MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT POLICY
EMPLOYER DECLINING PAYROLL AND TERMINATION POLICY

Purpose of Policy

Employers covered under the Merced County Employees Retirement Association (MCERA) may experience a material decline in payroll (assessed on a case by case basis) and/or cease to have any active employees, therefore a zero payroll. Employers may also cease to exist and terminate their participation in MCERA. This policy is intended to establish guidelines by which MCERA intends to hold an employer accountable for the actuarial unfunded liability (UAAL) attributable to the employer's active, retired and deferred employees and their beneficiaries.

Background

MCERA's current practice is to determine the employer's contribution rates through MCERA's actuary and apply those calculated employer rates to the employer's covered payroll. This methodology continues to work if the employer's payroll stays consistent or increases. MCERA's actuary has assumptions regarding the employer's payroll growth, which are incorporated into the experience of employers in the MCERA plan.

For employers who choose to terminate or their payroll is declining materially (active payroll may go to zero), the MCERA Board of Retirement has determined that a policy is needed to address this issue.

Objectives

- To determine an equitable and adequate funding of the UAAL in cases involving employers with declining or zero active payroll or for those employers that terminate their participation in MCERA's plan.
- Approve a different methodology for the MCERA actuary to use for determining the UAAL attributable to each employer and setting the amount and schedule of those contributions needed to fund the employer's UAAL.
- This policy does not change the methodology regarding contributions for 'normal cost' as determined for employers covered under MCERA, however, employers affected by this policy will generally not have a significant normal cost.

Policy

Inactive Employer

Employers with a declining payroll will be assessed on a case by case basis in coordination with MCERA's Actuary. The financial viability of the employer will be considered prior to any determination or recommendation is brought to the Board of Retirement. Once the determination has been made, the Plan Administrator will bring to the Board of Retirement an agenda item that an MCERA employer has or is expected to have declining payroll and/or a payroll that has declined to zero. Only at that time will this policy be triggered. MCERA will calculate through its actuary the attributable assets and UAAL associated with that employer's liabilities. MCERA's actuary will continue this separate accounting for the employer until the agency's entire employer obligations are fully satisfied for retirees, beneficiaries and deferred status members.

MCERA's actuary will determine and certify to the Board of Retirement, the employer's funding obligation for its initial UAAL that will be based on the employer's actuarial accrued liability including inactive employees. The actuary will provide a funding schedule as a level dollar payment over the average duration of the employer's liabilities (for all actives, retirees, beneficiaries and deferred members) not to exceed 10 years beginning July 1 of the calendar year immediately following notification to MCERA, or sooner. The payment schedule will include the same load for administrative expenses paid by the other employers in the Plan, as applicable.

MCERA's actuary will use the actuarial valuation performed immediately preceding MCERA's notification to determine the initial market value of assets (unsmoothed) allocated to the employer. The allocation will be determined separately for the assets and liabilities associated with General and Safety members (i.e. the employer will receive an allocation of the assets associated with the General members based on their share of the General member liabilities, and similarly for Safety, as applicable). The actuary will initially use a pro-rata allocation based on the employer's UAAL; however, later values will be determined by rolling forward the initial asset balance, adding contributions by the employer, deducting benefit payments made to the employer's members and their beneficiaries, and crediting earnings at the actual earnings rate on total MCERA assets.

Annually, after the initial determination of the employer's initial funding obligation as part of the regular actuarial valuation of the plan, MCERA's actuary will measure any change in the UAAL of the employer due to the actuarial experience (including investment gains/losses) or changes in the actuarial assumptions. In addition to any and all amortization payments for the employer's initial UAAL funding as determined by the actuary, the employer will contribute to MCERA any new UAAL determined by any subsequent valuations performed by the actuary and adopted by the Board of Retirement, based on the same amortization schedule indicated above.

MCERA will hold any negative UAAL (or surplus) and will apply it against any future UAAL of the employer. If any surplus remains after all the employer liabilities and obligations have been funded, the MCERA Board, with the certification of the Plan's actuary, will distribute the surplus according to applicable laws.

Termination of Employer from MCERA

If an employer notifies MCERA that they would like to cease participation in MCERA, or if the Board determines that the termination of an inactive employer would be in the best interest of the Plan, MCERA will notify its actuary and all benefits and calculations will be based on the benefit levels in effect on the date of termination (including any expected future Cost of Living Adjustments). MCERA's actuary will be directed to produce a termination valuation.

MCERA members credited with service from the employer who are not employed by another MCERA employer may elect to withdraw their contributions or leave them on deposit, regardless of the amount of service credit. Members who withdraw their contributions will not be entitled to any future benefits and shall not ever redeposit those contributions based on their employment with that employer.

The employer is responsible for sufficient funding to continue paying retirement and death benefits paid and for future benefits payable to members that left their service and contributions on deposit. The MCERA Board of Retirement may direct their actuary do the following; to use a liability load to insure funding of all benefits into the future once an employer terminates with MCERA, or direct MCERA's actuary to value liabilities for remaining retirees, beneficiaries or deferred members using an interest rate of a high grade corporate bond or the 10-year treasury rate, whichever is lower, to liabilities upon termination. A liability load may be used in lieu of valuing liabilities at a high-grade corporate bond or the 10-year treasury rate, if determined appropriate by the MCERA's actuary. The actuary may amortize the unfunded liability up to 10 years or the employer may make a lump sum payment. If the MCERA Board has concerns regarding the ongoing viability or continued existence of the employer, they may instruct the actuary to shorten the amortization period or only allow a lump sum. Once the employer has made the required payments, no further obligation will exist for the employer.

County Employees Retirement Law of 1937 (CERL) Statutes Considered
This policy was created with the referenced Government Section Codes which include but not limited to; §31564.2, 31580.1,31584, 31585.

This policy has been adopted by the Board of Retirement on March 14, 2019.

Darlene Ingersoll

Darlene Ingersoll, Chair

Alfonse Peterson, Secretary

Kristen Santos, Plan Administrator

Historical Notes
Adopted:
03/142019