

# Withdrawing Plan Sponsor Policy

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## Purpose and Background

The Withdrawing Plan Sponsor Policy is intended to establish guidelines by which the Orange County Employees Retirement System (OCERS) intends to assure that a participating OCERS employer (other than the County of Orange) that ceases to provide OCERS membership for its active OCERS members but is expected to continue to be an ongoing financially viable entity will continue to satisfy its obligation to timely pay all Unfunded Actuarial Accrued Liability (“UAAL”) attributable to its active, retired and deferred employees by reason of their prior service as OCERS’ members. In accordance with applicable law, OCERS will enter into a *Withdrawing Employer and Continuing Contribution Agreement* (Continuing Contribution Agreement) with any such employer consistent with this policy.

## 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, a district remains liable, and must make the required appropriations and transfers, to OCERS for the district’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; *minus*
  - b. As determined by OCERS’ actuary, the OCERS assets accumulated from contributions of the withdrawing employer and its employees, and earnings on such contributions.
3. It is the Board of Retirement’s intent to allow a withdrawing employer to satisfy its funding obligation in a manner which provides the employer reasonable flexibility; however, primary consideration will be given to ensuring the funding obligation of the withdrawing employer is properly determined and satisfied. This will generally require redetermination of the funding obligation of the employer for several years following the date the employer initiates its withdrawal.

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4. This policy covers *only* those withdrawing employers (i) who cease to provide OCERS membership for their active employees (i.e., both current actives and new hires), (ii) who are financially viable entities when the withdrawal is initiated, and (iii) for whom OCERS expects thereafter to continue to be financially viable entities. This policy does not cover any other situation – whether a withdrawing employer, a terminating employer or otherwise – including, without limitation, an employer going out of business by reason of bankruptcy, loss of funding, or merger, or an employer who gradually winds down its active employees' continued participation in OCERS either through attrition or through a decision to have employees hired after a specific date to not become members of OCERS (e.g., to participate in a retirement arrangement other than OCERS).

### Policy Guidelines

Absent exigent circumstances or unless otherwise expressly approved by the Board of Retirement 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 OCERS' membership for its active employees' future service, 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, and shall maintain such separate accounting for the employer until all of its liabilities have been fully satisfied.
6. OCERS and the withdrawing employer will enter into a Continuing Contribution Agreement, the purposes of which are to:
  - a. evidence the withdrawing employer's obligations as of the date the employer initiates its withdrawal, as well as its continuing funding obligations for the ongoing benefits owed to its retired, deferred and disabled officers and employees and their surviving beneficiaries, for their accumulated OCERS service and related benefits;
  - b. provide a funding mechanism acceptable to OCERS for the withdrawing employer to timely satisfy its existing and continuing funding obligations to OCERS, the payment of which must be over a period which is not longer than the period over which OCERS' remaining unfunded liability is being amortized (see CERL section 31564.2(c));
  - c. require the withdrawing employer to provide OCERS with updated employee census and payroll data requested by OCERS in the years following the date the employer initiates its withdrawal;
  - d. provide a mechanism for adjusting the withdrawing employer's obligations and payments due to OCERS based on periodic actuarial experience analysis; and
  - e. provide a mechanism by which OCERS will consider the transfer of any Final Surplus, as defined below, to the withdrawing employer or a successor retirement system, as appropriate.
7. Pursuant to the terms of the Continuing Contribution Agreement, OCERS' actuary will determine, and certify to the Board of Retirement, the withdrawing employer's initial funding obligation for its UAAL calculated as of the date of withdrawal. Absent exigent

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circumstances, the amortization schedule for payment the employer's initial funding obligation will not exceed a period of five (5) years.

8. The initial value of the assets used to determine the withdrawing employer's initial funding obligation for its UAAL will be based on the valuation value of assets (VVA) (a smoothed value) allocated to the withdrawing employer determined as of the end of the prior calendar year, adjusted to the date the employer initiated its withdrawal (or later date if the Continuing Contribution Agreement so provides), based upon all of OCERS' then current actuarial assumptions and methodologies. Later values (i.e., those used in "true-ups" described below) shall be determined by rolling forward the initial VVA, adding contributions, deducting benefit payments, and crediting earnings at the Total OCERS smoothed (VVA) earnings rate.
9. The present value of future benefits owed to the withdrawing employer's retired, deferred and disabled officers and employees and their surviving beneficiaries (present value of accrued benefits, or "liabilities") will be determined using OCERS' then current actuarial assumptions and methodologies. In determining the present value of accrued benefits, benefit service shall be frozen for the withdrawing employer's active employees but, for members who transfer to a system that has reciprocity with OCERS, pay shall be projected based on OCERS' then salary growth assumptions.
10. Periodically after the date the employer initiated its withdrawal, in periods not to exceed three (3) years' duration, following an experience analysis, OCERS' actuary will remeasure (true-up), and certify to the Board of Retirement, any additional obligation of the withdrawing employer for UAAL. In accordance with the terms of the Continuing Contribution Agreement and applicable law, the withdrawing employer is liable for, and must contribute, any new UAAL determined in the true-up experience analysis, based upon an amortization schedule recommended by the actuary and adopted by OCERS.

Absent exigent circumstances, the amortization schedule for payment of the employer's periodic true-up funding obligations will not exceed a period of three (3) years. OCERS will hold any negative UAAL (Surplus) to be applied against any future UAAL of the withdrawing employer.

11. If any Surplus remains after the withdrawing employer has satisfied *all* of its UAAL obligations (Final Surplus), OCERS will distribute the Final Surplus in accordance with the terms of the Continuing Contribution Agreement and applicable law.
12. Notwithstanding anything to the contrary herein, the OCERS Board of Retirement hereby reserves the right to pursue any other remedies under applicable law that, depending on the circumstances, may be available to "ensure the actuarial soundness of the retirement system" (CERL section 31564.2(d)). For example, notwithstanding the employer's obligations under the Continuing Contribution Agreement, if concerns arise regarding the employer's ongoing existence as a financially viable entity, the Board of Retirement may assess the projected entire amount of the employer's UAAL (as recommended by the fund's actuary and approved by the Board) using a lower discount rate and payable in a single sum immediately due.

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## **Policy Review**

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

## **Policy History**

14. The Board of Retirement adopted this policy on February 17, 2015.

## **Secretary's Certificate**

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



2/17/15

Steve Delaney  
Secretary of the Board

Date