Actuarial Standards of Practice No. 4 Revisions

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Background

- ASOP No. 4: Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
  - Last revised December 2013
  - Pension Task Force Report and 3 Exposure Drafts
  - Final version issued December 2022
  - Revisions effective February 15, 2023
- Key Changes Impacting Public Plans
  - Disclose a Reasonable Actuarially Determined Contribution (ADC)
  - Assess Implications of Funding Policy
  - Disclose a Low-Default-Risk Obligation Measure (LDROM)

Disclose a Reasonable ADC

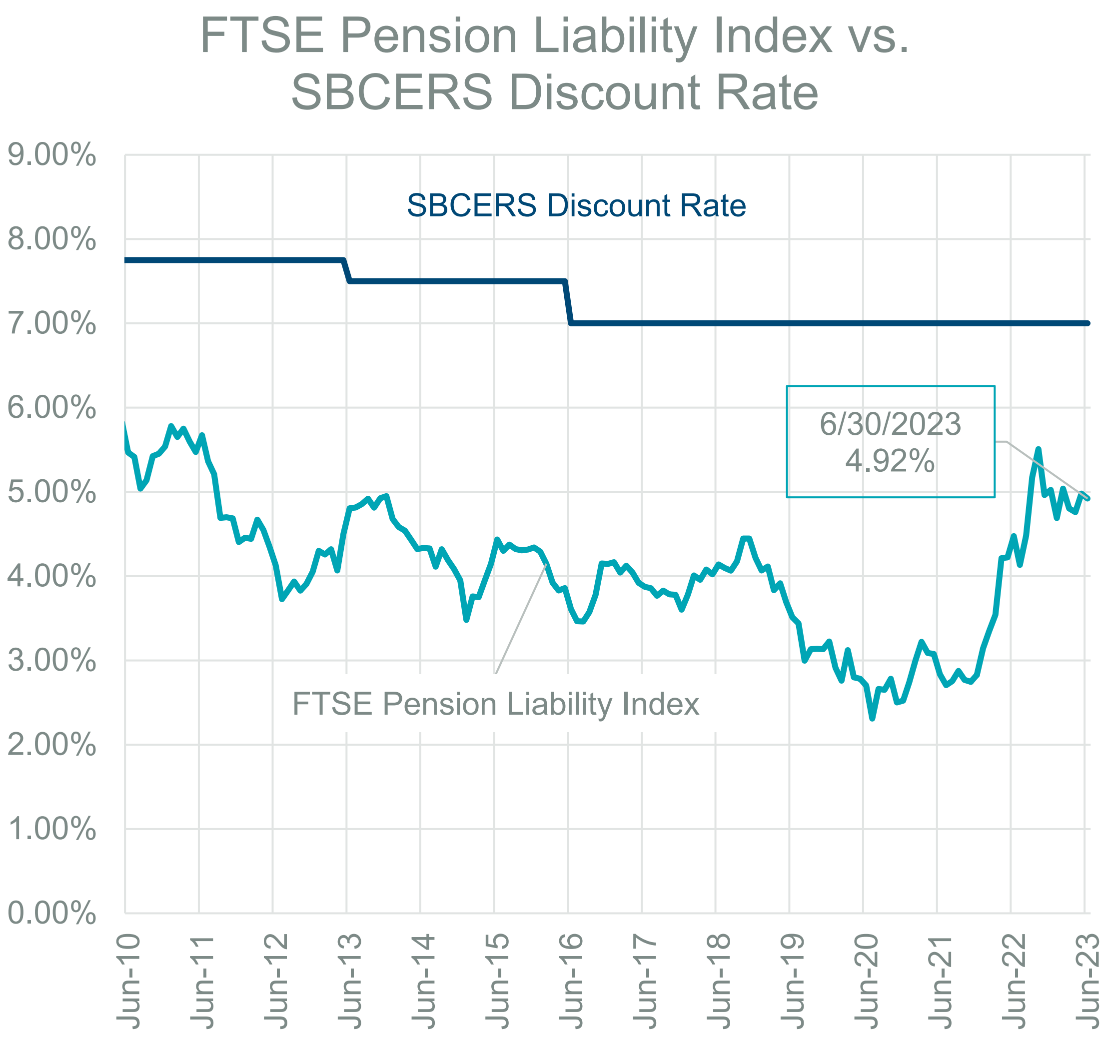
- Prior to revision, the standards did not define what would make an Actuarially Determined Contribution (ADC) “reasonable”
  - California Actuarial Advisory Panel provided guidance
  - CCA “White Paper” provided similar guidance
- Reasonable ADC
  - Reasonable assumptions
  - Actuarial cost method, asset smoothing, amortization and other methods consistent with guidance (some new) in ASOP 4
- SBCERS’s funding policy is consistent with the guidance, so no impact to SBCERS
  - In particular, phase-in/phase-out of amortization layers ok, since expected to “fully amortize the unfunded actuarial accrued liability within a reasonable time period”

Assess Implications of Funding Policy

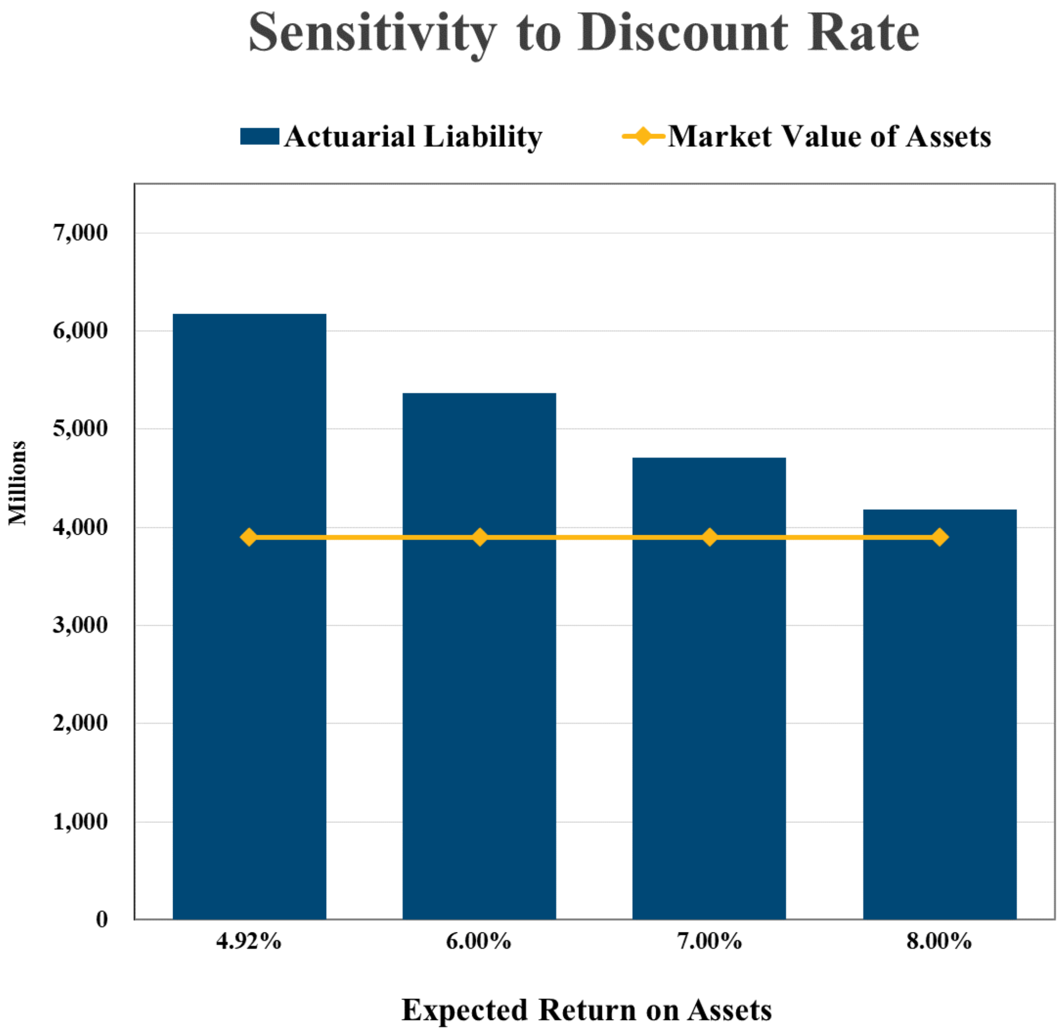
- Qualitatively assess implications on plan's expected future contributions and funded status
- Estimate how long before contributions exceed normal cost, plus interest on UAAL
  - SBCERS may occasionally need to make this disclosure, depending on pattern of gains and losses and assumption changes
  - Any shortfall would be temporary
- Estimate period until UAAL is fully amortized
  - This will be no longer than the longest remaining amortization period on a loss (19 years as of 6/30/2022)
  - For SBCERS, the period is significantly shorter (10 years as of the prior valuation)
- Assess whether funding policy is significantly inconsistent with plan accumulating assets adequate to pay benefits when due, and estimate time until assets are depleted
  - Not an issue for SBCERS (or generally any plan that contributes a reasonable ADC)

Low-Default-Risk Obligation Measure (LDROM)

- Discount rate derived from:
  - Low-default-risk fixed income securities
  - Cash flows reasonably consistent with pattern of benefits
- For SBCERS, we expect to use:
  - FTSE Pension Liability Index
    - Based on high quality corporate bond yields, which are listed as an example in ASOP 4
    - Other examples provided include Treasury yields, municipal bond index
  - The Plan's actuarial cost method (Entry Age)

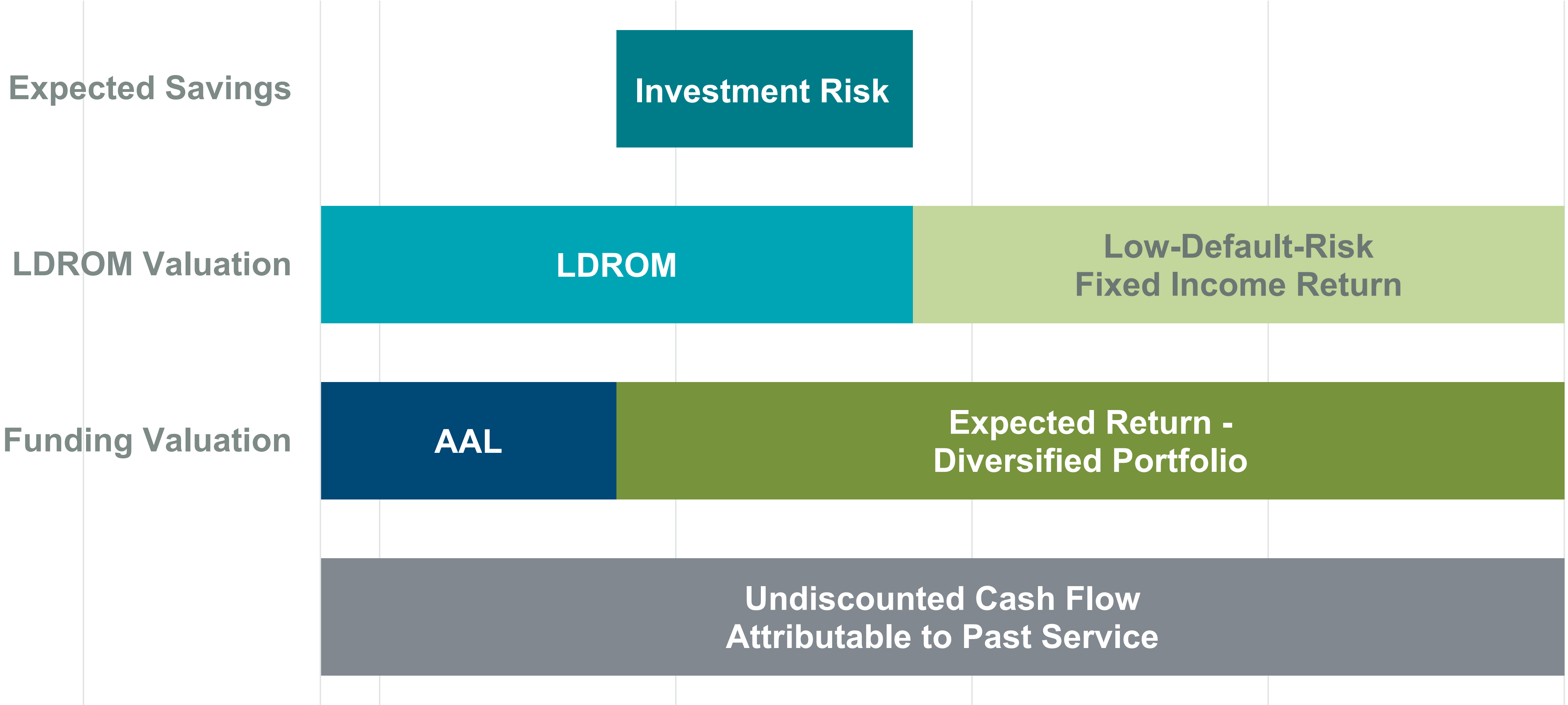


Communicating the LDROM



- LDROM represents
  - Actuarial Liability if SBCERS invested in a high-quality corporate bond portfolio
  - This is the lowest risk option
  - Could also be used as an employer termination/withdrawal liability
- Difference between LDROM and Actuarial Liability represents
  - **Expected** savings from investing in the SBCERS portfolio
  - Cost of minimizing the investment risk from the SBCERS portfolio
- Sample exhibit shows results as if determined June 30, 2022

Communicating the LDROM



Significance of LDROM

- Required to explain the significance of LDROM with respect to:
  - Funded status
  - Contributions
  - Security of benefits
- Professional judgement to determine appropriate commentary

Significance of LDROM

- Benefit security depends on:
  - Assets in trust
  - Investment returns on those assets
  - Ability of plan sponsors to make any contributions needed in the future
- If SBCERS invested in the LDROM portfolio:
  - Asset level would not change, but expected investment returns would be lower
    - Reported funded status would be lower
  - Future expected contributions would be higher, but would not be subject to investment risk
  - Benefit security would not depend on future investment returns, but there may be greater reliance on future contributions from plan sponsors

Required Disclosures

The purpose of this presentation is to show information related to Actuarial Standards of Practice for the Santa Barbara County Employees' Retirement System (SBCERS). This presentation was prepared exclusively for the SBCERS Board for the purpose 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.

In preparing this 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 actuarial assumptions, data, and methods are those were used in the actuarial valuation report as of June 30, 2022.

Cheiron utilizes ProVal, an actuarial valuation application 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.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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.

Future results may differ significantly from the current results and projections shown 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 the plan provisions or applicable law.

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