

OCERS Board Policy

Withdrawing Employer (Fully Satisfied Obligation) Policy

Purpose and Background

The purpose of this policy is to establish guidelines by which a participating employer (other than the County of Orange) in the Orange County Employees Retirement System (OCERS) may withdraw from OCERS and fully satisfy at the time of such withdrawal the employer's obligation to pay all Unfunded Actuarial Accrued Liability (UAAL) attributable to the employer's active, retired and deferred employees by reason of their prior service as OCERS' members.

Policy Objectives

1. The objectives of this policy are, among other things, to ensure compliance with County Employees Retirement Law of 1937, California Government Code sections 31450 et seq., as amended (CERL) and other applicable provisions of law:
 - a. Pursuant to CERL sections 31564.2, 31580.1, 31584, 31585 and other applicable provisions of law, an employer remains liable, and must make the required appropriations and transfers, to OCERS for the employer's share of liabilities attributable to its officers and employees who are and may be entitled to receive retirement, disability and related benefits from OCERS.
 - b. CERL section 31564.2(d) provides, in part, that "[t]he funding of the retirement benefits for the employees of a withdrawing agency is solely the responsibility of the withdrawing agency or the board of supervisors. Notwithstanding any other provision of the law, no contracting agency shall fail or refuse to pay the employer's contributions required by this chapter within the applicable time limitations. In dealing with a withdrawing district, the board of retirement shall take whatever action needed to ensure the actuarial soundness of the retirement system."
2. The general principle applied in this policy is to establish the funding obligation of withdrawing employers as:
 - a. The value of future benefits to be paid to OCERS members credited with service while employed with the withdrawing employer calculated at a "risk free" discount rate as determined by OCERS in consultation with its actuary, as of the date the employer initiated its withdrawal; *minus*
 - b. The OCERS assets accumulated from contributions of the withdrawing employer and its employees, as determined by OCERS' actuary, and earnings on such contributions determined on a market value basis.

A "risk free" discount rate for purposes of this policy generally refers to the set of market-based interest assumptions 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 OCERS' actuarial valuation.

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3. Where it is the Board's intent that the employer settle its liabilities to OCERS in full upon the employer's withdrawal (or it is the employer's desire to do so), this policy provides the guidelines to do so.
4. This policy necessarily covers any withdrawing employers that are going out of business, dissolving or ceasing to exist as a separate entity by reason of bankruptcy, loss of funding, or merger, or similar circumstance. This policy may also be applied to other going concern employers if mutually agreed by OCERS and such employers.

Policy Guidelines

Absent unique and compelling circumstances or unless otherwise expressly approved by the Board at a duly-noticed meeting, the guidelines for implementing this policy are set forth below.

5. Upon notice that a participating employer seeks to terminate its membership in OCERS and to fully settle its liabilities to OCERS upon withdrawal, and on the advice and recommendation of its actuary, OCERS will segregate on its books all assets and liabilities attributable to the employer as determined by OCERS' actuary.
6. OCERS' actuary will determine, and certify to the Board, the withdrawing employer's UAAL calculated as of the date of withdrawal.
7. The value of the assets used to determine the withdrawing employer's UAAL will be based on a market value basis allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiates its withdrawal.

The value of assets will be determined in two steps. In the first step, the assets will be allocated on a valuation value of assets (VVA) (a smoothed value) basis. In the second step, the assets as determined on the VVA basis are marked to a market value basis, taking into account any deferred investment gains/losses not yet recognized in the valuation value of assets.

The value of the assets used in the first step to determine the withdrawing employer's initial funding obligation for its UAAL will be based on the VVA allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiated its withdrawal based upon all of OCERS' then current actuarial assumptions and methodologies, including the use of a pro-rata allocation of UAAL (and VVA) within its rate group (if any) based on payroll.

Alternatively, based on the recommendation of OCERS' actuary, the Board may determine that the VVA allocated to the withdrawing employer be determined using a pro-rata allocation based on the Actuarial Accrued Liabilities (AAL) for the withdrawing employer.

8. The present value of future benefits owed to the withdrawing employer's active, retired, deferred and disabled officers and employees and their surviving beneficiaries (present value of accrued benefits, or "liabilities") will be redetermined on a market value basis by using a "risk free" discount rate as described above, together with modifications to other actuarial assumptions

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as appropriate for a settlement of liabilities as recommended by OCERS' actuary. Such assumptions could include, for example, mortality tables, salary increases and expected dates of retirement.

9. The withdrawing employer will pay the full amount of the UAAL calculated in accordance with this policy on or before the date set by OCERS as a condition to withdrawal from OCERS.

Policy Review

10. The Board will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

Policy History

11. The Board adopted this policy on December 16, 2019, and it was revised on November 14, 2022.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



Steve Delaney
Secretary of the Board

11/14/22

Date