Statement of Funding Policy

I. Purpose

A. The purpose of this Statement of Funding Policy is to record the funding objectives and strategy set by the Board of Retirement (Board) for the San Joaquin County Employees' Retirement Association (SJCERA). The Board re-establishes this Statement of Funding Policy to ensure future benefit payments for members of SJCERA.

B. In addition, this document records certain guidelines established by the Board to assist in administering SJCERA in a consistent and efficient manner.

C. It is a working document and may be modified as the Board deems necessary.

II. Funding Objectives

A. The Board's primary funding objectives, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all benefits under SJCERA.

2. Maintain equity among generations of taxpayers by:

   a. Achieving and maintaining a Funded Ratio, as defined in Section IV, between 90% and 110%;

   b. Amortizing the Unfunded Actuarial Accrued Liability, as defined in Section IV, over a period approximately equal to the expected average future working lifetime of the active SJCERA membership; and

   c. Setting Funding Policy so that the Inactive Funded Ratio, as defined in Section IV, is expected to remain above 100%.

B. Minimize the volatility of the employers' annual contribution rate as a percentage of covered pay by:

1. Maintaining 1% of total assets as a reserve against contingencies; and

2. Coordinating Funding and Investment Policies to reduce portfolio risk as the Funded Ratio improves, with the ultimate goal of matching fixed income investments to benefit payments for inactive SJCERA members.

C. Encourage participating employers to refrain from making discretionary benefit improvements in any year in which the Funded Ratio is below 110% on an actuarial value of assets basis.

III. Funding Guidelines

A. This statement reflects the current policy of the Board and establishes guidelines for setting the employer contribution rates.

B. Regular Contribution Rate: Through coordinated Funding and Investment Policy we will attempt to minimize the volatility of the employers' contribution rate from year to year as a percentage of covered pay. The employer contribution is the sum of the employers' Normal Cost and a payment to amortize the Unfunded Actuarial Accrued Liability as of the date of valuation.

1. The Normal Cost and Actuarial Accrued Liability used for this purpose will be calculated using the Entry Age actuarial funding method.
2. The Actuarial Value of Assets used for this purpose will be a smoothed value that recognizes realized and unrealized investment gains over a five-year period, but in no event shall be more than 120% of market value or less than 80% of market value.
3. The Board has declared 50% of the actuarial loss from Fund investments during 2008 to be an Extraordinary Actuarial Loss, as defined in Section IV. This Loss will be amortized as a percentage of expected payroll over a closed 30-year period beginning January 1, 2009 and ending January 1, 2038.
4. In the event that the Board declares an Extraordinary Actuarial Gain during the amortization period of the 2008 Loss, the Gain will first be used to reduce the remaining unamortized balance of the 2008 Loss, and any amount of the Gain remaining will be amortized as a percentage of expected payroll over a closed 30-year period beginning on the date of the Gain.
5. Any Unfunded Actuarial Accrued Liability other than Extraordinary Actuarial Gains or Losses will be amortized as a percentage of expected payroll over a 20-year period beginning with the 2009 Valuation Year.

   This amortization period will remain at 20 years through the 2013 Valuation Year. After 2013, the amortization period for the remaining UAAL will decrease by one year each Valuation Year.
6. Beginning with the January 1, 2015 valuation, any future UAAL that occurs due to an investment gain or loss, assumption change, or other cause not related to plan benefits will be amortized as a level percentage of payroll over a closed 15-year period, commencing with the valuation which first recognizes the change in UAAL. Any UAAL layers already established prior to the January 1, 2015 actuarial valuation will not be affected by this change.
7. Beginning with the January 1, 2015 valuation, any future UAAL that occurs due to a change in plan benefits will be amortized as a level percentage of payroll over a closed period, the length of which will be established by the Board, commencing with the valuation which first recognizes the change in

UAAL. In selecting the amortization period, the Board will balance the objective of cost stability with the goal of generational equity in funding the liabilities associated with the benefit change. Any UAAL layers already established prior to the January 1, 2015 actuarial valuation will not be affected by this change.

8. The Board will review the above amortization policy from time to time, based on the Funding Objectives in Section II above.

C. Minimum Contribution Rate: In the interest of maintaining the funded position of SJCERA and to ensure that assets are sufficient at all times to provide for the prompt delivery of benefits and related services to plan participants, the Board will, under certain circumstances increase the employers' contribution rate above the Regular Contribution Rate, as detailed below.

1. If the Market Value of Assets is less than expected to be needed to pay benefits and expenses during the year, the employer contributions shall be increased to a level sufficient to provide for such payments.

2. If the Inactive Funded Ratio is less than 100%, on both an actuarial value and market value basis for more than two consecutive years, in the third consecutive year, the employer contributions may be increased to a level that would restore the Inactive Funded Ratio to 100% over a five-year period using a level percentage of expected payroll amortization.

3. If the Funded Ratio has increased to over 100% and any Unfunded Actuarial Accrued Liability has been fully amortized, the employer will continue to contribute at least the Normal Cost until such time as the Board decides otherwise.

4. If the employer experiences a significant change in active membership, and the Board determines that the amortization of the Unfunded Actuarial Accrued Liability will be extended as a result, the Board may revise the employer's contribution rate to maintain funding progress.

5. After January 1, 2013, the employer contribution rates established by the Board will comply with the employer contribution requirements of the California Public Employees' Pension Reform Act of 2013 (PEPRA).

D. Assumption Guidelines: The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and expenses actually paid and 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) future contribution levels.

1. Assumptions are generally grouped into two major categories.

   a. Demographic assumptions -- which include withdrawal, retirement, disability, marriage and mortality rates

   b. Economic assumptions -- which include inflation, valuation interest rate, and salary increase

2. The assumptions represent the Board's best estimate of anticipated experience under SJCERA and are intended to be long term in nature. Therefore, in developing the assumptions, the Board considers not only past 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 is not expected to match these assumptions.

3. In order to reduce the expenses and administrative difficulties involved in changing the actuarial assumptions used to compute optional settlements under Article 11 of the CERL, the Board may elect to use separate sets of actuarial assumptions for funding purposes – computing Plan liabilities and employer and employee contributions – and for administrative purposes – computing optional settlements.

IV. Glossary of Terms

A. *Actuarial Allocation Percentage*: The portion of total earnings expected to be allocated to pension reserves over the long term.

B. *Actuarial Funding Method*: The technique used to allocate costs to various time periods.

C. *Actuarial Accrued Liability (AAL)*: The portion of the Present Value of Projected Benefits that is attributed to past years of service by the Actuarial Funding Method. This represents the target level of assets each year under the Actuarial Funding Method.

D. *Actuarial Value of Assets*: The value of assets used by the actuary in the actuarial valuation. Although the value of assets for this purpose can be the Market Value of Assets, a smoothed value is often used in order to reduce the impact of market fluctuations on the employers' contribution rate, while capturing the long-term intrinsic value of those plan assets that will be used to pay for promised benefits. For SJCERA, the Actuarial Value of Assets shall be no more than 120% of market value and no less than 80% of market value.

E. *Entry Age Actuarial Funding Method*: An Actuarial Funding Method that determines the plan's Normal Cost as a level percentage of pay over the working lifetime of plan members.

F. *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 more 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).

G. *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.

H. *Funded Ratio:* The ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability of the plan.

I. *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.

J. *Market Value of Assets:* The total fair value of fund assets as reported in SJCERA's financial statements.

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

L. *Unfunded Actuarial Accrued Liability (UAAL)*: The portion of the Actuarial Accrued Liability not currently covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.

V. Policy 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 pursuant to the Bylaws.

VI. History

07/01/1998	Adopted
11/7/2003	Modified funded ratio and actuarial value of assets limits
10/12/2007	Modified funded ratio measurement methodology and specified when action is required; established funding level below which adding discretionary benefits is discouraged; added current 3% reserve policy to Funding policy.
10/9/2009	Modified to address generational equity, inactive funded ratio, and amortization periods.
10/14/2011	Modified definitions of Actuarial Accrued Liability and Actuarial Value of Assets; added ability to use of separate sets of actuarial assumptions for funding and administrative purposes

08/14/2015	Specified use of closed amortization periods, 15-year amortization, and confirmed employer contribution rate methodology
06/09/2017	Lowered the Contingency Reserve from 3 percent to 1 percent
07/06/2018	Staff updated format
04/12/2019	Policy Review section amended to at least once every three years
07/08/2022	Deleted an obsolete date and a minor punctuation change; no content or substantive changes.

Certification of Board Adoption

JThick	07/08/2022
Clerk of the Board	Date