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EMPLOYER TERMINATION POLICY

INTENT AND GENERAL PRINCIPLE

The intent of this policy is to establish the funding obligations of employers that terminate their participation in KCERA. This policy is pursuant to California Government Code sections 31564 and 31564.2 of the County Employees' Retirement Law of 1937, and the Board of Retirement Regulations established thereunder.

The general principle applied in this policy is to establish the funding obligation of terminating employers as:

- The present value of all future benefits expected to be paid by KCERA to the terminating employer's employees, retirees, beneficiaries and terminated members as of the termination date; minus

- The value of KCERA assets allocated to the terminating employer as of the termination date.

The policy provides the specific procedures to be used in determining the above two components.

The Board of Retirement's primary consideration is to ensure that the funding obligation of the terminating employer is properly determined and settled. In particular, it is the Board's intent that:

- The KCERA liabilities attributable to the terminating employer will be determined in a manner that is consistent with the fact that, because there will be no reassessment of the terminating employer's funding obligation after the termination date, all risks are being retained by KCERA and no risks are retained by the terminating employer. To accomplish this intent, the present value of future benefits will be determined using a market-based discount rate.

- The KCERA assets attributable to the terminating employer will be determined in a manner that is consistent with the contribution obligations of the remaining employers. To accomplish this intent, assets will allocated to the terminating employer so that the contribution rate towards the Unfunded Actuarial Accrued Liability (UAAL) will be left substantially unchanged for all of KCERA's remaining employers.

TERMINATION CONDITIONS

The Board shall require the terminating employer to reimburse KCERA for the actuarial consulting fees incurred for the purpose of determining its terminal funding obligation. In the event that there is a dispute over the amount of those actuarial consulting fees, the Board of Retirement will have sole authority to resolve the dispute. In addition to the valuation work performed by KCERA's actuary, the terminating employer may contract with an actuary of its choice (at its own expense) to review the results from KCERA's actuary.

The terminating employer must choose a termination date as of the end of a calendar quarter to allow a proper determination of the return on market value of KCERA's assets.

As part of the termination process, the Board of Retirement and the terminating employer will enter into an agreement stipulating the provisions for the settlement of the funding obligation.

PRESENT VALUE OF FUTURE BENEFITS

The benefits payable by KCERA to current and former employees of the terminating employer will be as follows:

- All active members on the termination date will receive KCERA benefits for their credited service up to the termination date. As a result, they will take on the same status as terminated members.
- All vested terminated and retired members (and beneficiaries) will continue to receive future benefits from KCERA.

The future benefits to be paid to KCERA members of the terminating employer will include those payable to:

- Current retirees and/or beneficiaries of retirees with service while employed at the employer prior to the termination date;
- Employees of the employer as of the termination date; and
- Former employees of the employer entitled to either deferred vested benefits or a refund of their accumulated contributions plus credited interest.

The present value of benefits will be determined based on:

- The service retirement and other benefits associated with their years of service in KCERA as of the employer's termination date, for which they are entitled to KCERA benefits;

- Expected future cost-of-living adjustments on those benefits;

- For employees and deferred vested members, expected final average earnings (including the effect of any reciprocity benefits);

- For employees and deferred vested members, their expected age at retirement; and

- For retired members and beneficiaries of retirees, the KCERA benefits earned for service with the terminating employer.

The determination of the present value of future benefits will be based upon the actuarial assumptions most recently adopted by the Board of Retirement at the time of the determination, except that future benefit payments would be discounted to the termination date using market-based interest rate assumptions.

No consideration will be given to future Board of Retirement provided benefits, such as Supplemental Retiree Benefit Reserve or other supplemental cost-of-living adjustments.

MARKET-BASED APPROACH FOR VALUING LIABILITIES WITH NO REASSESSMENTS

1. The present value of future benefits will be calculated by using all the same actuarial assumptions as used in the most recent actuarial valuation except that future benefit payments will be discounted to the termination date using market-based interest rate assumptions. The market-based interest assumptions selected for this purpose are the discount rates used by the Pension Benefit Guaranty Corporation (PBGC) to measure the sufficiency of assets for a corporate employer that is terminating its single-employer defined benefit pension plan. These PBGC rates are generally lower than the expected earnings based discount rate used in KCERA's actuarial valuation.

2. There will be no reassessment of the terminating employer's funding obligation after the termination date under this approach.

DETERMINATION OF TERMINATING EMPLOYER'S ASSETS

KCERA is a cost sharing multiple employer plan. As a result, there is no ongoing separate accounting of KCERA's assets by employer except in instances when, in the Board of Retirement's opinion, separate accounting is necessary to maintain equity among employers. The KCERA assets attributable to contributions of the terminating employer and its employees as of the termination date will be determined as follows:

Step 1: Determine the Actuarial Accrued Liability of the terminating employer as of KCERA' s most recent actuarial valuation irrespective of the employer's anticipated termination.

Step 2: Determine the Unfunded Actuarial Accrued Liability (UAAL) of the terminating employer as of the most recent actuarial valuation by dividing the terminating employer's annual required UAAL contribution amount by the UAAL amortization factor. The amortization factor will generally equal the UAAL contribution amount for the cost group which includes the terminating employer divided by the UAAL for that cost group. The terminating employer's UAAL contribution rate, annual payroll and UAAL amortization factor would be determined as of the most recent actuarial valuation date. The UAAL contribution rate will be determined before any rate adjustments resulting from distributions from the COLA Contingency Reserve to provide for future cost-of-living benefits.

Step 3: Determine the non-investment change in assets from the most recent actuarial valuation date to the actual termination date as:

- The total contributions by the terminating employer since the most recent actuarial valuation date; plus
- The total contributions by employees of the terminating employer since the most recent actuarial valuation date; minus
- The total benefit and refund payments since the most recent actuarial valuation date to retirees, beneficiaries, and former employees of the employer.

Step 4: Determine the accumulated assets at the termination date as:

(Step 1 - Step 2) x Ratio A x (1 + j) + Step 3 x (1 + j/2)

where:

j = The net rate of return on the market value of KCERA's total assets from the most recent actuarial valuation date to the date of the employer's termination

Ratio A= (Total KCERA assets at market value as of the most recent actuarial valuation date) divided by (Total KCERA assets at actuarial value as of the most recent valuation date)

Step 5: Determine the portion of any of KCERA' s reserves or designations from which the terminating employer will not benefit as a result of the termination. An adjustment will be made as appropriate to include these reserves/designations in the terminating employer's assets.

SETTLEMENT OF FUNDING OBLIGATION

The terminating employer's funding obligation will be the excess, if any, of the present value of future benefits over the employer's accumulated assets, as determined under this policy. Settlement of the funding obligation will be made in either a lump sum or, if allowed by the Board, annual installment payments by the employer over a period of up to 15 years following termination unless the Board of Retirement determines, at any time before the end of the installment period, that the payments determined based on that installment period are insufficient to ensure adequate funding of the terminating employer's obligation.

The Board of Retirement has the sole authority to determine the installment period after consultation with the terminating employer.

POLICY REVIEW AND HISTORY

1) This policy shall be reviewed at least every five (5) years.
2) This policy was:
   a) Adopted by the Board on September 12, 2012.
   b) Amended on June 8, 2022.