

## **Actuarial Funding Policy**

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### **I. Background & Objectives**

- A. California Constitution Art. XVI, Sec. 17 (e) provides: The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.

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

This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies.

- B. The objectives of this policy are to:

1. To achieve long-term full funding of the cost of benefits provided by VCERA;
2. To seek reasonable and equitable allocation of the cost of benefits over time;
3. To minimize volatility of the plan sponsors' contribution to the extent reasonably possible, consistent with other policy goals; and
4. Support the general public policy goals of accountability and transparency by being clear as to both intent and effect, allowing for assessment of how and when plan sponsors will continue to meet the funding requirements of the plan.

### **II. Funding Guidelines and Policy Components**

- A. VCERA'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 three components of this funding policy:

1. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to each given period;

2. Asset Smoothing Method: the techniques that spread 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; and
  3. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.
- B. Actuarial Cost Method: The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined on an individual basis for each active member.
- C. Asset Smoothing Method:
1. 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.
  2. 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 VCERA'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) and the following conditions are met:
    - a. The net deferred investment gains or losses are unchanged as of the date of the adjustment; and
    - b. The period over which the net deferred investment gains and losses are fully recognized is unchanged as of the date of the adjustment.
- D. Amortization Policy:
1. The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2011 shall continue to be amortized over separate 15-year period amortization layers based on the valuations during which each separate layer was previously established.

2. Any new UAAL or credits against the UAAL as a result of actuarial losses or gains identified in the annual valuation as of June 30 will be amortized over a period of 15 years.
3. Any new UAAL or credits against the UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 15 years.
4. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
  - 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 15 years;
  - b. the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL (Golden Handshake), will be funded over a period of up to 5 years.
5. UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each annual actuarial valuation.
6. 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.
7. If an overfunding or “surplus” exists (i.e., the Actuarial Value of Assets is greater than the Actuarial Accrued Liability), 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 amortization periods set forth in 2. and 3. above. If the surplus exceeds 20% of the Actuarial Accrued Liability per Section 7522.52 of the Government Code, then the amount of such surplus in excess of 20% of the Actuarial Accrued Liability (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 continue to be contributed.

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

### **III. Other Policy Considerations**

#### **A. Lag Between Date of Actuarial Valuation and Date of Contribution Rate Implementation.**

In order to allow the employers 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 VCERA's UAAL in the following valuation.

#### **B. Implementation of Contribution Rate Change Due to Plan Amendment.**

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

#### **C. Cost Groups and Contribution Rates.**

All General Members (Tier 1, Tier 2, PEPR Tier 1 and PEPR Tier 2), and all Safety Members (Tier 1 and PEPR Tier 1) are referred to separately as a Cost Group. The Basic UAAL contribution rate for each Cost Group (General Member and Safety Member) is determined as a combined rate for all Tiers within each Cost Group. The COLA UAAL contribution rate for each Cost Group (General Member and Safety Member) is determined as a combined rate for all Tiers within each Cost Group that has a Cost-of-Living Adjustment (COLA).

#### **D. Stabilization of Employer Contribution Rates and Surplus Management Policy**

Effective with the June 30, 2025 actuarial valuation, implement a glide path strategy by applying the following to each UAAL Cost Group when there is a UAAL contribution rate decrease calculated compared to the prior year's actuarial valuation:

1. If the calculated UAAL contribution rate is lower than the prior year's actual UAAL contribution rate by less than 2% of payroll in a given year, maintain the prior year's actual UAAL contribution rate.

2. If the calculated UAAL contribution rate is lower than the prior year's actual UAAL contribution rate by 2% of payroll or more, only decrease the actual UAAL contribution rate by 1% of payroll from the prior year's actual UAAL contribution rate.
3. If the Actuarial Value Funded Ratio for a UAAL Cost Group is 100% or greater, decrease the UAAL contribution rate by up to 1% of payroll (complying with the restrictions of PEPRA) from the prior year's UAAL contribution rate. If in a subsequent year the Actuarial Value Funded Ratio for a UAAL Cost Group becomes less than 100%, the UAAL contribution rate would be set equal to the greater of the contribution rate determined using 1. and 2. above, or the calculated UAAL contribution rate required to amortize the UAAL in that valuation.

Any excess contributions as a result of the above will be amortized as a credit against VCERA's UAAL in subsequent valuations.

#### **IV. Guidelines and Policy Components**

- A. 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.
- B. Actuarial Cost Method: allocates a portion of the total cost (PVB) to each year of service, both past service and future service.
- C. Normal Cost (NC): the cost allocated under the Actuarial Cost Method to each year of active member service.
- D. Entry Age Normal Actuarial Cost Method: a funding method that calculates the Normal Cost as a level percentage of pay over the working lifetime of the plan's members.
- E. 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.

- F. **Market Value of Assets:** the fair value of assets of the plan as reported in the plan's audited financial statements.
- G. **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 contributions than would result from using market value.
- H. **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.
- I. **Unfunded Actuarial Accrued Liability (UAAL):** the positive difference, if any, between the AAL and the VVA.
- J. **Surplus:** the positive difference, if any, between the VVA and the AAL.
- K. **Actuarial Value Funded Ratio:** the ratio of the VVA to the AAL.
- L. **Market Value Funded Ratio:** the ratio of the MVA to the AAL.
- M. **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.
- N. **Valuation Date:** June 30 of every year.

## **V. Policy Review & History**

This is a working policy document and may be modified as the Board deems necessary. The Board will review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

Date	Action	Comments
May 21, 2012	Policy Adopted	
January 24, 2022	Reviewed & Amended	Incorporated changes per PEPRAs;

		Added provision for re-smoothing (combining a year of gain with a year of loss) to reduce volatility in contributions; Added fiduciary language explaining retirement board's power over actuarial services (setting assumptions and rates)
September 8, 2025	Reviewed & Amended	Changed amortization of new UAAL or "credits against the UAAL", as a result of change in actuarial assumptions or methods, to 15 rather than 20 years; Added new section to address "Stabilization of Employer Contribution Rates and Surplus Management Policy", which implements UAAL rate smoothing techniques; Various minor changes for clarification of existing policy; Reformatted based on new policy format adopted by the Board on March 24, 2025.