

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT

DECLINING EMPLOYER PAYROLL ACTUARIAL FUNDING POLICY

I. PURPOSE

A participating employer in the Contra Costa County Employees' Retirement Association (CCCERA) may experience an actual or expected material decline in the payroll attributable to its CCCERA's active members (CCCERA-covered payroll). The Declining Employer Payroll Actuarial Funding Policy is intended to establish guidelines by which CCCERA 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 service as CCCERA's members.

II. BACKGROUND

Under CCCERA's practice in place prior to the adoption of this Policy, CCCERA generally determined employers' contribution obligations for UAAL by applying a contribution rate determined by CCCERA's actuary to the employer's CCCERA-covered payroll (the percentage-of-payroll methodology). For employers whose payrolls are generally consistent with CCCERA's actuarial assumptions regarding payroll growth, the percentage-of-payroll methodology continues to be appropriate.

However, for employers whose CCCERA-covered payroll is declining, or is expected to decline, materially over time, the Board of Retirement has determined that the percentage-of-payroll methodology is not the appropriate means of collecting employer contributions owed to CCCERA. The objectives of this Declining Employer Payroll Policy are to (i) 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.

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) the Public Employees' Pension Reform Act of 2013 (Gov't. Code sections 7522-7522.74) and other applicable provisions of law. Pursuant to Gov't. Code sections 7522.52, 31453, 31453.5, 31581, 31582, 31584, 31585, 31586, 31611 and other applicable provisions of law, a participating employer remains liable, and must make the required appropriations and transfers, to CCCERA for the participating 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 CCCERA.

It is the Board of Retirement's intent to allow an employer covered by this Policy to satisfy its funding obligation in a manner 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.

III. PROCEDURES AND GUIDELINES

Absent any exigent circumstances and unless 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.

A. Commencement of Coverage – Triggering Events

This Policy covers only those employers for whom the Board determines, based on a recommendation from CCCERA's Chief Executive Officer (CEO), that a *triggering event* as described in this section III.A. has occurred *and* who are not excluded from coverage under this Policy as described in section III.B. below. The fact that a triggering event may have occurred in the past does not prevent CCCERA from applying this policy to that employer. The Board hereby directs the CEO to work with CCCERA's actuary to obtain the information (e.g., CCCERA-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.

As provided in Section IV.3. of the Board's Regulations:

Whenever the employer's reportable payroll drops to a level which is lower than 70% of its payroll during the same period in the preceding year, the Board may investigate the cause. Whenever the employer's reportable payroll drops to a level which is lower than 50% of its payroll during the same period in the preceding year, the Board shall investigate the cause. If the Board determines that the cause is other than temporary it shall *determine the amount of contributions due from the employer to continue paying its share of any unfunded liability* [emphasis added]. This amount shall then be due from the employer in addition to any contributions made on the reduced payroll.

One of the purposes of this policy is to provide a basis for applying this provision of the Board's Regulations.

- (i) *Triggering event resulting from ceasing to enroll new hires.* This provision applies in the event that a CCCERA participating employer ceases to enroll new hires with CCCERA but, for a period of time, continues to have at least some previously-enrolled employees maintaining their status as active CCCERA members. The employer's CCCERA-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 a CCCERA participating employer, or a CCCERA 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.
- (ii) *Triggering event resulting from a material and expected long-lasting reduction in CCCERA-covered payroll.* This provision applies in the event that a CCCERA

participating employer experiences a material reduction in their CCCERA-covered payroll, but nevertheless continue to enroll their new hires with CCCERA. 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 may 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 employers' CCCERA-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 CCCERA cost group.

Generally, a situation described in the Board's Regulations above would likely constitute a triggering event under this subsection. However, this subsection also applies to reductions in CCCERA-covered payroll that occur more gradually over time.

B. Exclusions from Coverage; Terminations of Coverage

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 CCCERA membership for *all* of the employer's active CCCERA members (i.e., as of a date certain, withdraws both new hires and existing actives from membership with CCCERA). Such withdrawing employer is covered under a separate policy, the CCCERA Employer Termination Policy.

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, the Board may remove the employer from coverage under this Policy and/or take any other measures that may be available and necessary to ensure the actuarial soundness of CCCERA including, without limitation, assessing the projected entire amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board) using a lower discount rate and payable in a single sum immediately due.

C. Procedures

The CEO or the CEO's designee will work with CCCERA's actuary and CCCERA's participating employers to obtain the information (e.g., CCCERA-covered payroll history, financial reports) needed for the Board to make determinations regarding triggering events and exclusions from, or terminations of, coverage and report to the Board, at least annually, regarding these activities.

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 should be excluded from coverage under this Policy, 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 III.B.

above. Employers may be required to provide CCCERA with updated employee census and payroll data and financial reports. See Gov't Code section 31543.

If the Board determines that a triggering event has occurred and the employer is not excluded from coverage under the Policy, then, solely for purposes of determining the covered employer's UAAL contribution obligation, CCCERA will segregate on its books all assets and liabilities attributable to the employer (to the extent not already segregated under de-pooling), based upon the recommendation of CCCERA's actuary, and shall maintain such separate accounting for the employer until all of the participating employer's obligations to CCCERA have been fully satisfied. The employer will be placed in its own cost group for purposes of determining employer and employee contributions. The employer and the employee Normal Costs will be based on the active members of the covered employer only.

CCCERA's actuary will determine, and certify to the Board of Retirement, the covered employer's funding obligation for its initial UAAL, which obligation shall be pro-rata based not on payroll, but rather based on the employer's actuarial accrued liability (AAL) including inactives and deferred members. The Board will generally require the employer's contributions to be paid in level, fixed-dollar amounts over a period not to exceed eighteen (18) years, beginning on July 1 of the calendar year immediately after the year in which the triggering event occurs. In appropriate circumstances, the Board may determine, consistent with its fiduciaries duties, it is appropriate to collect the necessary contributions in a different manner.

The actuary will use the actuarial valuation performed for CCCERA 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 CCCERA's then current actuarial assumptions and methodologies) to determine the initial AAL of the covered employer. The initial valuation value of assets (VVA), a smoothed value, will be determined using a pro-rata allocation based on the ratio of the employer's initial AAL to the AAL of all employers in the same cost group. As a result of this methodology, the initial UAAL (i.e., the initial AAL minus the initial VVA) will also be allocated pro-rata based on the covered employer's AAL in proportion to that of the other employers in the same cost group. 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 CCCERA assets.

Annually, after the determination of the covered employer's initial funding obligation, as part of the regular annual actuarial valuation of the plan, CCCERA's actuary will measure any change in the UAAL of the participating employer due to the 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 CCCERA, 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. CCCERA will hold any negative UAAL (Surplus) to be applied against any future UAAL of the covered employer.

If any Surplus remains after the covered employer has satisfied *all* of its UAAL obligations (Final Surplus), CCCERA will distribute the Final Surplus in accordance with the terms of applicable law.

IV. POLICY REVIEW

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

V. HISTORY

Adopted: 05/22/2019

Amended: 06/08/2022