

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (FCERA)
POLICY RE EMPLOYER CONTRIBUTION EQUITY**

I. EXPLANATION OF POLICY

- 1) FCERA has historically set uniform employer contribution rates for membership tiers based on a pooling of the total assets and liabilities attributed to the employees in each tier, without distinguishing among employers' varying policies or experience. For example, all employers with General Tier I members pay the same payroll contribution rate for their comparable General Tier I members.

While fluctuations in different employers' experience may "smooth out" over time, it is also possible that a pattern can emerge where one or more employers are in essence "subsidizing" one or more other employers. This can happen in a number of ways, for example:

- a) If an employer's payroll shrinks over time, disproportionate to the payroll of other employers, then a portion of the unfunded actuarial accrued liability (UAAL) associated with that employer's current and former employees will be "subsidized" by the other employers. For example, if a district were to lay off half of its workforce, and the payroll against which it pays employer contributions were cut in half, then half of the UAAL contributions that otherwise would have been paid by the district will be paid by the system's other participating employers if the Board sets uniform employer rates. The opposite is true if an employer's payroll increases in relative terms to other employers' payrolls.
- b) If an employer's particular compensation practices cause retirement benefits for its employees to be higher than the average assumed by the actuary, the cost of the resulting increased benefits will be "subsidized" by other employers. For example, if an employer regularly grants large bonuses or raises to employees during their "final compensation" periods, this will cause increases in retirement allowances for the impacted employees, for which contributions over time have not been collected, and the cost of those increases will be borne disproportionately by other employers if the Board sets uniform employer rates.
- c) If a particular employer regularly experiences a rate of service connected disability retirements greater than that assumed by the actuary for that membership category, the cost of the unanticipated level of benefits to be paid to those employees will be borne disproportionately by other employers if the Board sets uniform employer rates.

FCERA's historical practice of establishing uniform employer contribution rates based on a pooling of all assets and liabilities by tier is fully authorized under the County Employees' Retirement Law and other applicable law.

The Board of Retirement (Board) has discretionary authority, however, to establish different contribution rates for different employers. Provided that there is a reasonable, actuarially-based nexus between an employer's contributions and the liabilities attributable to that employer's employees over time, the Retirement Board has broad latitude in setting contribution rates in order to assure the actuarial soundness of the retirement system.

This Policy is designed to provide a formal mechanism by which FCERA staff and the Board can evaluate the nexus between each employer's contributions and the liabilities attributable to its employees over time.

This policy is consistent with and authorized by existing law.

II. POLICY

- 1) In connection with the system's triennial experience study, FCERA staff shall present the following findings to the Board no later than the first meeting at which the Board considers its actuary's draft triennial asset-liability study:
 - a) An analysis of FCERA's most current data regarding each employer's percentage of the system's total payroll, by tier.
 - b) An analysis of employer compensation practices to determine whether one or more employers' compensation policies are causing substantially greater increases in "compensation earnable" (as defined by Government Code section 31461) during their employees' "final compensation" periods (as defined by Government Code section 31462 or 31462.1, whichever is applicable to a given tier), relative to the system's other employers.
 - c) An analysis of each employer's service connected disability rates over the preceding three and six year periods.
- 2) In making the determination whether to require further analysis or to consider changes in employer contribution rates based on the staff's findings, the Board will consider all then existing circumstances that it deems relevant to its decision, including the following,
 - a) The likely magnitude of any distortions caused by changes in payroll, differences in compensation practices and differences in service connected disability rates.
 - b) Whether one variable (i.e., increasing payroll) may offset another variable (i.e., greater bonus and raises during the final compensation period).
 - c) The estimated cost associated with further review.

- 3) If the Board determines that further review is warranted with respect to any particular employer, the Board will set the matter for timely public discussion before adopting final employer contribution rates. In connection with that discussion,
 - a) Staff is directed to make all reasonable efforts to specifically inform any employer when that employer's contribution rates will be subject to further review, and provide as much advance notice as practicable to the employer of the meeting at which such further review will be discussed; and
 - b) In the event that the Board determines that further review is warranted with respect to the County of Fresno, staff is directed to specifically inform all participating employers of the Board's consideration, as per subdivision a. immediately above.
- 4) As a general guideline, the Board does not anticipate making adjustments to employer contribution rates based upon demographic changes that are beyond the reasonable control of the employer, such as mortality rates, age at retirement, non-service connected disability retirement rates and the like. The Board does, however, retain full discretionary authority to consider these types of demographic changes when setting employer contribution rates, if it deems that doing so is prudent under all of the then existing circumstances.
- 5) The Board retains full discretionary authority to determine whether it should make adjustments to one or more employer's contribution rates. If the Board determines that it will make an adjustment to one or more employers' contribution rates, it will direct its actuary to revise the other recommended employer contribution rates accordingly, to ensure that the full actuarially required contributions determined by the Board are collected each year.

III. POLICY REVIEW

- 1) The Board will review this policy at least every three years to ensure that it remains relevant and appropriate.

IV. POLICY HISTORY

- 1) This policy as first adopted by the Board on February 17, 2010.
- 2) This policy was reviewed and approved by the Board on September 21, 2016.

V. SECRETARY'S CERTIFICATE

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

September 21, 2016

Date of Action:

Donald C. Kendig

By: Retirement Administrator