termination process, the Board of Retirement and the terminating employer will enter into an agreement stipulating the provisions for the settlement of the funding obligation.

III. PRESENT VALUE OF BENEFITS

A. The benefits payable to SJCERA current and former employees of the terminating employer will be as follows:

   1. All active members on the termination date will receive SJCERA benefits for their credited service up to the termination date. As a result, they will take on the same status as terminated members.

   2. All vested terminated members and retired members (and their beneficiaries) as of the termination date will receive future benefits from SJCERA.

B. The future benefits to be paid to SJCERA members of the terminating employer will include those payable to:

   1. Existing retirees (and their beneficiaries) of the employer;

2. Employees (and their beneficiaries) of the employer as of the termination date; and

3. Former employees of the employer entitled to either deferred vested benefits or a refund of their accumulated contributions plus credited interest.

C. The present value of benefits will be determined based on:

1. The service retirement and other benefits associated with their years of service in SJCERA as of the employer's termination date, for which they are entitled to SJCERA benefits;

2. Expected future cost-of-living adjustments on those benefits;

3. For employees and deferred vested members, expected final average earnings (including the effect of any reciprocity benefits);

4. For employees and deferred vested members, their expected age at retirement; and

5. For retired members and beneficiaries of retirees, the SJCERA benefits earned from service with the terminating employer.

D. The determination of the present value of future benefits shall be based upon the actuarial assumptions most recently adopted by the Board of Retirement at the time of the determination.

1. However, future benefit payments will be discounted to the termination date using market-based interest rate assumptions, based on whichever of the following two assumptions produces the higher present value:

a. The discount rate(s) used by the Pension Benefit Guarantee Corporation (PBGC) to measure the sufficiency of assets for a corporate employer that is terminating its single-employer defined benefit pension plan, or

b. 2.5%

2. The PBGC discount rate(s) shall be determined based on the most recent rates published as of the termination date.

3. There will be no reassessment of the terminating employer's funding obligation after the termination date.

4. No consideration will be given to future Board of Retirement provided benefits, such as supplemental cost-of-living adjustments, when determining the present value of benefits.

IV. DETERMINATION OF TERMINATING EMPLOYER'S ASSETS

A. SJCERA is a cost-sharing multiple employer plan. As a result, there is no ongoing separate accounting of SJCERA's assets by employer. The SJCERA assets attributable to the terminating employer and its employees will be determined as follows:

   1. Determine the Actuarial Accrued Liability of the terminating employer as of SJCERA's most recent actuarial valuation, irrespective of the employer's anticipated termination.

   2. Determine the Actuarial Value of Assets attributable to the employer as of SJCERA's most recent actuarial valuation, based on the amount which would result in the Unfunded Actuarial Liability contribution rates for the non-withdrawing employers being unaffected by the removal of the withdrawing employer's Actuarial Assets, Accrued Liability and covered payroll from the funding calculations reflected in the most recent actuarial valuation. If the Unfunded Actuarial Liability for SJCERA is being amortized using multiple layers with individual amortization schedules, the Unfunded Actuarial Liability for the withdrawing employer shall be applied as a pro-rata share of each existing layer.

A. Determine the accumulated assets at the termination date as:

   1. Step 2 Amount x Ratio A, where:

      a. Ratio A = (Total SJCERA valuation assets at market value as of the most recent actuarial valuation date) divided by (Total SJCERA valuation assets at actuarial value as of the most recent valuation date).

      b. The Valuation Assets shall not include any reserves or designations from which the terminating employer shall not benefit, such as a pre-funding reserve established by another employer, or a contingency reserve not included in the Plan's valuation assets for the purpose of determining the unfunded liability amortization payments in the current actuarial valuation.

V. SETTLEMENT OF FUNDING OBLIGATION

A. The terminating employer's funding obligation will be the excess, if any, of the present value of future benefits over the employer's accumulated assets, as determined by this policy.

B. It is the past practice of SJCERA to require that the funding obligation of a terminating employer be paid as a single lump sum, and this policy reaffirms this practice, and stipulates that an extended payment schedule shall only be agreed to if the Board determines that such an arrangement would best service the Plan's interests.

C. If the obligation is settled by the withdrawing employer more than 90 days following the termination date, interest will be applied to the funding obligation, based on the discount rate used in the determination of the terminating employer's present value of future benefits as specified under this policy.

D. The settlement of the employer's funding obligation under this policy shall represent a full settlement of the employer's funding obligation for benefits provided to its members by SJCERA, with the exception that the employer shall still be responsible for providing the necessary information needed for SJCERA to administer the Plan and to complete the Plan's annual funding valuation and disclosure requirements.

V. Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

VI. HISTORY

05/12/2017	Policy adopted by the Board of Retirement
06/29/2018	Reviewed, no required content changes; staff updated format
04/12/2019	Policy Review section amended to at least once every three years
07/12/2019	Aligned with the Declining Employer Payroll Policy regarding potential initiation of termination by SJCERA.

Certification of Board Adoption

07/12/2019

Clerk of the Board Date