

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (FCERA)
FUNDING POLICY**

I. GOALS OF FUNDING POLICY

- 1) To achieve long-term full funding of the cost of benefits provided by FCERA;
- 2) To seek reasonable and equitable allocation of the cost of benefits over time; and,
- 3) To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.
- 4) Establish guidelines for contribution late payments, contribution prepayments and sponsor termination

II. ACTUARIAL FUNDING REQUIREMENTS

- 1) FCERA annual funding requirement is 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:
 - a) Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period;
 - b) 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
 - c) 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.

III. ACTUARIAL COST METHOD

- 1) The Entry Age (Normal) Method shall be applied in determining the Normal Cost and the actuarial accrued liability

IV. ASSET SMOOTHING METHOD

- 1) The gains or losses of each valuation period, as a result of comparing the Market Value of assets at the end of the period with what the Market Value would have been if the assumed rate of return on assets was realized during the period, shall be recognized in level amounts over 5 years in calculating the actuarial value of assets;
- 2) The actuarial value of assets as determined above shall be limited to be within a corridor of 70% - 130% of the Market Value of assets.

- 3) 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. Such adjustments would be considered by the Board upon receiving an appropriate analysis from FCERA's actuary. Such adjustments would be appropriate for consideration when the net deferred investment gains or losses are relatively small (i.e., the actuarial and market values are very close together), but the recognition of that net deferred amount is markedly non-level. Any such adjustment would be made subject to the following conditions:
 - 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.

V. AMORTIZATION POLICY

- 1) The Unfunded Actuarial Accrued Liability (UAAL), the difference between the actuarial accrued liability and the actuarial value of assets, shall be amortized over various periods of time, depending on how the unfunded liability arose;
- 2) For UAAL identified before the June 30, 2010 actuarial valuation:
 - a) The UAAL as of June 30, 2003 shall be amortized over 30 years;
 - b) Actuarial gains or losses shall be amortized over 15 years;
 - c) Plan amendments shall be amortized over 30 years;
 - d) Change in actuarial assumptions and cost methods shall be amortized over 15 years;
- 3) For UAAL identified beginning from the June 30, 2011 actuarial valuation:
 - a) Actuarial gains or losses shall be amortized over 15 years;
 - b) Plan amendments, other than Early Retirement Incentives, shall be amortized over 15 years;
 - c) Early Retirement Incentives shall be amortized over 1 - 5 years at the discretion of the Board of Retirement based on an analysis by the actuary;
 - d) Changes in actuarial assumption and cost methods shall be amortized over 15 years;

- e) If an overfunding or “surplus” exists, i.e., the Valuation Value of Assets exceeds the Actuarial Accrued Liability (AAL), so that the total of all UAAL amortization layers becomes negative, any prior UAAL amortization layers will be considered fully amortized. Any subsequent UAAL will be amortized over 15 years as the first of a new series of amortization layers.
 - f) If the surplus exceeds 20% of the AAL per Section 7522.52 of the Government Code, then the amount of surplus in excess of 20% of the AAL (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 be contributed.
- 4) UAAL shall be amortized over "closed" amortization periods;
 - 5) 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;
 - 6) Layers generated by various sources of UAAL shall be combined and/or restarted when:
 - a) It is required to comply with the amortization standards set forth by the Governmental Accounting Standards Board (GASB); or
 - b) The net result of amortization of each layer is an amortization credit which would offset the Normal Cost; or
 - c) Other conditions arise so that the Board considers that it is appropriate to do so.

VI. Contribution Requirements

- 1) Penalty for late payment of contributions

Pursuant to Section 31580.1, the Board may assess a reasonable amount to cover costs incurred due to a sponsor’s failure to submit reports and forward contributions on a timely basis.

Each employer shall transfer to the plan, the employer and employee contributions due, unless prepaid, within ten (10) working days after each payroll date. The system reserves the right to assess a late payment penalty, up to the actuarial assumed rate of return, if contributions are delinquent. The employer shall pay this penalty. Delinquent payments due under this subsection, together with interest charges as provided in this subsection, may be recovered by action in a court of competent jurisdiction against an employer liable for the payments.

2) Prepayment of contributions

Employer contributions are normally made throughout the year with each payroll date. FCERA offers plan sponsors the opportunity to receive a discount on their employer contributions if they paid their contributions early with a lump sum payment. The program is being established FY 17-18. An early payment program is primarily a tool for plan sponsor budget management, rather than a long-term funding technique for the system.

The System's actuary sets employer contribution rates assuming that contributions are collected in installments throughout the year. If instead an employer pays estimated employer contributions at or prior to the beginning of the fiscal year when installments were to begin, an interest adjustment or discount is appropriate to reflect that the contributions are received earlier. The applicable discount provided to the plan sponsor is as a function of when FCERA receives payment of the contributions, and the rate used to determine the discount.

When contributions are received throughout the year they can be used to make monthly benefit payments rather than having to be invested. Prepaid contributions require FCERA to invest the contributions on a more concentrated basis, at least until they are needed for benefit payments. This introduces the risk that contributions may not be invested in the full asset allocation and so may not earn the assumed actuarial rate of return, which is based on that asset allocation. These risks are mitigated but not eliminated by the plan's cash overlay process. Prepayment also removes the efficiency of dollar cost averaging during periods of volatile markets. From this investment perspective, the prepayment program presents additional risks during the later stages of a business cycle.

To account for these risks associated with the prepayment, the Board's policy is that the annual discount rate offered to plan sponsors for prepaying contributions be set at one-half of the plan's assumed actuarial rate of return. The actual discount rate applied depends on when the prepaid contributions are made. This policy requires prepayments to be made near the beginning of the fiscal year, which is on average one-half year earlier than if made throughout the year. Accordingly, the actual discount rate is one-half of the annual discount rate, and so is **one-quarter of the plan's assumed actuarial rate of return (1.75% currently)**.

There are several factors needed to calculate the discounted prepayment amount when contributions are paid early. If an employer elects to prepay, they must prepay for all membership groups and tiers. Projected payroll amounts are the starting point for calculating the prepayment amount. The projected payroll is estimated by the system for each membership group and tier the employer participates in based on annualizing the actual payroll for 3 consecutive pay periods in April and May and may be adjusted for known across the board increases or change in budgeted positions effective for the new fiscal year. The annual projected payroll, as estimated by the plan, is multiplied by

the employer's contribution rate for the applicable group. The resulting product is then divided by one plus the actual discount rate described above.

Any investment variation caused by the timing of contributions becomes part of the normal actuarial valuation process – i.e. rates for future years will rise and fall based on the assets in the system. Therefore, there is no adjustment to the prepaid contribution based on actual returns received during the year.

In addition to identifying an appropriate discount factor, this policy establishes plan provisions that define the minimum prepayment amounts and contribution payment timeframes. Employers must prepay at least 90% of the estimated annual contribution for the fiscal year in order to be eligible for the discount and the prepayment of contributions must be received prior to July 30th.

FCERA will reconcile the prepaid contributions (prior to application of the discount) to the required contribution based on actual payroll at the end of the contribution year. Any underpayment will be collected from the employer and is due in full by July 30th of the immediate following fiscal year. In the unlikely event of an overpayment of contributions, any overpayment will apply toward the immediately following year's contribution requirement.

Per the Code, only employer contributions paid by the employer and credited to the employer's account (not employee accounts) are eligible for a discount. More specifically, reverse pick up arrangements whereby employees pay a portion of the employer's required contribution and pick up arrangements whereby employers pay a portion of employee's required contribution are excluded from the prepayment discount program.

VII. POLICY HISTORY

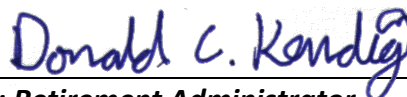
- 1) The Board will review this policy at least every three years to ensure that it remains relevant and appropriate.
- 2) This policy was first adopted by the Board on August 20, 2014.
- 3) This policy was reviewed and approved by the Board on October 7, 2015.

VIII. Secretary's Certificate

I, Donald C. Kendig, the duly appointed Secretary of the Fresno County Employees' Retirement Association, hereby certify the adoption of this Policy.

June 21, 2017

Date of Action:



By: Retirement Administrator