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Via Email

May 28, 2021

Mr. Steve Delaney
Chief Executive Officer
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

**Re: Orange County Employees Retirement System (OCERS)
Reconciliation of the Plan's December 31, 2020 Net Pension Liability (NPL) and
Unfunded Actuarial Accrued Liability (UAAL)**

Dear Steve:

We have been requested by OCERS to reconcile, for each Rate Group, the December 31, 2020 Net Pension Liability (NPL) and the Unfunded Actuarial Accrued Liability (UAAL) as shown in the December 31, 2020 Governmental Accounting Standards Board (GASB) Statement 67 addendum letter and funding valuation report, respectively. (The breakdown of the NPL as disclosed in the GASB 67 addendum letter also appears in our GASB 68 financial report.)

The reconciliation is provided in Attachment A of this letter. The difference between the NPL and the UAAL is a direct result of the different liability and asset values we used in those developments.

Liability

The Total Pension Liability (TPL) shown in the GASB 67 addendum letter was measured based on the December 31, 2019 demographic data by: (i) rolling forward the liability from December 31, 2019¹ to December 31, 2020 and (ii) assuming that the actuarial experience of the System would match with that anticipated by the demographic assumptions. On the other hand, the Actuarial Accrued Liability (AAL) shown in the funding valuation report was measured based on the December 31, 2020 demographic data.

The differences between the TPL and the AAL were primarily due to: (a) actuarial gains/losses on the liability items as documented in Section 4, Exhibit VI of the December 31, 2020 funding valuation report for each Rate Group and (b) differences between the rolled forward liabilities and the actual liabilities.

¹ As the Board has adopted a new set of actuarial assumptions for use in the pension funding valuation as of December 31, 2020, we have included the impact of these assumption changes by revaluing the TPL as of December 31, 2019 prior to the rollforward.

Assets

The Plan Fiduciary Net Position shown in the GASB 67 report as of December 31, 2020 (that we subsequently used for our GASB 67 addendum letter) was based on the plan's Market Value of Assets (MVA) including the proceeds available in the County Investment Account and O.C. Sanitation District (OCSD) UAAL Deferred Account. On the other hand, the funding valuation report used the preliminary unaudited MVA provided by OCERS on April 2, 2021² and the Valuation Value of Assets (VVA) after adjusting the MVA for asset smoothing and excluding the non-valuation reserve.

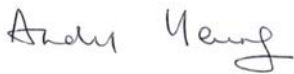
The differences between the Plan Fiduciary Net Position and the VVA were primarily due to adjustment of deferred investment gain.

The NPL and UAAL were calculated by taking the TPL and the AAL and subtracting the Plan Fiduciary Net Position and the VVA, respectively.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standard of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions or comments.

Sincerely,



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary

JY/bbf

Enclosures

cc: Tracy Bowman
Brenda Shott

² An updated financial statement was provided by OCERS on April 21, 2021 in which the market value of assets was higher by approximately \$129 million.

All Rate Groups (Results are as of December 31, 2020)

(A) Liability Reconciliation	Rate Group #1	Rate Group #2	Rate Group #3	Rate Group #4
(1) Total Pension Liability Included in the development of the GASB 67 Addendum Letter	\$533,314,805	\$12,835,378,957	\$807,532,021	\$46,150
(2) (Gain)/Loss from (Lower)/Higher than Expected Salary Increases ³	336,000	(17,707,000)	(20,776,000)	0
(3) Loss from Higher than Expected COLA Increases in 2020 ¹	501,000	19,180,000	973,000	0
(4) Gain from Lower than Expected COLA Increases in 2021 ¹	(3,298,000)	(86,145,000)	(5,718,000)	0
(5) Other Experience (Gain)/Loss ¹	(128,000)	89,039,000	7,016,000	2,000
(6) Other (Gain)/Loss from Rolled Forward Liabilities to Actual Liabilities	<u>(6,805)</u>	<u>(17,895,957)</u>	<u>(2,083,021)</u>	<u>(2,150)</u>
(7) Actuarial Accrued Liability Included in the Funding Valuation Report (sum of items (1) through (6))	\$530,719,000	\$12,821,850,000	\$786,944,000	\$46,000
(B) Asset Reconciliation				
(1) Market Value of Assets Excluding County Investment Account and OCSD UAAL Deferred Account	\$483,438,775	\$9,878,389,018	\$862,742,401	\$48,883
(2) County Investment Account and OCSD UAAL Deferred Account	<u>3,953,868</u>	<u>95,734,572</u>	<u>13,433,000</u>	<u>0</u>
(3) Plan's Fiduciary Net Position Included in the development of the GASB 67 Addendum Letter (1) + (2)	\$487,392,643	\$9,974,123,590	\$876,175,401	\$48,883
(4) Adjustment for Deferred Investment Return, Non-Valuation Reserve, and using Preliminary Unaudited Financial Statement	(28,509,775)	(582,557,018)	(50,878,401)	(2,883)
(5) Valuation of Assets Included in the Funding Valuation Report (1) + (4)	\$454,929,000	\$9,295,832,000	\$811,864,000	\$46,000
Net Pension Liability Shown in the GASB 67 Addendum Letter (A1) - (B3)	\$45,922,162	\$2,861,255,367	\$(68,643,380)	\$(2,733)
Unfunded Actuarial Accrued Liability Shown in the Funding Valuation Report (A7) - (B5)	\$75,790,000	\$3,526,018,000	\$(24,920,000)	\$0

³ These actuarial gain/loss items can be found in Section 4, Exhibit VI of our December 31, 2020 funding valuation report.

All Rate Groups (Results are as of December 31, 2020)

(A) Liability Reconciliation	Rate Group #5	Rate Group #9	Rate Group #10	Rate Group #11
(1) Total Pension Liability Included in the development of the GASB 67 Addendum Letter	\$1,064,279,628	\$54,596,226	\$281,808,606	\$12,517,564
(2) (Gain)/Loss from (Lower)/Higher than Expected Salary Increases ¹	(16,295,000)	(650,000)	(282,000)	29,000
(3) Loss from Higher than Expected COLA Increases in 2020 ¹	1,412,000	55,000	318,000	109,000
(4) Gain from Lower than Expected COLA Increases in 2021 ¹	(7,110,000)	(364,000)	(1,960,000)	(58,000)
(5) Other Experience (Gain)/Loss ¹	500,000	70,000	1,774,000	(51,000)
(6) Other (Gain)/Loss from Rolled Forward Liabilities to Actual Liabilities	<u>(915,628)</u>	<u>(11,226)</u>	<u>(686,606)</u>	<u>11,436</u>
(7) Actuarial Accrued Liability Included in the Funding Valuation Report (sum of items (1) through (6))	\$1,041,871,000	\$53,696,000	\$280,972,000	\$12,558,000
(B) Asset Reconciliation				
(1) Market Value of Assets Excluding County Investment Account and OCSD UAAL Deferred Account	\$878,255,238	\$58,477,592	\$262,206,045	\$12,662,759
(2) County Investment Account and OCSD UAAL Deferred Account	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(3) Plan's Fiduciary Net Position Included in the development of the GASB 67 Addendum Letter (1) + (2)	\$878,255,238	\$58,477,592	\$262,206,045	\$12,662,759
(4) Adjustment for Deferred Investment Return, Non-Valuation Reserve, and using Preliminary Unaudited Financial Statement	(51,793,238)	(3,448,592)	(15,463,045)	(746,759)
(5) Valuation of Assets Included in the Funding Valuation Report (1) + (4)	\$826,462,000	\$55,029,000	\$246,743,000	\$11,916,000
Net Pension Liability Shown in the GASB 67 Addendum Letter (A1) - (B3)	\$186,024,390	\$(3,881,366)	\$19,602,561	\$(145,195)
Unfunded Actuarial Accrued Liability Shown in the Funding Valuation Report (A7) - (B5)	\$215,409,000	\$(1,333,000)	\$34,229,000	\$642,000

¹ These actuarial gain/loss items can be found in Section 4, Exhibit VI of our December 31, 2020 funding valuation report.

All Rate Groups (Results are as of December 31, 2020)

(A) Liability Reconciliation	Rate Group #12	Rate Group #6	Rate Group #7	Rate Group #8	Total
(1) Total Pension Liability Included in the development of the GASB 67 Addendum Letter	\$11,734,787	\$957,733,190	\$4,481,879,226	\$1,969,628,490	\$23,010,449,650
(2) (Gain)/Loss from (Lower)/Higher than Expected Salary Increases ¹	(201,000)	(8,618,000)	14,880,000	(13,007,000)	(62,291,000)
(3) Loss from Higher than Expected COLA Increases in 2020 ¹	11,000	2,697,000	6,337,000	2,451,000	34,044,000
(4) Gain from Lower than Expected COLA Increases in 2021 ¹	(74,000)	(5,547,000)	(33,575,000)	(14,039,000)	(157,888,000)
(5) Other Experience (Gain)/Loss ¹	(89,000)	5,198,000	5,642,000	(214,000)	108,759,000
(6) Other (Gain)/Loss from Rolled Forward Liabilities to Actual Liabilities	<u>47,213</u>	<u>233,810</u>	<u>(4,872,226)</u>	<u>(1,917,490)</u>	<u>(28,098,650)</u>
(7) Actuarial Accrued Liability Included in the Funding Valuation Report (sum of items (1) through (6))	\$11,429,000	\$951,697,000	\$4,470,291,000	\$1,942,902,000	\$22,904,975,000
(B) Asset Reconciliation					
(1) Market Value of Assets Excluding County Investment Account and OCSD UAAL Deferred Account	\$12,684,013	\$791,114,285	\$3,575,263,578	\$1,808,109,413	\$18,623,392,000
(2) County Investment Account and OCSD UAAL Deferred Account	<u>0</u>	<u>9,868,945</u>	<u>50,820,615</u>	<u>0</u>	<u>173,811,000</u>
(3) Plan's Fiduciary Net Position Included in the development of the GASB 67 Addendum Letter (1) + (2)	\$12,684,013	\$800,983,230	\$3,626,084,193	\$1,808,109,413	\$18,797,203,000
(4) Adjustment for Deferred Investment Return, Non-Valuation Reserve, and using Preliminary Unaudited Financial Statement	(748,013)	(46,654,285)	(210,843,578)	(106,629,413)	(1,098,275,000)
(5) Valuation of Assets Included in the Funding Valuation Report (1) + (4)	\$11,936,000	\$744,460,000	\$3,364,420,000	\$1,701,480,000	\$17,525,117,000
Net Pension Liability Shown in the GASB 67 Addendum Letter (A1) - (B3)	\$(949,226)	\$156,749,960	\$855,795,033	\$161,519,077	\$4,213,246,650
Unfunded Actuarial Accrued Liability Shown in the Funding Valuation Report (A7) - (B5)	\$(507,000)	\$207,237,000	\$1,105,871,000	\$241,422,000	\$5,379,858,000

¹ These actuarial gain/loss items can be found in Section 4, Exhibit VI of our December 31, 2020 funding valuation report.