

**ORANGE COUNTY EMPLOYEES
RETIREMENT SYSTEM**
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Schedule of Allocated Pension Amounts by Employer
As of and for the Year Ended December 31, 2019

Orange County Employees Retirement System
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Independent Auditor's Report

To the Board of Retirement of the
Orange County Employees Retirement System
Santa Ana, California

We have audited the employer allocations and the total for all employers of the rows titled total deferred outflows of resources, total deferred inflows of resources, net pension liability, and total pension expense excluding employer-paid member contributions (specified row totals) included in the accompanying Schedule of Allocated Pension Amounts by Employer (Schedule) of the Orange County Employees Retirement System (OCERS) Cost-Sharing Multiple-Employer Defined Benefit Pension Plan as of and for the year ended December 31, 2019, and the related notes to the Schedule of Allocated Pension Amounts by Employer.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the employer allocations and the specified row totals in the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the Schedule referred to above presents fairly, in all material respects, the employer allocations, and the total deferred outflows of resources, total deferred inflows of resources, net pension liability, and total pension expense excluding employer-paid member contributions for the total of all employers participating in the Orange County Employees Retirement System Cost-Sharing Multiple-Employer Defined Benefit Pension Plan as of and for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of OCERS as of and for the year ended December 31, 2019, and our report thereon dated June 4, 2020, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of OCERS' management, the Board of Retirement, the Orange County Employees Retirement System Cost-Sharing Multiple-Employer Defined Benefit Pension Plan employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Newport Beach, California
June 4, 2020

Orange County Employees Retirement System
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Deferred Outflows of Resources	Orange County	O.C. Cemetery District	O.C. Public Law Library	O.C. Mosquito and Vector Control District	O.C. Employees Retirement System
Differences Between Expected and Actual Experience	\$ 13,982,779	\$ 103,588	\$ 43,407	\$ 170,770	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	-	-
Changes of Assumptions	322,870,826	244,428	214,778	435,411	2,018,023
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	18,170,596	-	9,214	-	3,962,866
Total Deferred Outflows of Resources	\$ 355,024,201	\$ 348,016	\$ 267,399	\$ 606,181	\$ 5,980,889
Deferred Inflows of Resources					
Differences Between Expected and Actual Experience	\$ 206,914,979	\$ 582,255	\$ 409,176	\$ 1,511,789	\$ 1,273,114
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	409,935,400	355,087	341,549	912,863	2,588,478
Changes of Assumptions	6,642,961	5,895	30,514	-	62,731
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	4,789,699	-	449,137	-	218,343
Total Deferred Inflows of Resources	\$ 628,283,039	\$ 943,237	\$ 1,230,376	\$ 2,424,652	\$ 4,142,666
Net Pension Liability as of December 31, 2019	\$ 4,124,212,240	\$ (228,119)	\$ (74,515)	\$ (625,500)	\$ 26,824,264
Pension Expense Excluding That Attributable to Employer-Paid Member Contributions					
Proportionate Share of Allocable Plan Pension Expense	\$ 449,535,284	\$ 127,197	\$ 232,335	\$ (351,264)	\$ 2,317,279
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	6,270,138	-	(372,508)	-	1,153,331
Total Employer Pension Expense Excluding That Attributable to Employer-Paid Member Contributions	\$ 455,805,422	\$ 127,197	\$ (140,173)	\$ (351,264)	\$ 3,470,610

(Continued)

The accompanying notes are an integral part of these schedules.

Orange County Employees Retirement System
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	O.C. Fire Authority	Cypress Recreation & Parks District	O.C. Department of Education	Transportation Corridor Agencies	City of San Juan Capistrano
Deferred Outflows of Resources					
Differences Between Expected and Actual Experience	\$ 24,478,887	\$ 2,252,572	\$ 380,618	\$ 615,484	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	-	-
Changes of Assumptions	29,267,911	70,336	177,787	880,388	1,970,455
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	-	-	-	887,243
Total Deferred Outflows of Resources	\$ 53,746,798	\$ 2,322,908	\$ 558,405	\$ 1,495,872	\$ 2,857,698
Deferred Inflows of Resources					
Differences Between Expected and Actual Experience	\$ 38,937,675	\$ -	\$ 678,741	\$ 940,190	\$ 1,243,105
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	58,927,667	1,632,808	318,152	1,888,409	2,527,464
Changes of Assumptions	130,986	-	10,085	28,116	61,252
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	-	-	-	1,975,710
Total Deferred Inflows of Resources	\$ 97,996,328	\$ 1,632,808	\$ 1,006,978	\$ 2,856,715	\$ 5,807,531
Net Pension Liability as of December 31, 2019	\$ 354,395,457	\$ 262,415	\$ 3,099,339	\$ (1,753,164)	\$ 26,191,970
Pension Expense Excluding That Attributable to Employer-Paid Member Contributions					
Proportionate Share of Allocable Plan Pension Expense	\$ 67,124,196	\$ 4,345	\$ 271,328	\$ 1,376,160	\$ 2,262,657
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	-	-	-	(298,375)
Total Employer Pension Expense Excluding That Attributable to Employer-Paid Member Contributions	\$ 67,124,196	\$ 4,345	\$ 271,328	\$ 1,376,160	\$ 1,964,282

(Continued)

The accompanying notes are an integral part of these schedules.

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	O.C. Sanitation District	O.C. Transportation Authority	U.C.I. Medical Center and Campus	Children and Families Commission of O.C.	O.C. Local Agency Formation Commission
Deferred Outflows of Resources					
Differences Between Expected and Actual Experience	\$ 9,606,499	\$ 2,331,117	\$ 1,790,493	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	62,383	-
Changes of Assumptions	12,311,067	21,920,909	1,425,191	(48,635)	112,068
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	449,137	-	-	-	246,158
Total Deferred Outflows of Resources	\$ 22,366,703	\$ 24,252,026	\$ 3,215,684	\$ 13,748	\$ 358,226
Deferred Inflows of Resources					
Differences Between Expected and Actual Experience	\$ 5,416,832	\$ 21,768,391	\$ 2,432,087	\$ (30,682)	\$ 70,700
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	25,420,889	26,953,240	2,670,933	-	143,747
Changes of Assumptions	372,978	595,454	79,608	(1,512)	3,484
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	9,214	-	-	1,652,118	77,447
Total Deferred Inflows of Resources	\$ 31,219,913	\$ 49,317,085	\$ 5,182,628	\$ 1,619,924	\$ 295,378
Net Pension Liability as of December 31, 2019	\$ (49,446,617)	\$ 224,284,548	\$ 30,213,739	\$ (646,472)	\$ 1,489,642
Pension Expense Excluding That Attributable to Employer-Paid Member Contributions					
Proportionate Share of Allocable Plan Pension Expense	\$ 10,009,584	\$ 26,336,223	\$ 2,168,623	\$ (55,847)	\$ 128,686
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	372,508	-	-	(539,747)	58,155
Total Employer Pension Expense Excluding That Attributable to Employer-Paid Member Contributions	\$ 10,382,092	\$ 26,336,223	\$ 2,168,623	\$ (595,594)	\$ 186,841

(Continued)

The accompanying notes are an integral part of these schedules.

Orange County Employees Retirement System
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	City of Rancho Santa Margarita	O.C. Superior Court of California	O.C. IHSS Public Authority	Total for all Employers
Deferred Outflows of Resources				
Differences Between Expected and Actual Experience	\$ 1,242	\$ -	\$ -	\$ 55,757,456
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	62,383
Changes of Assumptions	480	25,335,345	173,542	419,380,310
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	4,270,636	84,750	28,080,600
Total Deferred Outflows of Resources	<u>\$ 1,722</u>	<u>\$ 29,605,981</u>	<u>\$ 258,292</u>	<u>\$ 503,280,749</u>
Deferred Inflows of Resources				
Differences Between Expected and Actual Experience	\$ 5,388	\$ 15,983,355	\$ 237,210	\$ 298,374,305
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2,527	32,497,141	152,704	567,269,058
Changes of Assumptions	29	787,559	3,713	8,813,853
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	18,899,874	9,058	28,080,600
Total Deferred Inflows of Resources	<u>\$ 7,944</u>	<u>\$ 68,167,929</u>	<u>\$ 402,685</u>	<u>\$ 902,537,816</u>
Net Pension Liability as of December 31, 2019	<u>\$ (2,214)</u>	<u>\$ 336,766,149</u>	<u>\$ 719,301</u>	<u>\$ 5,075,682,463</u>
Pension Expense Excluding That Attributable to Employer-Paid Member Contributions				
Proportionate Share of Allocable Plan Pension Expense	\$ (95)	\$ 29,092,356	\$ 169,172	\$ 590,748,219
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	(6,685,009)	41,507	-
Total Employer Pension Expense Excluding That Attributable to Employer-Paid Member Contributions	<u>\$ (95)</u>	<u>\$ 22,407,347</u>	<u>\$ 210,679</u>	<u>\$ 590,748,219</u>

The accompanying notes are an integral part of these schedules.

Orange County Employees Retirement System
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Notes to the Schedule of Allocated Pension Amounts by Employer
As of and for the Year Ended December 31, 2019

NOTE 1 – PLAN DESCRIPTION

The Orange County Employees Retirement System (OCERS or System) administers a cost-sharing multiple-employer defined benefit pension plan (the Plan) for the County of Orange, Orange County Superior Court of California, City of San Juan Capistrano, and ten special districts: Orange County Cemetery District, Children and Families Commission of Orange County, Orange County Employees Retirement System, Orange County Fire Authority, Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Public Law Library, Orange County Sanitation District, Orange County Transportation Authority and the Transportation Corridor Agencies. The Orange County Department of Education, University of California, Irvine Medical Center and Campus, Capistrano Beach Sanitation District, Cypress Recreation & Parks District, Orange County Mosquito and Vector Control District and City of Rancho Santa Margarita are no longer active employers, but retired members and their beneficiaries, as well as deferred members, remain in the System. Capistrano Beach is not presented in the accompanying schedule as this employer is no longer in existence and OCERS does not have the ability to collect any unfunded liabilities from this inactive employer. OCERS is legally and fiscally independent of the County of Orange.

OCERS provides retirement, disability and death benefits to general and safety members. Safety membership includes those members serving in active law enforcement, fire suppression and as probation officers. General membership applies to all other occupations. Plan retirement benefits are tiered based upon the date of OCERS membership. Additional information regarding the pensions plan's benefit structure is included in the Summary of Plan Description that is available on the web at: <https://www.ocers.org/summary-plan-description>.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Basis of Accounting

Employers participating in the Plan are required to report pension information in their financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The Schedule of Allocated Pension Amounts by Employer (the Schedule) along with OCERS' audited financial statements, the GASB Statement 67 Actuarial Valuation as of December 31, 2019 and the GASB Statement 68 Actuarial Valuation Based on the December 31, 2019 Measurement Date for Employer Reporting as of June 30, 2020, prepared by OCERS' third-party actuary, provide the required information for financial reporting related to the Plan that employers may use in their financial statements.

The accompanying Schedule was prepared by OCERS' third-party actuary and was derived from information provided by OCERS in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental organizations.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Legally or statutorily required employer contributions for the year ended December 31, 2019, less any amounts of those legally or statutorily required contributions that are paid by the employees (referred to as reverse pick-ups), are used as the basis for determining each employer’s proportion of total contributions. For the year ended December 31, 2019, employer paid member contributions of \$35,000 under Government Code Section 31581.1 which OCERS reports as employer contributions as these payments do not become part of the accumulated employee contributions, have been excluded in determining each employer’s proportion of total contributions. Contributions made by the employer on behalf of employees under Government Code Section 31581.2 are classified as employee contributions and are not included in the proportionate share calculation for the year ended December 31, 2019.

Employer contributions have not been reduced for discount due to prepaid contributions. Contributions for each employer are assigned to its respective participating Rate Group. Rate Groups are a collection of members who are or were employed by employers that offer similar pension benefit formula(s). Rate Groups exist for the purpose of risk-pooling and the contribution rates developed by the actuary should, in the long-term, fairly and accurately reflect the benefits offered/promised to members in each group. Rate Groups can contain one or more employers and employers may be included in one or more Rate Groups. If an employer participates in several Rate Groups, the employer’s total proportionate share of the Net Pension Liability (NPL) and related allocated pension amounts is the sum of its NPL and allocated pension amounts from each Rate Group.

The following Rate Groups have only one active employer, so all of the NPL for that Rate Group is allocated to the corresponding employer:

Rate Group	Employer
3	Orange County Sanitation District
4	City of Rancho Santa Margarita
5	Orange County Transportation Authority
6	County of Orange (Probation)
7	County of Orange (Law Enforcement)
8	Orange County Fire Authority (Safety)
9	Transportation Corridor Agencies
10	Orange County Fire Authority (General)
11	Orange County Cemetery District
12	Orange County Public Law Library

The total Plan contributions are determined through OCERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. California Government Code Title 3, Division 4, Parts 3 and 3.9, Articles 6 and 6.8 define the methodology used to calculate member basic contribution rates for General members and Safety members. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Legally or statutorily required employer contributions were determined by multiplying the employers’ contribution rate by the employers’ payrolls for the fiscal year.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

The NPL is the Total Pension Liability (TPL) minus the Plan Fiduciary Net Position (plan assets). The TPL for each Rate Group is obtained from valuation results. The Fiduciary Net Position for each Rate Group is estimated by adjusting the valuation value of assets for each membership class by the ratio of the total Plan Fiduciary Net Position (excluding the balance of the County of Orange (County) Investment Account) to total OCERS' valuation value of assets. The County Investment Account is then allocated among the four County Rate Groups using the proportion of the County's most recent contributions that were derived from the proceeds of the Pension Obligation Bonds for each of the four County Rate Groups. The Orange County Sanitation District (OCSD) Unfunded Actuarial Accrued Liability (UAAL) Deferred Account balance of \$30,688,000 was allocated entirely to Rate Group 3 and \$18,631,000 was transferred at the end of the year to offset actuarial losses incurred during 2019, resulting in an account balance of \$12,057,000 as of December 31, 2019. The NPL is then allocated to the respective employers based on the legally or statutorily required employer contributions within each Rate Group.

In developing the pension expense amounts, the NPL proportionate share percentage is used to calculate the employer's pension expense components (service cost, interest, change in benefit terms, differences between expected and actual experience, differences between actual and projected earnings on plan investments, changes in assumptions, employee contributions, and administrative expenses), with the exception of the Orange County Mosquito and Vector Control District (Vector Control), Cypress Recreation & Parks District (CRPD), University of California, Irvine Medical Center and Campus (UCI) and the Orange County Department of Education (OCDE) which were adjusted to reflect the appropriate amount of service costs based on their current inactive membership.

The employer contributions used to determine the NPL proportionate share percentage for Rate Group 1 excludes UCI, OCDE and the Vector Control employer contributions of \$2,789,000, \$267,000 and \$878,000, respectively. These employer contributions were intended to reduce the NPL of the specific employer, not the respective Rate Group as a whole. The percentages of contributions by employer do not equal the percentages used to allocate the NPL by employer because the NPL for the County has been reduced to reflect the portion of the County Investment Account, as described above. The amounts of the County Investment Account that have been allocated to those Rate Groups are as follows:

Rate Group	2019
1	\$5,558,363
2	92,443,896
6	9,607,620
7	42,806,121
Total	<u>\$150,416,000</u>

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

In addition, the NPL for Rate Group 1 was adjusted by the NPL for Vector Control, OCDE, UCI and CRPD prior to allocating the net NPL to the other employers in Rate Group 1. The NPL for these four employers were calculated separately as follows:

The Vector Control is no longer an active employer, but retired members and their beneficiaries, as well as deferred members, remain in the Plan. For this employer, the allocated net pension liability is based on the most recent estimate of the withdrawal liability and adjusted to reflect the Plan Fiduciary Net Position as of December 31, 2019.

The participation in the Plan for the OCDE and UCI is closed to new members. The funding obligation for these employers' UAAL is no longer pro-rata based on its payroll as there are no active members. Instead, the employer's UAAL is determined based on its specific actuarial accrued liability and a share of assets allocated to the employer. The employer's contributions for its UAAL are to be paid at level, fixed-dollar amounts over a period not to exceed twenty years. The employer will also be liable, or receive a credit, for any change in its funding obligation determined annually thereafter as a result of actuarial experience or changes in actuarial assumptions.

On October 19, 2015, the Board of Retirement approved the amortization schedule for payment of the OCDE UAAL and UCI UAAL of \$3,238,000 and \$27,586,000, respectively. These balances were calculated based on the December 31, 2014 actuarial valuation assuming fixed-dollar payments over twenty years beginning on July 1, 2016. As per the Declining Payroll Policy, the UAAL balances were updated as of the December 31, 2018 actuarial valuation to reflect actuarial gains or losses and other events that will be captured in a new twenty-year closed amortization layer. The amortization schedules for the new UAAL layers for the OCDE and UCI, after being adjusted for interest to December 31, 2019, can be found on OCERS' website as discussed in Note 5 – Additional Financial and Actuarial Information.

CRPD and Capistrano Beach Sanitary District (CBSD) are no longer active employers. CRPD has twenty-three retired members and beneficiaries, as well as five deferred members, and CBSD has four retired members remaining in the Plan. At the time these employers left the System, OCERS did not have an express policy addressing how the UAAL would be funded for inactive employers. On October 15, 2018, OCERS entered into a withdrawing employer and continuing contribution agreement with the City of Cypress and received payment of the UAAL associated with CRPD members, including interest through October 14, 2018, for a total of \$740,000. As of December 31, 2020, and every three years thereafter, CRPD's UAAL obligation will be recalculated and in the event there is any new UAAL obligation, CRPD will have three years following the effective date of the recalculation to satisfy the obligation in full, including accrued interest. As of December 31, 2019, the allocated net pension liability is based on the most recent estimate of the withdrawal liability and adjusted to reflect the Plan Fiduciary Net Position as of December 31, 2019. CBSD is no longer in existence and OCERS does not have the ability to collect any UAAL from this inactive employer under OCERS' Declining Employer Payroll Policy; unpaid liabilities from this employer are deemed immaterial.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Schedules

The preparation of the Schedule in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts during the reporting period. Actual results could differ from those estimates.

The components of the NPL related to OCERS’ plan at December 31, 2019, are as follows (dollars in thousands):

	<u>2019</u>
Total pension liability	\$ 21,754,263
Less: Plan fiduciary net position	(16,678,581)
Net pension liability	<u>\$ 5,075,682</u>

For the measurement period ended December 31, 2019 (the measurement date), total pension liability was determined by rolling forward the December 31, 2018 (the valuation date) total pension liability. The actuarial assumptions used were based on the results of an experience study for the period from January 1, 2014 through December 31, 2016.

NOTE 3 -- ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The December 31, 2019 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Experience Study	Three-Year Period Ending December 31, 2016
Actuarial Cost Method	Entry Age in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Investment Rate of Return	7.00%. net of pension plan investment expenses; including inflation
Inflation Rate	2.75%
Projected Salary Increases	General: 4.25% to 12.25% and Safety: 4.75% to 17.25% Vary by service, including inflation
Cost of Living Adjustments	2.75% of retirement income

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NOTE 3 – ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

Mortality Assumptions

The mortality assumptions used in the TPL at December 31, 2019, were based on the results of the actuarial experience study for the period January 1, 2014 through December 31, 2016, using the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table as a starting point, projected generationally using the two-dimensional Scale MP-2016, with age adjustments, and adjusted separately for healthy and disabled for both general and safety members.

Discount Rate

The discount rate used to measure the TPL as of December 31, 2019 was 7.00%. In determining the discount rate OCERS took into account the projection of cash flows and assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2019.

According to Paragraph 30 of Statement 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense.

The 7.00% investment return assumption used in the actuarial valuation for funding is net of administrative expenses. Administrative expenses are assumed to be 13 basis points. The investment return assumption remained the same for reporting purposes due to the immaterial impact administrative expenses has on the overall assumed rate of return.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. Additional information on the target allocation and projected arithmetic real rate of return for each major asset class is available in the OCERS' Comprehensive Annual Financial Report for the year ended December 31, 2019, which can be found on OCERS' website at www.ocers.org.

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NOTE 3 – ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources

The net difference between projected and actual investment earnings on pension plan investments in the Schedule represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis. The net difference between projected and actual investment earnings on pension plan investments is amortized over a five-year period on a straight-line basis beginning with the year in which they occur. One-fifth was recognized in pension expense during the measurement period, and the remaining net difference between projected and actual investment earnings on pension plan investments at the measurement date is to be amortized over the remaining period.

Deferred outflows of resources and deferred inflows of resources related to the differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of December 31, 2018 (the beginning of the measurement period ending December 31, 2019) which is 5.86 years. Prior measurement period differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions continue to be recognized based on the expected remaining service lives of all employees calculated as of the beginning of those measurement periods.

The Schedule of Allocated Pension Amounts by Employer does not reflect contributions made to OCERS subsequent to the measurement date as defined in GASB Statement No. 68 paragraph 57. Appropriate treatment of such amounts is the responsibility of the employers.

NOTE 4 – SUBSEQUENT EVENT

In fiscal year 2019, a novel strain of the coronavirus COVID-19 has spread around the world causing a global public health emergency and economic disruption. As of the date of this report, OCERS is able to perform all necessary business functions. The extent to which the COVID-19 pandemic may impact OCERS' NPL and its allocation of pension amounts by employer going forward is uncertain and cannot be predicted at this time.

NOTE 5 - ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION

Additional financial and actuarial information required for GASB Statement No. 68 disclosures is presented in OCERS' Comprehensive Annual Financial Report as of and for the year ended December 31, 2019, the OCERS' GASB Statement No. 67 Actuarial Valuation as of December 31, 2019, the OCERS' GASB Statement No. 68 Actuarial Valuation Based on the December 31, 2019, Measurement Date for Employer Reporting as of June 30, 2020, and the Unfunded Actuarial Liability and Associated Amortization Schedules as of the December 31, 2018 valuation for the Orange County Department Education and University of California, Irvine Medical Center and Campus, which can be found on OCERS' website at www.ocers.org.