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Initiating Dept./Div.: Administration/Finance



## **BOARD POLICY**

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### **PENSION FUNDING**

#### OBJECTIVE

Central San's primary financial objective is to maintain long-term fiscal stability. Properly monitoring, managing, and funding the District's defined benefit pension obligations is critical to achieving this objective.

#### PURPOSE

This policy documents the method the District will use to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Discloses to employees and the public how pensions will be funded.

Nothing in this policy shall constitute an obligation upon the District, nor an implied contract. The Board of Directors may revoke or amend this policy in the best interests of the District.

#### BACKGROUND

Central San provides defined benefit retirement benefits through the Contra Costa County Employees' Retirement Association (CCCERA). CCCERA is a multiple-employer public employee defined benefit pension plan.

All full-time District employees are eligible to participate in CCCERA. CCCERA provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. CCCERA acts as a common investment and administrative agent for participating public entities within the County. Benefit provisions are determined by participating agency policy, CCCERA policy, state statute, and Court decisions.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially

sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This policy outlines the method the District will utilize to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants and, in addition, provides a framework for additional contributions to be made to (1) CCCERA or (2) the Secondary Pension Trust to meet the goal of having a fully funded pension. The Secondary Pension Trust, also referred to internally as the "Pension Prefunding Trust," is an irrevocable IRC Section 115 Pension Trust and serves as a supplemental trust to help address pension unfunded actuarial accrued liabilities (UAAL) and acts as a hedge against unforeseen volatility in Normal Cost and UAAL pension contribution requirements. As the name implies, this is a "secondary" pension trust, with the CCCERA-administered plan being the primary trust. Any contributions to the Secondary Pension Trust do not result in GASB accounting basis reductions to the District's funded plan status, despite there being other important benefits as described previously.

*Pension Funding: A Guide for Elected Officials*, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

- *Actuarially Determined Contributions.* A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's UAAL.
- *Funding Discipline.* A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- *Intergenerational equity.* Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- *Contributions as a stable percentage of payroll.* Contributions should be managed so that employer costs remain relatively consistent as a percentage of payroll over time.
- *Accountability and transparency.* Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

## POLICY

This policy is based on the five general principals noted above, as well as the following principles:

- It is both appropriate and responsible to pay the cost of current utility operations in the period such costs are incurred, rather than defer those costs to future periods.
- Annual contributions toward defined contribution benefit plans should be made to ensure that the funded ratio is targeted at and maintained as close to 100% as is reasonably practicable.
- When defined benefit plan funded ratios are below 100%, efforts should be taken to ensure the funded ratios are restored to 100% as soon as is practicable given other reasonable rate making constraints.

The amount of funding to be provided to meet the fully-funded pension goal as noted above is based on two components:

*A. Actuarially Determined Contributions (ADC)*

CCCERA actuaries will determine Central San's ADC to CCCERA based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount, in accordance with CCCERA's UAAL amortization policies (currently allocated over 18 years). The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by the CCCERA Board.

Central San will review the CCCERA annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

*B. Additional Discretionary Payment (ADP) Contributions*

Central San will consider making ADP contributions with either budgeted or other one-time resources, with the objectives of increasing the plan's funded status, by reducing the UAAL, and reducing ongoing pension costs through two potential funding sources:

- *Normal Budgeted Contributions* - A budgeted contribution, above the required amount of the ADC, may be made, in an amount guided by the Table below. The additional budgeted contribution can be specified in the budget process as dedicated for pension obligations, or more generally for employee related obligations that will be further specified by the Board of Directors during the fiscal year.
- *Budgetary Surplus or Nonrecurring Revenues* - The second component is a potential contribution of one-time monies that may or may not be available at each year end. The actual dollar amount of available one-time funds will be presented to the Board of Directors with a recommendation as to how much shall be contributed to either CCCERA or the Pension Prefunding Trust. This recommendation will be based on the dollars available, other competing priorities, and input from the Board of Directors.

**PENSION FUNDING**

With respect to operation of the ADP contributions, the following guidance shall apply, where the bracketed number refers to the columns in the table that follows:

**In the context of the CCCERA amortization of new annual UAAL layers over 18 years, while the pension is [ 1 ] funded, the District [ 2 ] through [ 3 ], target bringing the funded ratio to 100% over not less than a [ 4 ]-year period, through contributions to [ 5 ].**

(1) Pension Funding Ratio (CCCERA and Trust)	(2) Funding Language	(3) Funding Source	(4) Time to Restore to 100% in Years	(5) Contributions to
Less than 80%	Shall	budgeted contributions and funding from available year-end variances	(100% - Funded ratio) / 2 (and not to exceed 15 years).	CCCERA
Between 80-90%	Shall	budgeted contributions and funding from available year-end variances	(100% -Funded ratio) / 2	CCCERA or Trust
Between 90-95%	Shall	budgeted contributions and funding from available year-end variances	(100% -Funded ratio) / 2	Trust
Between 95-100%	May	available funding from year-end variances	(100% -Funded ratio) / 2	Trust
Greater than 100%	May	available funding from year-end variances	N/A	Trust

For purposes of this policy, the term "funded ratio" refers to the level of the pension plan assets, at actuarial value, in proportion to the pension plan's accrued liability. This is an annual point-in-time measurement, as of the valuation date. Concurrently with the calculation of the recommended ADP contribution as informed by the above table, Central San will also calculate an alternative plan to close the funding gap in potentially a shorter period of time, by looking at the market value of plan assets in lieu of the actuarial value.

As to the timing of any additional contributions toward CCCERA and the Pension Prefunding Trust as specified in the table above, a recommendation shall be provided

by staff as to whether the contribution should be made in a single contribution or allocated over a reasonable period, such as the balance of the fiscal year.

### TRANSPARENCY AND REPORTING

Funding and funded status of Central San's pension plan should be transparent to interested parties, including plan participants, annuitants, the Board of Directors, and the District's customers. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for Central San's pension plan shall be made available to the Board of Directors.
- Central San's independently audited Comprehensive Annual Financial Report shall be published on its website. This report includes information on the District's annual contributions to CCCERA and the Pension Prefunding Trust and OPEB Trust and the funded status of the pension plan.
- Central San's annual operating budget shall include the District's required contributions to CCCERA, and any additional budgeted contributions available to be made toward the Pension Prefunding Trust or OPEB Trusts.
- Central San shall periodically, but no less than annually, report to the Board of Directors on the long-term UAAL trend showing progress toward fully-funded status.
- While debt related to the 2021 pension UAAL paydown transaction is outstanding, Central San shall provide a report showing the estimated interest savings from that paydown, based on the most recently available CCCERA pension valuation report.

### REVIEW OF POLICY

Central San will monitor changes to and expansions of pension funding best practices, as well as any additional guidance provided by the Government Finance Officers Association that relate to the funding of defined benefit pension plans. Additionally, funding a defined benefit pension plan requires a long-term horizon. In light of these factors, the Board of Directors will review this policy at least every two years to determine if changes are needed to ensure adequate resources are being accumulated.

*[Original Retained by the Secretary of the District]*