**Santa Barbara County Employees Retirement System (SBCERS)**

Funding Policy Discussion

We calculate the UAL amortization payment using the Plan's funding policy. In 2013, the entire existing UAL of $803 million was scheduled to be amortized over a 17-year period. The remaining balance and payment schedules on this portion of the UAL are shown below. The UAL payments increase annually at the assumed payroll growth rate.

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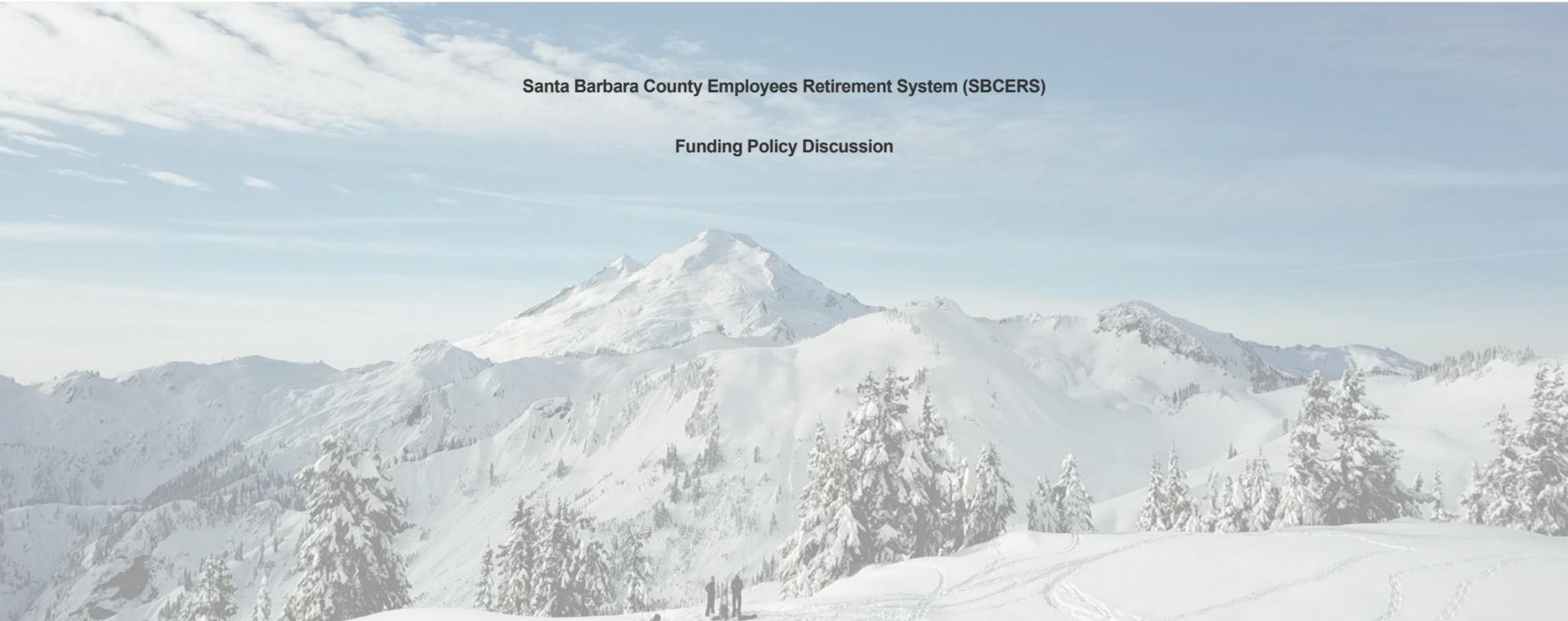
2013 UAL Balance
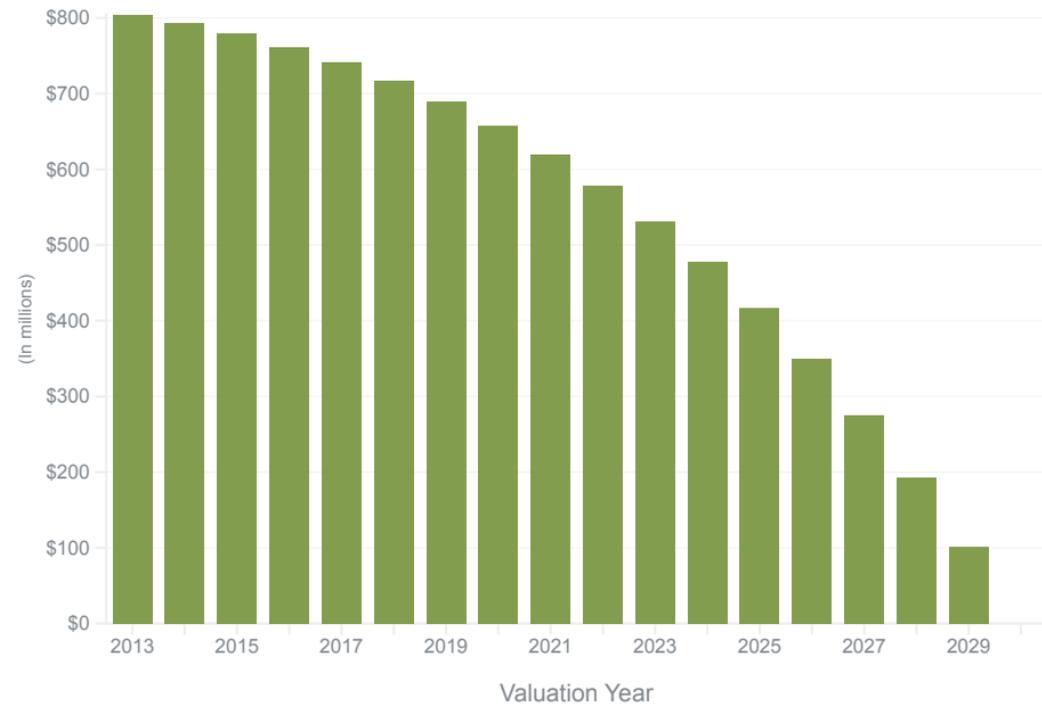

2013 UAL Payment
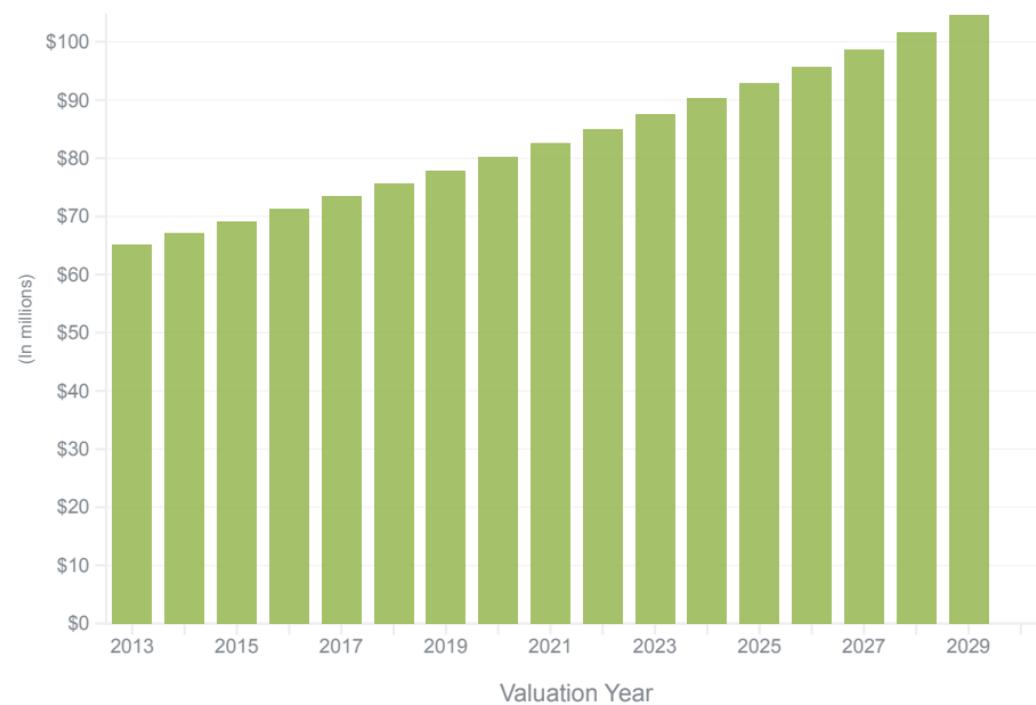
Beginning in 2014, new changes in the UAL are amortized over 19 year periods, with the payment schedules phased-in over a five year period, and then similarly phased-out at the end, with the interim payments continuing to increase at the assumed payroll growth rate. In 2014, there was an actuarial gain, mostly due to a favorable asset return of 15.0%.

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Total UAL Balance Total UAL Payment 2014 Gain Bal 2013 UAL Bal **2014 Gain Pmt** 2013 UAL Pmt


(In millions)

Valuation Year
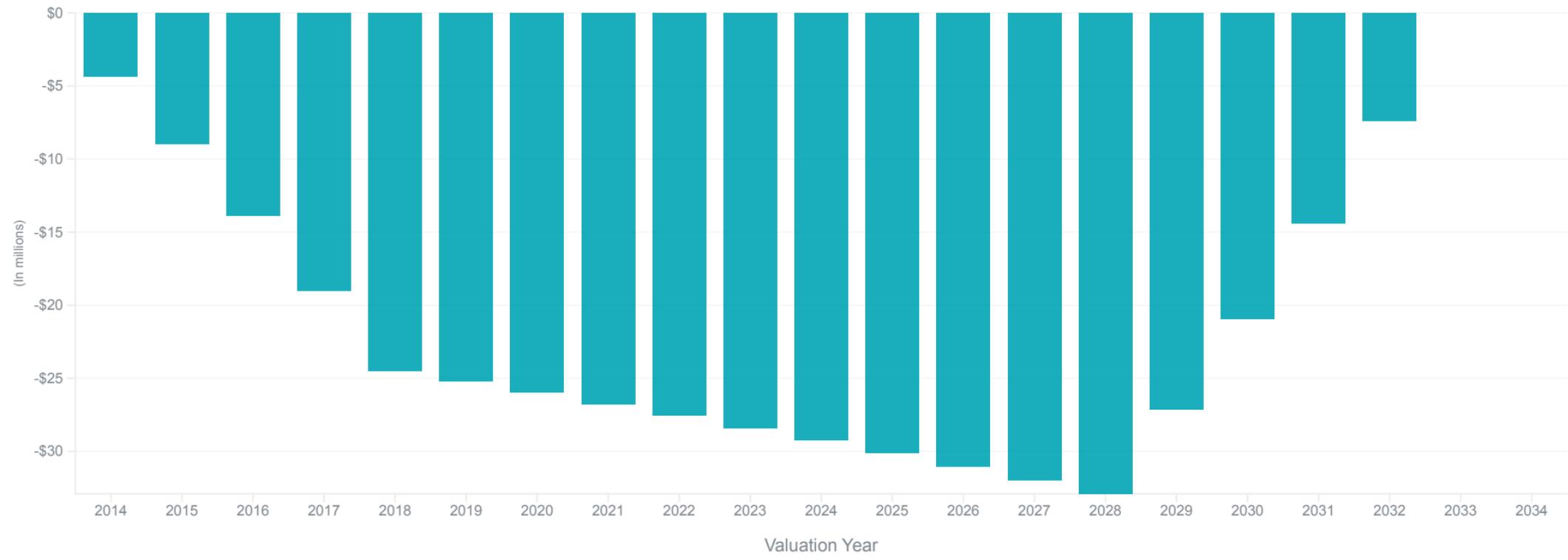
To get the total payment, we add the payments for each individual layer together. The black line represents the total UAL payment schedule as it existed in 2014.

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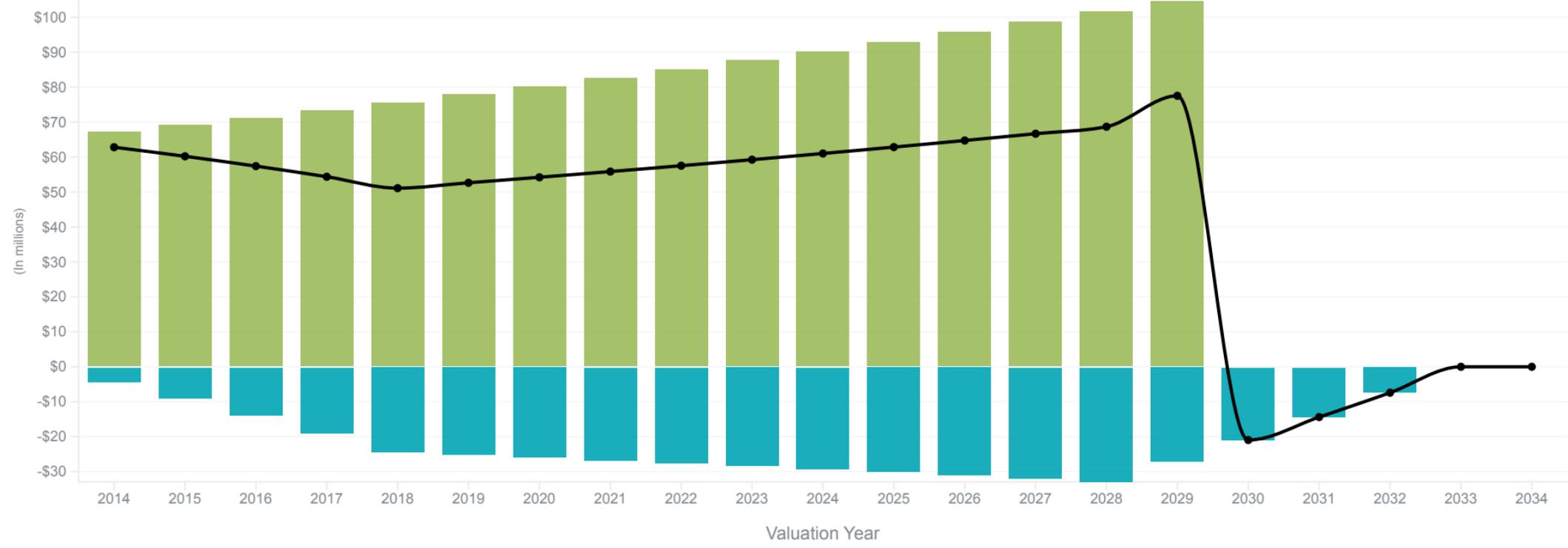
Every year at least one new layer is added for the actuarial gain/loss. And if there are assumptions changes a separate layer is also added.

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Legend: Total UAL Balance | Total UAL Payment | 2014 Gain Bal | 2015 Loss Bal | 2013 UAL Bal | 2014 Gain Pmt | 2015 Loss Pmt | 2013 UAL Pmt

Tooltip: 2013 UAL Pmt — 2027: $99

Y-axis: (In millions) — $120, $100, $80, $60, $40, $20, $0, -$20

X-axis (Valuation Year): 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034

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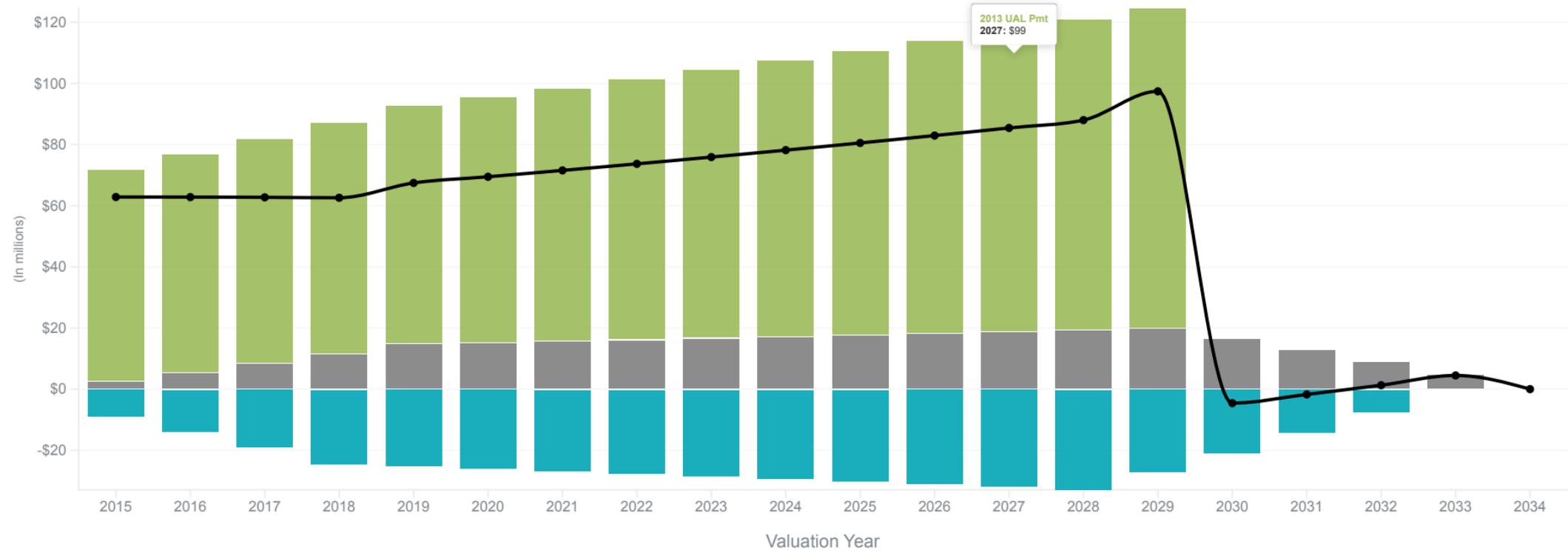
As of 2023, there are 17 layers with the 2013 UAL layer being the largest by far. So when the 2013 UAL layer is fully paid, there will be a significant decrease in the total UAL payment from $143 million to $41 million.

Legend: Total UAL Payment · New UAL Payment · Safety Plan 6 Layer · 2014 Gain · 2015 Loss · 2016 Loss · 2016 Assump · 2017 Gain · 2017 Assump · 2018 Loss · 2019 Loss · 2019 Assump · 2020 Loss · 2020 Assump · 2021 Gain · 2022 Loss · 2022 Assump · 2023 Loss · 2013 UAL · 2013 UAL (Re-amortized)

Y-axis: (In millions)

X-axis: Valuation Year
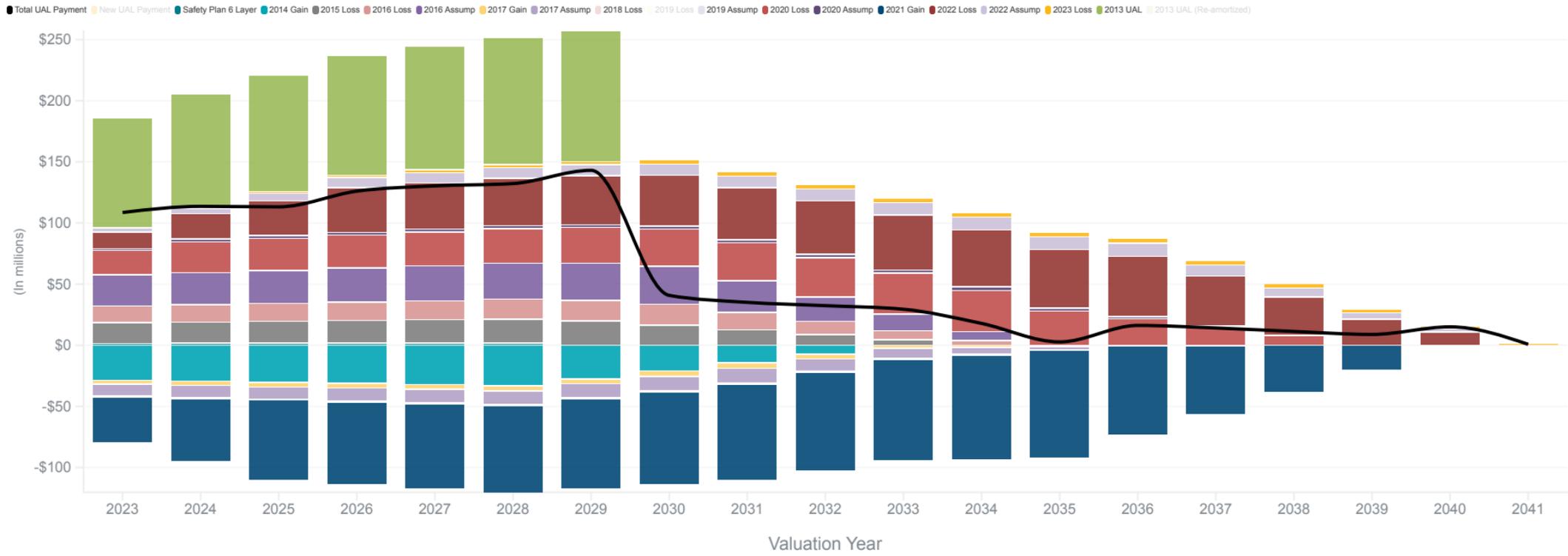
The purpose of a funding policy is to pay off the UAL over a sufficiently short period of time while trying to maintain stability in the contribution rates. The teal line, or the tread water level, is the contribution level where the expected UAL would remain unchanged. The area above the line represents the percentage of the contribution going toward paying down the UAL.

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The Board has the authority to revisit the amortization policy at any time. An illustrative example of a minor adjustment to the existing amortization policy is shown below. The single 2013 UAL layer could be extended two years with a "phase-out" in the last three years, to lessen the contribution cliff.

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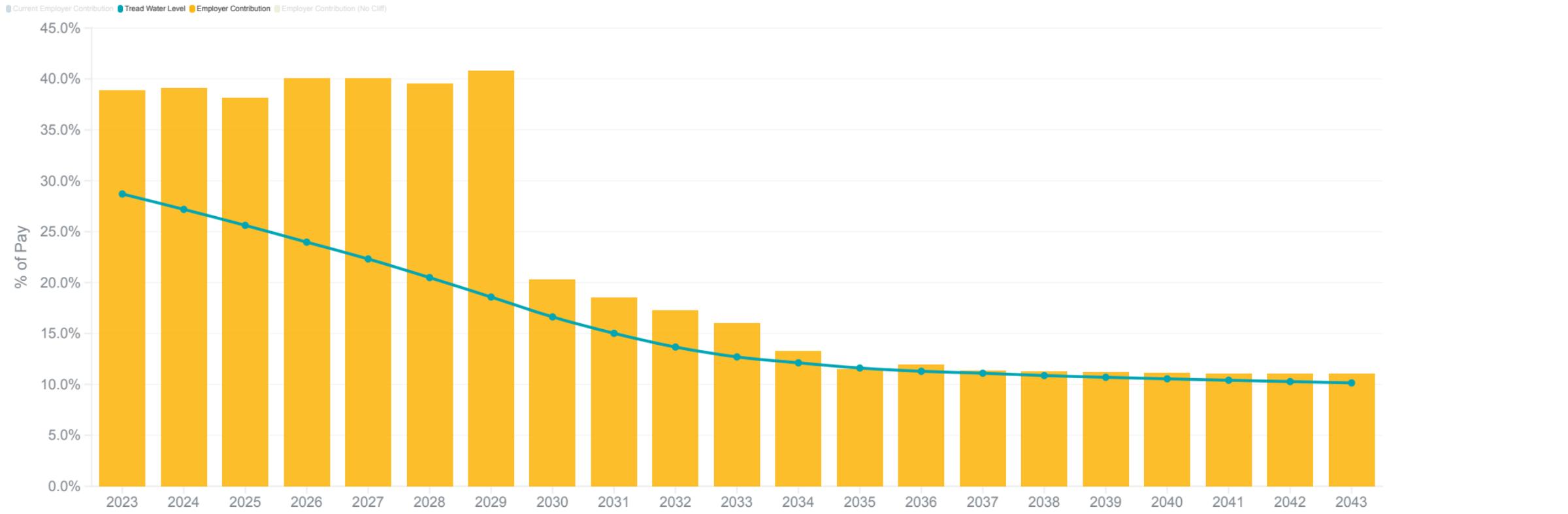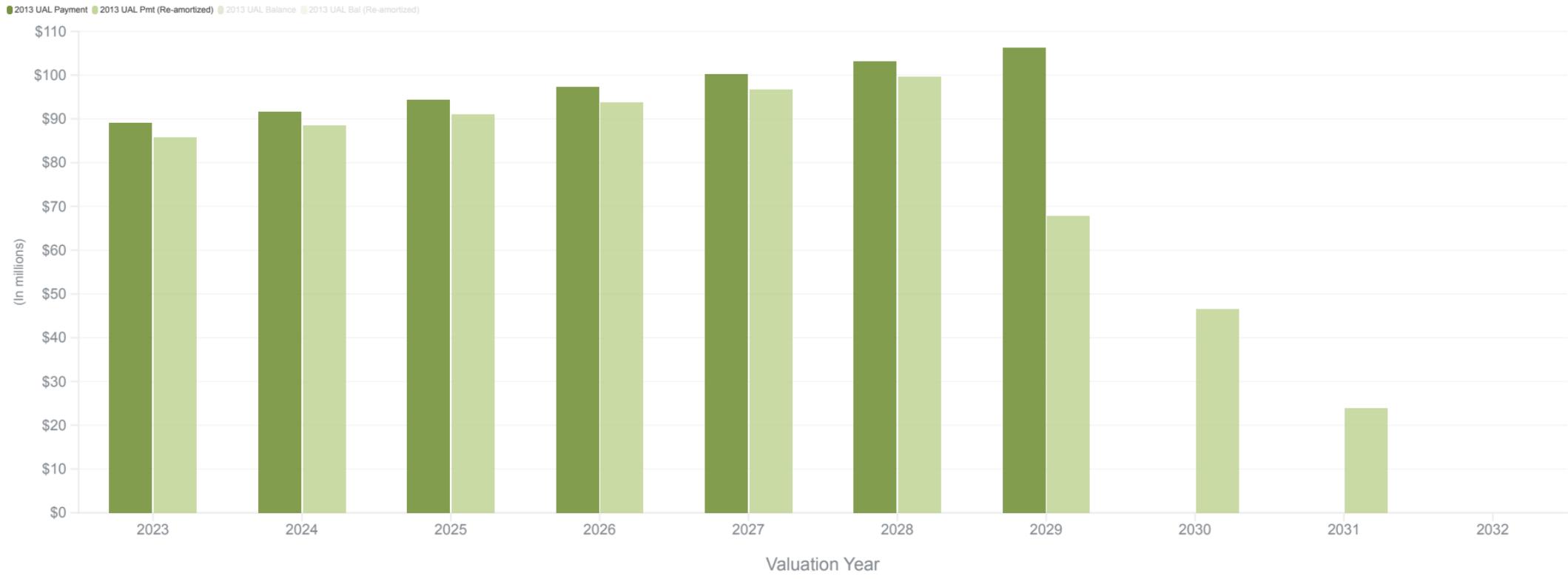
The total UAL payment with the 2013 UAL layer re-amortized is shown by the gold line compared to the current UAL payment schedule shown by the black line.

■ Total UAL Payment ● New UAL Payment

Y-axis: (In millions) — $0, $20, $40, $60, $80, $100, $120, $140, $160

X-axis: Valuation Year — 2022, 2024, 2026, 2028, 2030, 2032, 2034, 2036, 2038, 2040, 2042

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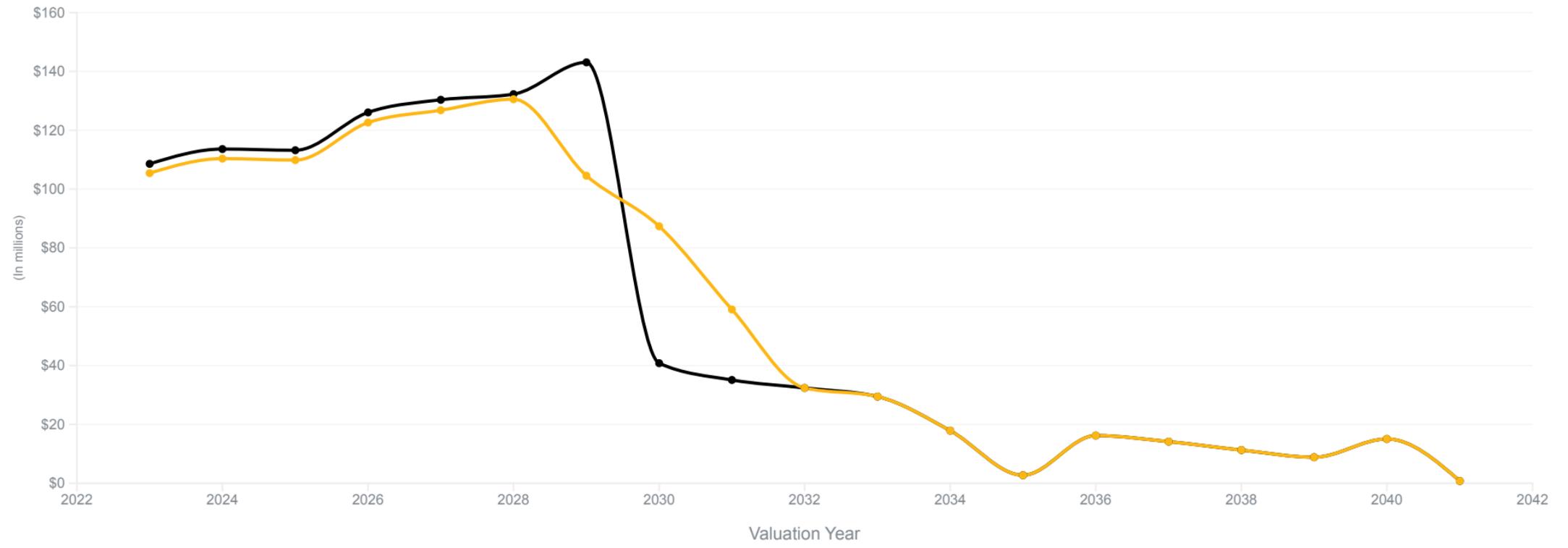
The remaining UAL balances are very similar under both amortization schedules with the adjusted amortization having a slightly higher remaining balance until 2032.

Legend: Remaining UAL Balance, New Remaining UAL Balance

Y-axis: (In millions) — $0, $100, $200, $300, $400, $500, $600, $700

X-axis: Valuation Year — 2022, 2024, 2026, 2028, 2030, 2032, 2034, 2036, 2038, 2040, 2042

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The adjusted amortization smooths out the contribution cliff with slightly lower contributions for the next six years, a more significant drop in 2029, and continued reductions in 2030 and 2031. The contribution level is still well above the tread water line.

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Finally, the comparison of the projected funded ratios under both scenarios.

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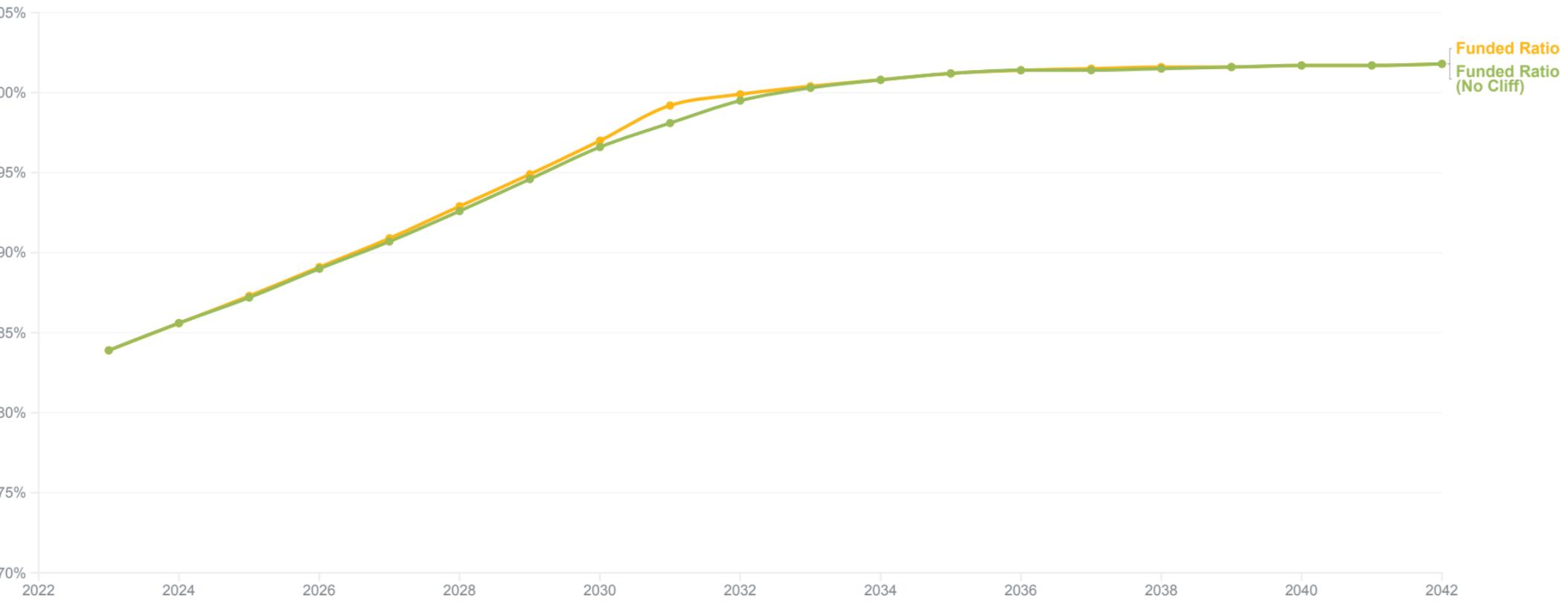
Certification

The purpose of this presentation is to educate the SBCERS Board on funding policy alternatives.

In preparing our presentation, we relied on information (some oral and some written) supplied by SBCERS. This information includes, but is not limited to, the Plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. The data and actuarial assumptions used (unless modified within this communication) will be described in our June 30, 2023 actuarial valuation report.

Future projections may differ significantly from the projections presented in this presentation due to such factors as the following: plan experience different from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

Projections in this presentation were developed using R-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the Plan. R-scan uses standard roll-forward techniques that implicitly assume a stable active population. Because R-scan does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.

To the best of our knowledge, this presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This presentation was prepared for the SBCERS Retirement Board for the purposes described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

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