



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 7

MEETING DATE: February 21, 2018

SUBJECT: Affirmation of Existing SCERS Policies

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Staff recommends the Board affirm the four policies accompanying this item in the new SCERS policy format.

PURPOSE

To collect, reformat, affirm, and organize all Board policies in one central location to ensure proper administration of all SCERS Board policies.

DISCUSSION

The policy formatting and affirmation project continues with four more policies for the Board's affirmation in the SCERS policy format. The Attachments to this agenda item summarize the revisions to each of the policies.

A policy represents the general principles by which an entity is guided in the management of its affairs. The policies adopted by the Board provide guidance and direction for the management of the system and govern day-to-day activities.

The policies included in this agenda item all represent a longstanding policy that is being reformatted into the new standard SCERS policy format. Several Attachments accompany this memorandum to assist the Board. The first is a brief summary of the policy transition. The next four provide copies of the policies in the new standard SCERS policy format and in their current format. These are provided so the Board can confirm that the changes being made are predominantly format changes.

BACKGROUND

Over the past couple of years, Staff has been collecting Board and Staff policies to create a library of all policies that govern SCERS' strategic, legal, administrative, and operational activities.

As part of this current policy project, Staff determined the universe of existing Board policies (approximately 40), researched archive Board materials to identify the policy history for Board adoption and subsequent revision, classified the policies by category, and identified the SCERS executive responsible for overseeing each policy's application.

To date, the Board has affirmed its policies in the new SCERS policy format as follows:

- Seven policies at the December 2017 meeting
- Five policies at the January 2018 meeting

ATTACHMENTS

1. Summary of Policy Changes
2. Statement of Actuarial Funding Policy
3. Interest Crediting and Unallocated Earnings Policy
4. Privacy and Confidentiality Policy
5. Conflict of Interest Code

Prepared by:

/S/

Annette St. Urbain
Assistant Retirement Administrator

/S/

Robert Gaumer
General Counsel

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

ATTACHMENT 1

Statement of Actuarial Funding Policy

The Board's actuaries at Segal prepared and presented a proposed Statement of Actuarial Funding Policy to the Board on June 19, 2013, which the Board approved. The policy as submitted for affirmation in the revised policy format clarifies the amortization policy the Board adopted in 2013 from among the options presented by Segal at that time, and makes a few other technical corrections. Staff has formatted the Statement of Funding Policy prepared by Segal into the new SCERS policy format, which Segal has reviewed.

Staff requests the Board affirm the reformatted policy.

Interest Crediting and Unallocated Earnings Policy

The Interest Crediting and Unallocated Earnings Policy was adopted by the Board on September 21, 2006. Though the policy language has not been amended since its adoption, staff has periodically updated the percentage for the Board's annual investment return assumption for the plan as stated throughout the policy when the Board has changed that assumption over the years.

The policy as submitted for affirmation in the revised policy format includes minor revisions to label and reorganize the policy paragraphs and eliminate stating SCERS' specific annual investment return assumption percentage throughout the policy. The revisions also clarify that, if needed to achieve target interest crediting and available, amounts in the Contingency Reserve will be used to estimate interest credits as presented by staff to the Board for approval, rather than seeking direction from the Board to draw on the Contingency Reserve to credit interest at the full target crediting rate. Any available unallocated earnings after interest crediting will continue to be applied equally to addressing losses from prior periods and establishing target Contingency Reserve levels.

The Board retains the discretion and right to deviate from or alter the policy or procedure if it determines such action is reasonable, appropriate, and prudent in fulfilling its fiduciary duty to ensure the sound funding of the retirement system.

Staff requests the Board affirm the amended and reformatted policy.

Privacy and Confidentiality Policy

The Privacy and Confidentiality Policy with all three forms of the Confidentiality Agreement (trustees, staff, and vendors) were adopted on July 16, 2009. Since then, the only change has been to update the policy and forms with SCERS' current logo.

The policy as submitted for affirmation in the revised policy format includes minor revisions to clarify who must complete a Confidentiality Agreement: All Board members, all SCERS employees, and all other persons associated with SCERS who in the course of that association will or may encounter confidential information (as defined in the policy). The only other change was to consolidate the existing three forms of Confidentiality Agreement into one form with three alternate signature blocks.

Staff requests the Board affirm the reformatted policy.

Conflict of Interest Code

The Board has amended its Conflict of Interest Code (COIC) over the years, usually to update the list of Designated Positions subject to the Code, as was the case with the latest COIC amendment on August 17, 2016.

Staff proposes the Board amend its COIC to update the Designated Positions (Appendix A) to:

- List both the functional job titles and job classifications (if different) for designated positions;
- Add the Senior Information Technology Analyst position;
- Move the Deputy Chief Investment Officer and Investment Officer positions to the list of code filers (public officials who manage public investments and are required to file Statements of Economic Interests under Government Code Section 87200; and
- Specify that SCERS' consultants are only subject to the COIC if so designated by the CEO depending on the type or range of duties the consultant performs.

The amendments also add Appendix C entitled "Agency Positions that Manage Public Investments for Purposes of Section 87200 of the Government Code" as required by Government Code Section 87314, which will be posted on SCERS website as required as soon as the amended COIC is effective.

Staff requests the Board adopt Resolution 2018-02 to replace the current COIC with the amended and restated COIC, which will be effective upon approval by the Sacramento County Board of Supervisors in its capacity as the code reviewing body.

ATTACHMENT 2

STATEMENT OF ACTUARIAL FUNDING POLICY

DOCUMENTS:

1 - POLICY PRESENTED IN REVISED POLICY FORMAT

For affirmation by the Board on February 21, 2018

2 - POLICY AS ADOPTED BY THE BOARD

June 13, 2013 letter from Segal with proposed significant provisions for a Statement of Actuarial Funding Policy provided as Attachment #3 to the letter (Approved 6-0 at the 6/19/2013 Board Meeting)

February 14, 2018 letter from Segal summarizing the minor policy changes since June 2013



STATEMENT OF ACTUARIAL FUNDING POLICY

Revision Date: February 21, 2018

Policy Number: 001

Revision Number: 1

PURPOSE

The purpose of this Statement of Actuarial Funding Policy is to record the funding objectives and policies set by the Board of Retirement (Board) for the Sacramento County Employees' Retirement System (SCERS). The Board establishes this Statement of Actuarial Funding Policy to help ensure future benefit payments for members of SCERS. In addition, this document records certain policy guidelines established by the Board to assist in administering SCERS in a consistent and efficient manner.

POLICY OBJECTIVES

- To achieve long-term full funding of the cost of benefits provided by SCERS;
- To seek reasonable and equitable allocation of the cost of benefits over time; and,
- To minimize volatility of the plan sponsors' contribution to the extent reasonably possible, consistent with other policy goals.

FUNDING REQUIREMENTS AND POLICY COMPONENTS

SCERS' annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

- Actuarial Cost Method - The techniques to allocate the cost/liability of retirement benefit to a given period;
- Asset Smoothing Method - The techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- Amortization Policy - The decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

POLICY

A. Actuarial Cost Method

The Entry Age method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability.

B. Asset Smoothing Method

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Market Value of Assets, shall be recognized in a level amount over 7 years in calculating the Actuarial Value of Assets. Net deferred investment gains or losses cannot exceed 30% of the Market Value of Assets.

The Board reserves the right to consider future ad-hoc adjustments to change the pattern of the recognition of the deferred investment gains or losses after a period of significant market change followed by a period of market correction upon receiving the necessary analysis from its actuary.

C. Amortization Policy

1. With the exception of a 10-year period used in the June 30, 2010 valuation to amortize the liability for employees who participated in the 2010 Early Retirement Incentive Program (ERIP) for the Sacramento County Law Enforcement Managers Association (LEMA), the UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2012 shall be amortized over a period of 23 years.
2. Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years.
3. Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years.
4. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
 - a. With the exception noted in “b” below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;
 - b. The increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Government Code Section 31641.04, will be funded over a period of 5 years.
5. UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.

6. UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.
7. If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus and the amount of such surplus is in excess of 20% of the actuarial accrued liability per Government Code Section 7522.52), such actuarial surplus and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

OTHER POLICY CONSIDERATIONS

A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In order to allow the employer to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of SCERS' UAAL in the following valuation.

Any change in contribution rate requirement that results from plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

B. Phase-in of Increase in Employer's Contribution Rate

From time to time, the Board has considered phasing in extraordinary changes in employer contribution rates. The Board reserves the right to exercise such discretion based on facts and circumstances and after receiving input from its actuary.

C. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.

Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board's best estimate of anticipated experience under SCERS and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

DEFINITIONS

Actuarial Funding Method – A technique to allocate present value of projected benefits among past and future periods of service.

Actuarial Accrued Liability – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.

Normal Cost – The portion of the present value of projected benefits that is attributed to current service by the actuarial funding method.

Entry Age Actuarial Cost Method – A funding method that calculates SCERS' Normal Cost as a level percentage of pay over the working lifetime of the plan's members.

Actuarial Value of Assets – The market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

Valuation Value of Assets – The value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

Unfunded Actuarial Accrued Liability – The portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Actuarial Accrued Liability from the Valuation Value of Assets.

Valuation Date – June 30 of every year.

BACKGROUND

A comprehensive discussion of the proposed funding policy approved by the Board in 2013 is presented in a letter from Segal Consulting dated June 13, 2013. Prior to the 2013 funding policy, the Board last reviewed and changed the Asset Smoothing Method in 2009 from a 5-year smoothing period to a 7-year smoothing period. SCERS' prior funding policy is as reflected in SCERS' annual actuarial valuation reports.

RESPONSIBILITIES

Executive Owner: Chief Executive Officer

Review Frequency: As the Board determines necessary and/or as recommended by the Board's Consulting Actuary

POLICY HISTORY

This Statement of Actuarial Funding Policy was prepared by the Board's actuaries at Segal Consulting and supersedes any previous statements. It is a working document and may be modified as the Board deems necessary.

Date	Description
02-21-2018	<i>Board to affirm in revised policy format</i>
06-19-2013	Board approved policy



THE SEGAL COMPANY

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308

T 415.263.8200 F 415.263.8290 www.segalco.com

VIA E-MAIL AND USPS

June 13, 2013

Mr. Richard Stensrud
Chief Executive Officer
Sacramento County Employees' Retirement System
908 9th Street, Suite 1900
Sacramento, CA 95814-2738

**Re: Sacramento County Employees Retirement System
Proposed Significant Provisions for a Statement of Actuarial Funding Policy**

Dear Richard:

As we discussed, we have updated our previous discussion letter dated April 16, 2012 on our review of the actuarial funding policy to include new developments brought about by the adoption of two new accounting statements by the Governmental Accounting Standards Board (GASB) and the publishing of actuarial funding policy guidelines by the California Actuarial Advisory Panel (CAAP).

We have prepared this discussion of the significant provisions that would comprise a statement of actuarial funding policy for SCERS. This review incorporates SCERS' current funding policy elements and reviews those policies in light of emerging model actuarial practice in this area. In particular, we have included some alternative policy choices for the amortization component of the funding policy that may be considered by the Board for future actuarial valuations. We also recommend a modification to the Entry Age Normal method currently used for funding and for financial reporting purposes so that the same Normal Cost can continue to be used for both purposes under the recently adopted GASB Statements 67 and 68 for accounting and financial reporting.



Another consideration in undertaking this funding policy review is that under GASB Statements 67 and 68, accounting and reporting requirements for governmental pension plans and their sponsors¹, a retirement system is required to identify the “actuarially determined (employer) contributions” determined using the funding policy adopted by the governing body. One of the by-products of this review is that SCERS will have a readily accessible comprehensive statement of funding policy to use in meeting this new GASB requirement.

GENERAL FUNDING POLICY GOALS

This report starts with a general discussion of pension plan funding policy followed by detailed discussion of specific policy components along with various policy recommendations. This discussion is based on the following high level policy goals:

1. Future contributions and current plan assets should be sufficient to provide for all benefits expected to be paid to current active, inactive and retired members. This means that contributions should include the cost of current service plus a series of payments to fully fund (or recognize) any unfunded (or prefunded) past service costs.
2. The funding policy should seek a reasonable allocation of the cost of benefits to the years of service and the funding of such cost by the employer. This includes the goal that annual contributions should, at a minimum, maintain a close relationship to the cost of each year of service, and that the current service cost should bear a stable relationship to compensation.
3. The funding policy should seek to manage and control future employer contribution volatility to the extent reasonably possible, consistent with other policy goals.
4. The funding policy should support the general public policy goals of accountability and transparency. While these terms can be difficult to define in general, here the meaning includes that the funding policy should be clear both as to intent and effect, and that it should allow an assessment of whether, how and when the plan sponsor will meet the funding requirements of the plan.

Policy objectives 2 and 3 reflect two aspects of the general policy objective of “interperiod equity” (IPE). The “demographic matching” goal of policy objective 2 promotes *intergenerational* IPE, which seeks to have each generation of taxpayers incur the cost of benefits for the employees who provide services to those taxpayers, rather than deferring those costs to future taxpayers. The “volatility management” goal of policy objective 3 promotes *period-to-period* IPE, which seeks to have the cost incurred by taxpayers in any period compare equitably to the cost for just before and after.

¹ Statement 67 replaces Statement 25 for use in reporting by the pension plan and Statement 68 replaces Statement 27 for use in reporting by the plan sponsor. In the case of SCERS, these new Statements will be effective for plan year 2013/2014 for the Retirement System and fiscal year 2014/2015 for the employer.

GENERAL DISCUSSION OF PENSION PLAN FUNDING POLICIES

A pension plan funding policy is designed to determine how much should be contributed each year in total by the employer and the active members to provide for the secure funding of benefits in a systematic fashion. The funding policy starts with an actuarial cost method that allocates a portion of the total present value of the members' benefits to each year of service. In theory, contributing that "Normal Cost" for each year of service will be sufficient to fund all plan benefits, assuming that all actuarial assumptions are met including the assumed rate of investment return. In that ideal situation, plan assets will always be exactly equal to the value today of all the past Normal Costs less benefit payments (the Actuarial Accrued Liability or AAL), and the current contribution will be only the current Normal Cost.

In practice, for a variety of reasons, the assets will be greater than or less than the AAL, leaving the plan overfunded (i.e., with a surplus) or underfunded (i.e., with an Unfunded Actuarial Accrued Liability or UAAL). The funding policy adjusts contributions to reflect any surplus or UAAL in a way that reduces short term, year-by-year volatility, but still assures that future contributions, together with current assets, will be enough to provide all future benefits.

A comprehensive funding policy is generally made up of three components:

1. An **actuarial cost method**, which allocates the total present value of future benefits to each year (Normal Cost) including all past years (AAL).
2. An **asset smoothing method**, which reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets.
3. An **amortization policy**, which determines the length of time and the structure of the payments for the contributions required to systematically pay off the plan's UAAL.

Each of these policy components is currently in effect for SCERS. We recommend that the Board consider a possible modification to the current Entry Age Normal actuarial cost method. We are not recommending any change to the asset smoothing method that was reviewed by the Board in 2009. We recommend that the Board consider a revision to the current "single layer" amortization policy. Accordingly, the next sections briefly review all three major policy components, with more detailed discussion of the cost methods and the amortization policy.

ACTUARIAL COST METHOD

The ultimate cost (ignoring expenses) for the plan is determined by the actual benefits paid from the plan, offset by actual investment income. Each year, an actuarial valuation is completed to develop the next year's annual contribution for the pension plan. The valuation uses a funding method to allocate the ultimate expected costs for active members to each year of service, and thus among past service, current service, and future service. The cost attributed to the current year of service is the plan's Normal Cost. The accumulated cost attributed to past service is the plan's AAL. The plan's annual contribution is the Normal Cost, plus an amount to fund or "amortize" the plan's UAAL.

Currently, the plan is funded using the Entry Age Normal method. This method is considered a reasonable funding method under the Actuarial Standards of Practice and is the only acceptable funding method under the recently adopted Statements 67 and 68 accounting standards promulgated by GASB. This method produces individual Normal Costs that are determined as a level percentage of covered payroll over each member's career. The AAL is calculated on an individual basis and is based on each individual's past Normal Costs, allocated as a level percent of compensation. Recent guidance from both GASB and the California Actuarial Advisory Panel refer to this method as the Entry Age actuarial cost method. We will use that newer terminology throughout this discussion.

In current practice there are some variations in the details of how the Entry Age method is applied. For SCERS, the AAL for each of the Miscellaneous and Safety membership groups (or tiers) is calculated by summing up the individual AAL for each member covered in that group. However, the Normal Cost for each of the Miscellaneous and Safety membership groups is calculated on an aggregate basis by taking the Present Value of Future Normal Costs for all employees divided by the Present Value of Future Salaries for all employees to obtain an aggregate Normal Cost rate for all employees covered in that membership group.

While the current practice of calculating Normal Cost using an aggregate approach will continue to be permitted under the Actuarial Standards of Practice for funding purposes, that approach will no longer be allowed for financial reporting purposes under the recently adopted GASB accounting disclosure requirements. Under those requirements, the Normal cost for each membership group has to be calculated by summing up the next year's individual Normal Costs for each member covered in that membership group.

Even though the adopted accounting disclosure requirements will require other major changes such as more rapid recognition for investment gains/losses and much shorter amortization for actuarial gains/losses, we believe it will still be desirable to consider changing the current practice so that the same Normal Cost can continue to be used for both financial disclosure purposes and for funding purposes². Furthermore and perhaps more importantly, we believe that the more individually based version of the Entry Age method is more consistent with the fact that, even under the aggregate version of Entry Age, the Normal Costs are first determined on an individual basis. It is also the method more commonly used by public plans in the U.S. , as well as the model practice in the CAAP funding policy guidelines.

For this reason, we recommend that for funding purposes the Board continue the current Entry Age actuarial cost method but adopt the modification as described above to calculate the Normal Cost on an individual basis.

² Because of the more rapid recognition of those changes, retirement systems that have generally utilized the previous Statements (25 and 27) to establish the employer's contribution amounts for both funding and financial reporting requirements would have to prepare two sets of cost results, one for contributions and one for the financial reporting requirements under the new Statements.

ASSET SMOOTHING METHOD

In 2009, the Board decided to extend the smoothing period used to recognize investment gains or losses from 5 years to 7 years for investment gains or losses incurred on or after July 1, 2008. In addition, effective with the calculation of Actuarial Value of Assets (AVA) as of June 30, 2009, the Board decided to expand the Market Value (MVA) Corridor so that the AVA would be allowed to vary within a range from 70% to 130% of the MVA, rather than the previous policy range of 80% to 120% of the MVA.

Those decisions were made after detailed discussions of the impact of different smoothing periods and MVA corridors in developing the AVA, as detailed in our formal reports dated April 30, 2009 and September 9, 2009 as well as subsequent presentations. Those decisions were based in part on the fact that the 7-year asset smoothing period currently used by the Board is acceptable within the Actuarial Standards of Practice and is used by some other public plans. For those reasons, we believe it is reasonable for the Board to continue the asset smoothing policy adopted in 2009.

One historical observation that was borne out by the recession of 2009 and subsequent recovery is that a period of significant market change may be followed by a period of market correction. Depending on the magnitude of the market change and subsequent market correction, it may be advisable to perform an ad-hoc adjustment to change the pattern of the recognition of the deferred investment gains or losses. We would recommend to the Board that the Statement of Funding Policy reserve to the Board the right to consider such future adjustments upon receiving the necessary analysis from its actuary. The funding policy could also describe in general terms the conditions that would typically lead to such an ad-hoc adjustment.

AMORTIZATION POLICY

General Discussions

With the exception that UAAL has to be amortized over a period not to exceed 30 years under Section 31453.5 of the 1937 CERL³, governmental or public defined benefit plans, like SCERS, are not subject to specific external funding or funding policy requirements such as those established for single employer (corporate) and multiemployer (Taft-Hartley) defined benefit pension plans under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC). The prior accounting standards promulgated by GASB under GASB Statements 25 and 27 define an Annual Required Contribution (ARC) that, despite its name, is actually the amount of expense that the employer must recognize each year. Also, the prior GASB accounting standards provide considerable policy latitude when determining the

³ Note that Section 7522.52 was recently enacted as part of the California Public Employees' Pension Reform Act (CalPEPRA) of 2013. Under that Section of the Act, a public pension plan has to have at least a 120% funded ratio, and meet other conditions, before any negative UAAL (or surplus) may be amortized and used to reduce the Normal Cost of the plan.

ARC⁴.

Even though this leaves governmental or public plans relatively free to set funding policy, it is worth noting that all long term funding policy structures – corporate, multiemployer and GASB – take the same form, at least for underfunded plans (plans with a UAAL):

1. Contribute the Normal Cost for the year, and
2. Contribute an additional amount that will fully fund (“amortize”) any UAAL over a period of years.

Implicit in this form of policy is a *funding target of 100 percent*, since at the end of the amortization period the plan will be fully funded. This is in contrast to “corridor” or “collar” methods that allow contributions equal to only the Normal Cost as long as the plan is within, for example, 10 percent of being fully funded. The funding policy presented in this discussion is based on the UAAL amortization method because it targets 100 percent funding of the AAL, and accordingly is well established for all types of pension plans.

For SCERS, with the exception of a 10-year period used in the June 30, 2010 valuation to amortize the UAAL for employees who participated in the 2010 Early Retirement Incentive Program (ERIP) for the Sacramento County Law Enforcement Managers Association (LEMA), the entire UAAL is amortized over a single “fixed” period that reduces by one year with each actuarial valuation. That single period was reset to 25 years as of the June 30, 2010 valuation, and so was down to 23 years as of the June 30, 2012 actuarial valuation.

A general review of the UAAL amortization policy would include both the amortization periods and the structure of the amortization payments. A detailed discussion of the selection of the UAAL amortization period and structure is presented in the following sections. For now, we note only a distinction between the amortization of UAAL and the amortization of surplus.

For plans with a UAAL, longer amortization periods result in lower current contributions and a longer period before the contribution reverts to the Normal Cost. Longer periods also produce lower contribution volatility. In contrast, shorter amortization periods get to full funding more rapidly but at the price of higher current contributions and higher contribution volatility.

That leaves the question of funding policy for overfunded plans, those that have a surplus instead of a UAAL. The policy structure used by most public plans when determining contribution amounts when there is a surplus is that the surplus is amortized the same way as a UAAL, except that instead of producing an amortization *charge*, there is an amortization *credit*.

⁴ As previously discussed, GASB has recently adopted Statements 67 and 68 that replace Statements 25 and 27 for accounting and financial reporting standards for governmental pension plans. The new Statements completely eliminate the linkage between actuarial funding and financial reporting found in the prior Statements. In this discussion, unless noted otherwise, all references to GASB standards relate to the prior standards, which were viewed as an authoritative guide to the range and limits of current funding policy practices used by most public plans before GASB adopted the new reporting standards.

This means that the contribution amount is the Normal Cost *minus* an amount that will in effect spend down the surplus over the amortization period.

Unlike for UAAL, longer amortization periods now result in a lower amortization credit, and so produce a higher current contribution (but still less than the Normal Cost). Shorter amortization periods for surplus take credit for the surplus more quickly. This produces a lower current contribution, but it also means a shorter period before the contribution reverts up to the full Normal Cost.

While this policy structure still reflects a funding target of 100 percent, amortizing surplus results in an annual contribution that is less than the Normal Cost. This can lead to a full or partial “contribution holiday” where contributions are less than the regular, ongoing cost of current service, especially if the surplus amortization period is relatively short. Recent history has led to a reevaluation of this condition for public pension plans. This subject is discussed in more detail below, in the section on “Amortization of Surplus.”

Selection of Amortization Structure and Methods

Setting an amortization policy involves a few policy decisions and considerations in addition to selecting the amortization periods. Here is a brief description of those issues, followed by a detailed discussion of amortization periods. That discussion includes the current SCERS UAAL amortization policy elements and some alternatives that we recommend for consideration by the Board.

- Single amortization layer for the entire UAAL or surplus, or separate amortization layers for each source of UAAL or surplus.
- Closed (fixed) period amortization or open (rolling) period amortization.
- Level dollar or level percent of pay amortization payments.
- For separate amortization layers, when is it appropriate to “restart” or otherwise combine the amortization layers.

As stated previously, with the exception of a 10-year period used in the June 30, 2010 valuation to amortize the UAAL for the LEMA ERIP, the current amortization policy for SCERS is to use a single layer closed period amortization for all sources of UAAL. Under that approach, the entire UAAL is amortized over a single layer fixed amortization period. That period was reset to 25 years for the June 30, 2010 valuation, with 23 years remaining as of the June 30, 2012 valuation. As discussed below, this single layer approach does not provide information as to when each new separate portion of underfunding originated and how much of each such original amount of UAAL remains unamortized. It also lacks the flexibility to allow underfunding from different sources to be amortized over different periods of time. Finally, this policy needs to be reset periodically when the single, fixed remaining amortization period becomes too short to be practical.

As further discussed below, all of those shortcomings can be addressed by using a multiple layers approach to amortizing the UAAL. We note that this is the structure required by the

ERISA/IRC rules for corporate and multiemployer plans, and is increasingly common for public pension plans, especially in California. It is also the model practice in the CAAP funding policy guidelines.

Single vs. Multiple Amortization Layers and Fixed vs. Rolling Amortization Periods

Historically many public pension systems amortized their UAAL as a single amount. Because new amounts of UAAL arise each year (due to gains and losses, assumption changes and plan amendments) this requires a policy choice as to how to determine the remaining amortization period each year.

A “closed” or fixed period works like a home mortgage and so gets shorter each year. However, unlike a home mortgage, for a pension plan this eventually leads to an unstable situation where each year’s gain or loss (or other UAAL changes) is amortized over a shorter and shorter period. Eventually the policy needs to be amended to restart the amortization period at something like its original period.

To avoid this need to periodically revisit the policy, some systems use an “open” or rolling amortization period. This is analogous to refinancing your home mortgage each year, but including any new UAALs arising each year. While this is a stable policy, it also means that there is no date by which the UAAL is fully amortized, which raises questions of accountability and intergenerational equity.

To address both the stability and the accountability issues, many public systems have adopted the “layered” approach used by all corporate and multiemployer pension plans. Here each new amount of UAAL is amortized over a separate, fixed period. This approach also has the advantage of identifying the source of each dollar of current UAAL, as well as when each portion of UAAL will be fully amortized.

Segal recommends that SCERS continue to amortize its current UAAL of \$1,308.3 million as of June 30, 2012 in a substantially single layer over its current fixed period of 23 years. We also recommend that any new, future increases or decreases in UAAL be amortized over separate, multiple layers each with its own fixed amortization periods, as further discussed below.

Under this recommended approach, there will be a series of these layers, one for the original UAAL from the June 30, 2012 valuation and one from each year’s gain or loss as well as from any other changes in the UAAL. This is a perfectly manageable procedure and in fact provides a history of sources of the plan’s UAAL in any year. Also note that in practice the number of layers will be limited by the length of the amortization period as eventually layers are fully amortized, and so are no longer part of the series of layers. As described above, the layered approach provides reassurance that any past UAAL will be paid off at a specific time. It also shows when and how each new separate portion of underfunding originated and how much of each such original amount of UAAL remains to be amortized. It also allows for flexibility to allow underfunding from different sources to be amortized over different periods of time.

Level Dollar vs. Level Percent of Pay Amortization

The amortization payments may be patterned in one of two ways, as a level dollar amount or as a level percentage of pay. The ERISA/IRC rules for corporate and multiemployer plans require level dollar amortization, similar to a typical home mortgage. However, by far most public plans use level percent of pay amortization where the payments increase each year in proportion to the assumed payroll growth for the entire active workforce. That means they start lower than the corresponding level dollar payments, but then increase until they are higher. The level dollar method is more conservative in that it funds the UAAL faster in the early years. For the same reason, it also incurs less interest cost over the amortization period.

The current SCERS policy uses level percent of pay amortization. The justification for using level percent of pay payments is that it is consistent with the Normal Cost (which for pay related plans like SCERS is almost always determined as a percentage of pay) and that it provides a total cost that remains level as a percentage of pay. In contrast, level dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. Note that both these results depend on actual payroll growth meeting the assumed payroll growth assumptions.

We recommend no change to SCERS' current use of level percent of pay amortization.

Negative Amortization

Another important aspect of level percent of pay amortization is that, unlike a level dollar amortization, under level percent of pay amortization the UAAL may increase during the early years of the amortization period even though contributions are being made to amortize the UAAL. This happens because with level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plan assumptions, this happens whenever the amortization period is longer than about 18 to 20 years. This means that the outstanding balance of the UAAL does not decrease until there are fewer than 18 to 20 years in the amortization period. It also means that the outstanding balance will not fall below the original amount until some years after that time.

A comparison of the contributions under different periods using level percent of payroll amortization is provided in Attachment 1. Attachment 2 shows the resulting UAAL balances for a sample starting UAAL layer of \$1 million under various level percent of pay amortization periods. While there is nothing inherently wrong with negative amortization, the Board should be aware of its consequences, especially for amortization periods substantially longer than 20 years.

When is it Appropriate to “Restart” the Amortization Layers?

Under the recommended amortization policy, there may be conditions where the Board would want to consider action whereby all the amortization layers are wiped out (“considered fully amortized”) and the series is restarted. For example, this would very likely be appropriate when

the plan goes from surplus to UAAL or from UAAL to surplus. This would be done to avoid possible anomalies that can arise from using layered amortization.

In particular, under the layered approach, it is possible for a plan with a UAAL to, nevertheless, have a net amortization credit in the current year. While that result is actuarially consistent, it is also very counterintuitive, since a UAAL would seem to require a net amortization charge. In this situation, the Board may want to consider combining all the UAAL layers and restarting the amortization.

The above is only one example of when the amortization layers might be restarted or combined. Another is when there are alternating years of gains and losses of relatively equal size. To address these situations as part of its funding policy, the Board should reserve the right to restart or otherwise combine the amortization layers whenever appropriate circumstances arise. In particular, as discussed above, we recommend that all amortization layers be restarted whenever the plan switches from an underfunded position to surplus or vice versa.

Amortization Periods

The UAAL amortization periods for public plans typically range from 15 to 30 years, with 30 years being the maximum allowable period under the prior GASB accounting standards. As discussed above under “General Funding Policy Goals,” the amortization period should not be set so short that it creates too much volatility in the contributions yet it should not be so long that it constitutes a shift of cost to future funding sources. Balancing these two conflicting considerations is a key element of setting amortization periods. Another consideration is how much and in what circumstances negative amortization is an acceptable consequence of using longer amortization periods.

Plans that amortize the UAAL in layers by source sometimes use different amortization periods for different sources of UAAL. Generally such plans amortize actuarial gains or losses over shorter periods (15 to 20 years or less) and UAAL changes due to assumption or method changes and plan amendments over longer periods (often the 30-year prior GASB limit). We will discuss that further in the following sections.

Selection of Amortization Periods for Actuarial Gains or Losses

When selecting the gain or loss amortization period, a review of both historical practices and recent experience is instructive. For amortizing actuarial gains or losses, a 15-year amortization period has been used in the ERISA/IRC rules for multiemployer plans and also for corporate plans prior to the 1987 overhaul of the corporate pension funding rules. By the late 1990s, as plans came close to being fully funded or even overfunded there was a trend toward amortization periods as short as 10 or even 5 years. For example, in 1987, the ERISA/IRC rules for corporate plans were changed to reduce the amortization period for gains and losses from the original 15 years to 5 years. This led to rapid reductions in contributions when the large investment gains from that period were recognized over such short periods. The investment losses in the early 2000s led to similar cost increases except for public plans that lengthened their amortization periods substantially once those losses started to emerge.

Based on this experience, we recommend a balance between reducing contribution volatility by using a longer amortization period and maintaining a closer relationship between contributions and routine changes in the UAAL by using a shorter amortization period. Using a shorter amortization period also reduces or avoids negative amortization as previously discussed. Based on these three considerations we generally recommend gains and losses amortization periods in the range of 15 to 20 years.

Selection of Amortization Periods for Assumption or Method Changes

Assumption or method changes, such as a modification in the mortality assumption to anticipate an improvement in life expectancy for current active members when they retire, often include a long term remeasurement of plan costs and liabilities. For assumption changes, in effect, such changes take gains or losses that are expected to occur in the future and build them into the cost and liability measures today. For method changes, such changes fundamentally redetermine how costs are allocated to years of service for active members. In either case the long term nature of these changes could justify using a longer amortization period than that used for actuarial gains or losses, in the range of 15 to 25 years for assumption changes or even 30 years for some method changes⁵.

Selection of Amortization Periods for Plan Amendments

While some plans have used 30 years to amortize the UAAL from plan amendments, recent actuarial practice has evolved to use a much shorter period. As discussed above, amortization generally involves a balance between matching member demographics and managing contribution volatility. However, for plan amendments, volatility control is not a consideration. That leads to the following arguments and considerations for using a short amortization period:

- Matching the amortization period to the average future working lifetime of the active members receiving the benefit improvement
- Matching the amortization period to the average life expectancy of the retired members receiving the benefit improvement
- Avoiding “negative amortization” for UAAL changes that are within the control of or result from actions taken by the plan sponsor
- Considering any special circumstances that may apply to a specific benefit improvement

The first two considerations would usually lead to at most a 15 to 20-year amortization period while the third consideration would limit the period to around 18 years or less. Accordingly, we would recommend that the Board consider a maximum amortization period for plan amendments of 15 years.

⁵ Note that the longer amortization for method changes would be most appropriate for substantial changes, such as going from Projected Unit Credit method to the Entry Age method. This is not a consideration for SCERS as the System is already using the Entry Age method.

As an example of the fourth consideration, current practice clearly favors shorter amortization periods for Golden Handshakes or early retirement incentive programs (ERIP) due to the relatively short period of expected financial impact. For example, a GFOA 2004 Recommended Practice states that “the incremental costs of an ERIP should be amortized over a short-term payback period, such as three to five years. This payback period should match the period in which the savings are realized”. Recent comments to GASB by public plan actuaries are consistent with this view.

A demographically based amortization period for an ERIP could range from 0 years (for an immediate recognition of the entire UAAL due to the ERIP) to a period of 10 years. These different periods corresponded to various alternative periods of cost savings or benefit payments under such a program. We recommend that the actuarial funding policy include a relatively short default amortization period for an ERIP (such as five years) along with a statement that a recommendation by the actuary to the Board on the amortization period be included as part of the required actuarial cost study for such ERIP. As already stated, we also recommend that an amortization period of at most 15 years be used for any other plan amendments.

Amortization of Surplus

Recent experience indicates that funding policy for overfunded plans, those that have a surplus instead of a UAAL, requires separate consideration. As discussed above, generally surplus is amortized the same way as a UAAL, except that instead of producing an amortization charge, there is an amortization credit. This means that the contribution amount is the Normal Cost minus an amount that will in effect spend the surplus down over the amortization period.

One of the most significant changes in industry thinking and practice to come from the market experience around the turn of the 21st century is the way surplus is recognized in public pension funding policy. In many cases, short amortization period for surplus in the late 1990s led to reductions in contributions below the level of Normal Cost, sometimes even to complete “contributions holidays” of zero contributions. As the market reversals in the early 2000s led to resumption of contributions in most pension plans, the general lesson was that a contribution level less than the Normal Cost (that is, funding the Normal Cost out of surplus) should always be viewed with caution, as ultimately the Normal Cost will reemerge as the basic cost of the plan.

One possible response would be to require that contributions never fall below the Normal Cost level. However, that would be inconsistent both with the current GASB accounting standards and with the actuarial principle that funding policy should target 100 percent funding, and not sustain a level that is either higher or lower than 100 percent. That leads to the general conclusion that surplus should be amortized, but over very long periods. For example, CalPERS uses a 30-year amortization period when there is a surplus. This same 30-year period can also be found as Recommendation 7 in the Report of the (California) Public Employees

Post-Employment Benefits Commission. We recommend that the actuarial funding policy include a 30-year period for surplus amortization⁶.

Selection of Amortization Periods for Past vs. Future UAAL

As the Board deliberates modifying the amortization periods in its current funding policy, we recommend that the Board separate the discussions between (1) the amortization of the current (past) UAAL and (2) amortization of future changes in the UAAL.

As of June 30, 2012, the UAAL for the pension plan was \$1,308.3 million. Based on the policy considerations underlying this discussion, we do not believe there is any actuarially based necessity to modify the current amortization periods⁷ for the UAAL as of June 30, 2012. While the current period of 23 years for the bulk of the UAAL exceeds the high end of the 15-20 year range that we would recommend for gains and losses, it is still within the range of 20-25 years that we would recommend for assumption changes. Also, any change to a longer amortization period would not provide substantial contribution rate relief and would produce additional negative amortization in the next few years.

Alternative Amortization Periods for Future Changes in UAAL

Based on the above discussions, here are some alternative sets of amortization periods that the Board may want to consider with respect to any future changes in UAAL.

	<u>Current Policy</u>	<u>Alternative #1</u>	<u>Alternative #2</u>	<u>Alternative #3</u>
Actuarial Gains or Losses	23	15	20	20
Assumption or Method Changes	23	20	20	25
Plan Amendments	23	15	15	15
ERIPs	10	5	5	5
Actuarial Surplus	23	30	30	30

Consistent with the above discussion, all the alternatives use relatively short amortization periods for plan amendments and ERIPs and a long period for surplus. The alternatives differ only in their treatment of the annual gains and losses and the less frequent remeasurements of the UAAL (assumption and method changes).

Alternative 2 is based on using the same period for both gains and losses and assumptions and method changes. In effect this is the long end of the recommended range for gains and losses

⁶ Before CalPEPRA, a public pension plan could start to amortize surplus when the funded ratio is greater than 100%. Since CalPEPRA has imposed a new requirement that surplus be amortized only when the funded ratio is at least 120%, along with other conditions, we would propose that a reference be made in the Board's funding policy to that requirement.

⁷ The UAAL for employees who participated in the 2010 ERIP for LEMA was amortized over a 10-year period beginning June 30, 2010 and the System's remaining UAAL was amortized over a 23-year period as of the June 30, 2012 actuarial valuation.

and the middle of the range for assumption and method changes. If the Board wants to apply different periods for these sources of changes in UAAL, Alternatives 1 and 3 represent, respectively, the shorter end of the recommended range for gains and losses and the longer end for assumption and method changes⁸.

Please note that with all of the above alternatives, we are continuing to recommend that the Board maintain its current policies of using closed (fixed) amortization periods and level percent of pay amortization.

Recent Developments Related to Actuarial Funding/Reporting From the CAAP

While systems can no longer look to GASB for guidance on funding policy, there is another source of guidance that was recently made available. The California Actuarial Advisory Panel (CAAP) was created by the passage of Senate Bill 1123 of the 2008/2009 legislative session and consists of eight public sector actuaries appointed by the various appointing powers pursuant to Section 7507.2 of the Government Code. We note that one of Segal's principal actuaries, Paul Angelo, serves on the CAAP as an appointee of the University of California.

The CAAP has been studying actuarial funding policies for some time and recently issued a set of guidelines for use in preparing a statement of model funding policies. While the recommendations and opinions of the Panel are nonbinding and advisory only, such viewpoints are still anticipated to have an influence on the retirement systems that operate in California as they select and finalize their individual funding approaches.

Because the CAAP's work in this area is based on Segal's and other actuaries' experience with California plans like SCERS, it is no coincidence that the elements of the funding policy developed by Segal for SCERS are in compliance with the CAAP model policies. In particular, those model policies include preferred ranges for amortization periods that are similar to the three alternatives presented in the above section⁹.

Cost Impact – Change from Aggregate to Individual Entry Age Normal Cost

The impact of the recommended modification to the Entry Age Cost method as measured based on the June 30, 2012 valuation would be to increase the average employer contribution rate by 0.4% of payroll. The individual Basic and COLA member contribution rates for the current non-CalPEPRA tiers would remain virtually unchanged. However, there will be a difference in

⁸ Another alternative recently adopted by some 1937 CERL systems is to use the longest amortization period that avoids any negative amortization. For SCERS that would indicate a 20 year amortization policy which is Alternative 2.

⁹ The CAAP "model" funding periods are expressed as a set of ranges as follows:

Actuarial Gains or Losses	15 to 20 years
Assumption or Method Changes	15 to 25 years
Plan Amendments	Up to 15 years
ERIPs	5 years or less
Actuarial Surplus	30 years

how the new method accounts for member contributions (mainly with regard to the 30-year cessation) when developing the above contribution rate impact for the employer.

Cost Impact – Future Changes in UAAL

It is not possible to quantify in advance the full future cost impact associated with adopting any of the alternative amortization periods simply because the plan's future changes in UAAL are not yet identified. However, for amortizing actuarial gains or losses we can measure the effect that a change from the current 23 years (as of the June 30, 2012 valuation) to the 15-year or 20-year alternative periods would have on SCERS' \$456.0 million in unrecognized investment losses as of June 30, 2012. Over the next six years, such a change in the gain/loss amortization period would increase the annual payroll cost required to amortize that \$456.0 million in unrecognized investment losses from about 3.46% of payroll (paid for 23 years) to about 4.64% of payroll (paid for 15 years) or about 3.79% of payroll (paid over 20 years).

For another illustration of cost impact, the charts in Attachments #1 and #2 compare the annual UAAL payments and the outstanding balance of the UAAL for a sample change in UAAL of \$1 million under different amortization periods. Please note that these Attachments have been prepared using the assumptions approved for the most recent valuation as of June 30, 2012.

A sample statement of actuarial funding policy is provided in Attachment #3.

Other Policy Consideration

From time to time, the System has considered phasing in changes in contribution rates, that result from assumption changes such as those adopted for the June 30, 2012 valuation when the investment return assumption was lowered from 7.75% to 7.50%. We believe that the Board should reserve such discretion for future valuations based on facts and circumstances and after receiving input from its actuary.

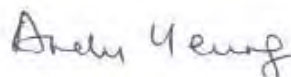
We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

We look forward to discussing this with you and the Board.

Sincerely,



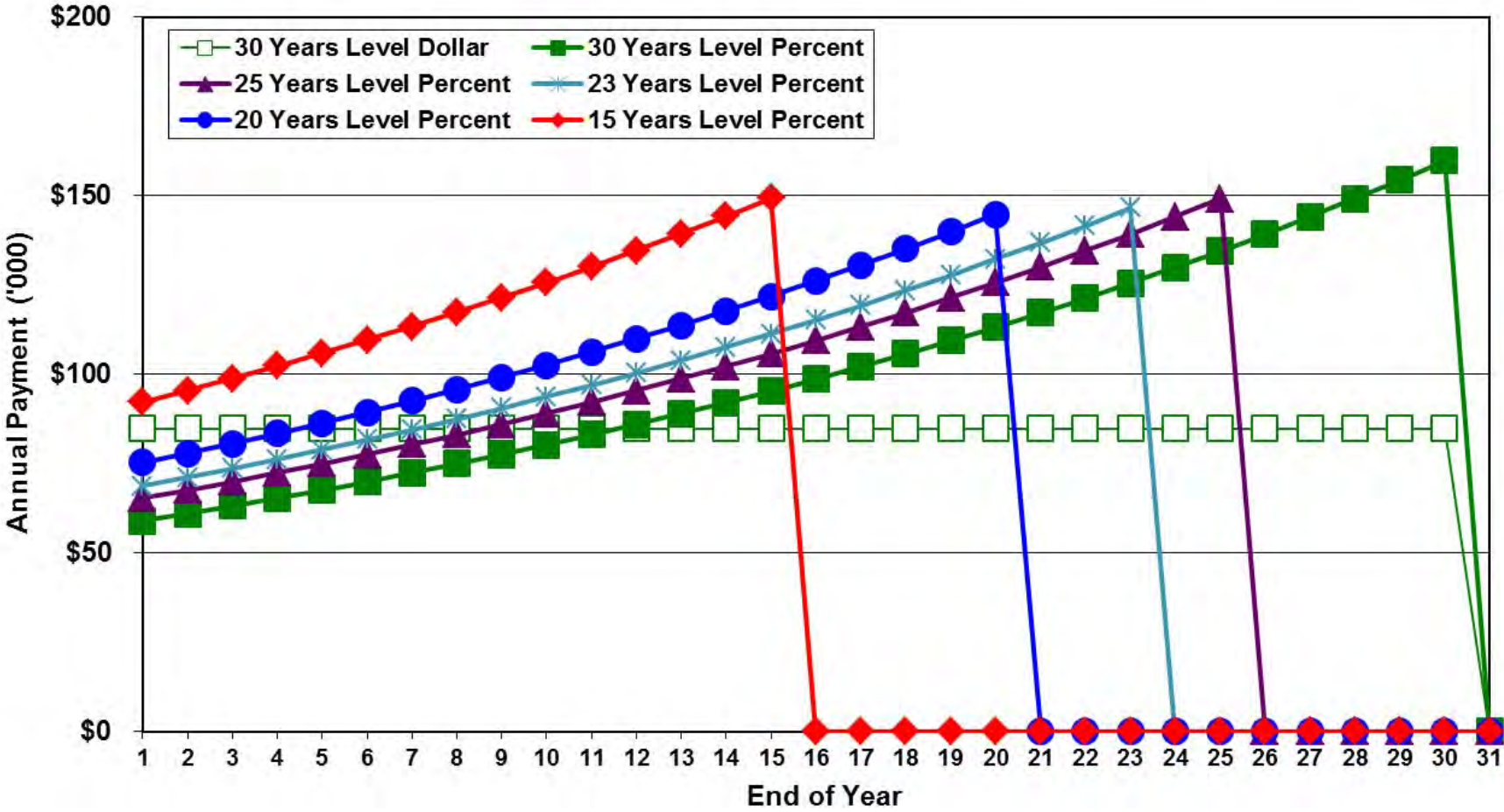
Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



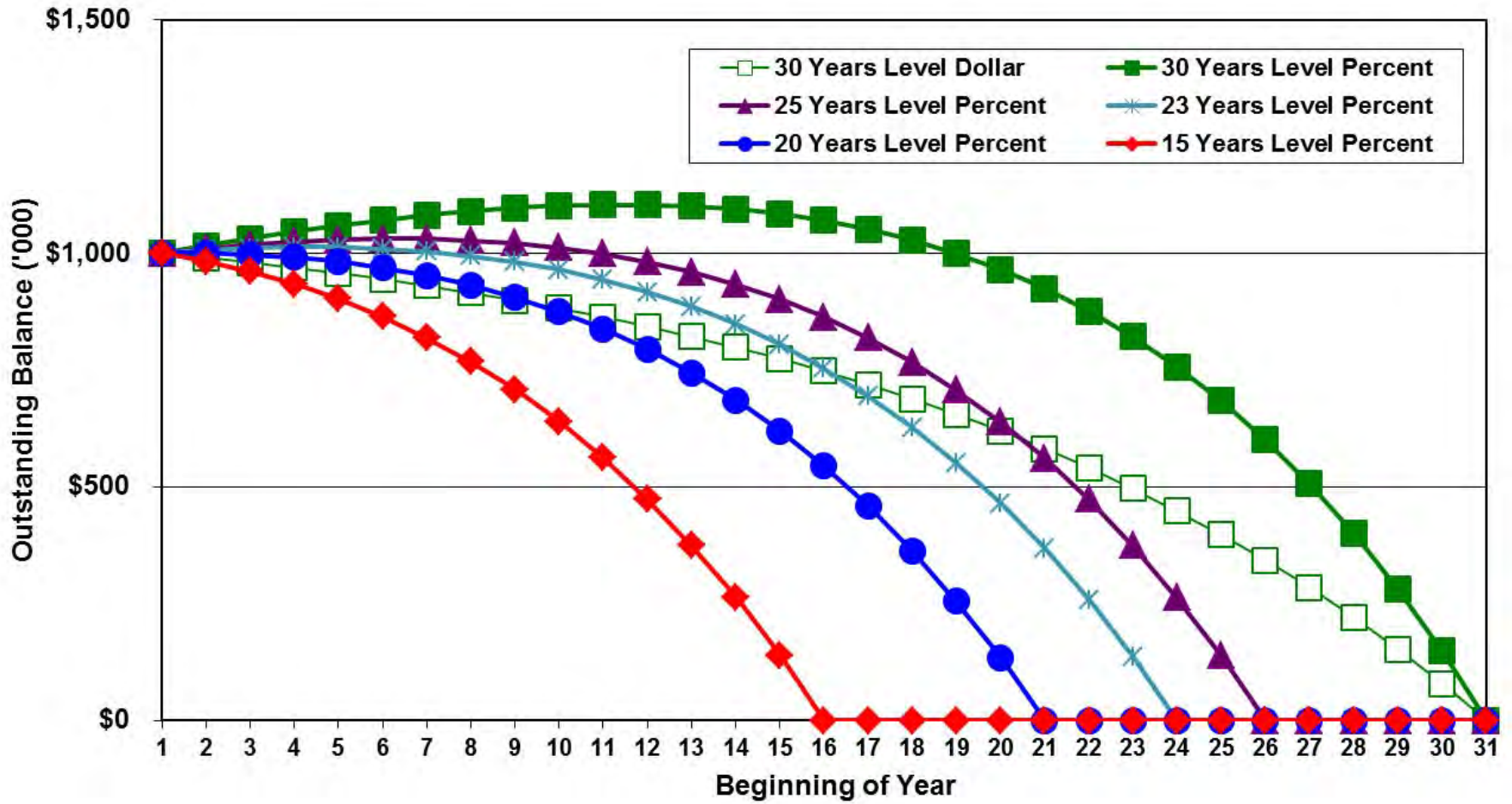
Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Associate Actuary

AYY/bqb
Enclosures

Attachment #1 - Illustration of Payments Under Different Amortization Periods (on \$1 million UAAL)



Attachment #2 - Illustration of Outstanding UAAL Balance Under Different Amortization Periods



Attachment #3

Sacramento County Employees' Retirement System

Draft of Statement of Actuarial Funding Policy

Introduction

The purpose of this Statement of Actuarial Funding Policy is to record the funding objectives and policies set by the Board of Retirement (Board) for the Sacramento County Employees' Retirement System (SCERS). The Board establishes this Statement of Actuarial Funding Policy to help ensure future benefit payments for members of SCERS. In addition, this document records certain policy guidelines established by the Board to assist in administering SCERS in a consistent and efficient manner.

This Statement of Actuarial Funding Policy supersedes any previous statements. It is a working document and may be modified as the Board deems necessary.

Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by SCERS;
2. To seek reasonable and equitable allocation of the cost of benefits over time; and,
3. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.

Funding Requirement and Policy Components

SCERS' annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

- I. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period;
- II. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- III. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

I. Actuarial Cost Method:

The Entry Age method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability.

II. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Valuation Value of Assets, shall be recognized in level amount over 7 years in calculating the Actuarial Value of Assets.

The Board reserves the right to consider future ad-hoc adjustments to change the pattern of the recognition of the deferred investment gains or losses after a period of significant market change followed by a period of market correction upon receiving the necessary analysis from its actuary.

III. Amortization Policy:

- With the exception of a 10-year period used in the June 30, 2010 valuation to amortize the liability for employees who participated in the 2010 Early Retirement Incentive Program (ERIP) for the Sacramento County Law Enforcement Managers Association (LEMA), the UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2012 shall be amortized over a period of 23 years.
- Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of __ years;
- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of __ years;
- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
 - a. with the exception noted in b. below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;
 - b. the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL, will be funded over a period of 5 years;
- UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation;
- UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase; and
- If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of CalPEPRA), such actuarial surplus and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

Other Policy Considerations

A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In order to allow the employer to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of SCERS' UAAL in the following valuation.

Any change in contribution rate requirement that results from plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

B. Phase-in of Increase in Employer's Contribution Rate

From time to time, the System has considered phasing in extraordinary changes in contribution rates. The Board reserves the right to exercise such discretion based on facts and circumstances and after receiving input from its actuary..

C. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
- Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board's best estimate of anticipated experience under SCERS and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

D. Glossary of Terms

Actuarial Funding Method – A technique to allocate present value of projected benefits among past and future periods of service.

Actuarial Accrued Liability – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.

Normal Cost – The portion of the present value of projected benefits that is attributed to current service by the actuarial funding method.

Entry Age Actuarial Cost Method – A funding method that calculates SCERS' Normal Cost a level percentage of pay over the working lifetime of the plan's members.

Actuarial Value of Assets – The market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

Valuation Value of Assets – The value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

Unfunded Actuarial Accrued Liability – The portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Actuarial Accrued Liability from the Valuation Value of Assets.

Valuation Date – June 30 of every year.



100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8288 www.segalco.com

VIA E-MAIL AND USPS

February 14, 2018

Ms. Annette St. Urbain
Assistant Retirement Administrator
Sacramento County Employees' Retirement System
908 9th Street, Suite 1900
Sacramento, CA 95814-2738

**Re: Sacramento County Employees Retirement System
Finalized Statement of Actuarial Funding Policy**

Dear Annette:

As we discussed, for documentation purposes, we have attached a finalized statement of actuarial funding policy.

Background

A draft of this statement, originally included in our letter dated June 13, 2013,¹ was used as an outline when we discussed the various actuarial funding policy elements with the Board at its meeting on June 19, 2013. Based on those discussions, the Board moved to reaffirm some of its then current existing funding practices but to adopt a 20-year layered amortization period to amortize any Unfunded Actuarial Accrued Liability (UAAL) that may arise from actuarial gains/losses or changes in actuarial assumptions/methods effective with the June 30, 2013 valuation. The Board also approved our recommendation to use different amortization periods for plan amendments or when the plan has an actuarial surplus.

That 20-year period was chosen after careful consideration of the impact of negative amortization,² contribution volatility, interperiod equity and other factors. Besides including that 20-year period, we have made the following clarifications/corrections to reflect SCERS'

¹ A copy of that letter is included as Attachment #2 for your easy reference.

² Negative amortization may happen under a level percentage of UAAL amortization method when the UAAL payments in the first few years of a relatively long schedule are not sufficient to cover the interest costs for the UAAL. How short an amortization period needs to be to avoid any negative amortization depends on the plan's economic assumptions. For SCERS, there will be no negative amortization using investment return and total payroll increase assumptions approved by the Board for the June 30, 2017 valuation

Ms. Annette St. Urbain
February 14, 2018
Page 2


practices related to: (a) the expected return and 30% corridor referenced in the "Asset Smoothing Method" on page 2, (b) the "Phase-In" on page 3 and (c) the Glossary definition of the "Entry Age Actuarial Cost Method" on page 4). The finalized statement is provided in Attachment #1.

Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary

AYY/gxk
Enclosures

cc: Kathy Regalia
Eric Stern

Attachment #1

Sacramento County Employees' Retirement System

Statement of Actuarial Funding Policy

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- II. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
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I. Actuarial Cost Method:

The Entry Age method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability.

II. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Market Value of Assets, shall be recognized in level amount over 7 years in calculating the Actuarial Value of Assets. Net deferred investment gains or losses cannot exceed 30% of the Market Value of Assets.

The Board reserves the right to consider future ad-hoc adjustments to change the pattern of the recognition of the deferred investment gains or losses after a period of significant market change followed by a period of market correction upon receiving the necessary analysis from its actuary.

III. Amortization Policy:

- With the exception of a 10-year period used in the June 30, 2010 valuation to amortize the liability for employees who participated in the 2010 Early Retirement Incentive Program (ERIP) for the Sacramento County Law Enforcement Managers Association (LEMA), the UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2012 shall be amortized over a period of 23 years.
- Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years;
- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years;
- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
 - a. with the exception noted in b. below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;
 - b. the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL, will be funded over a period of 5 years;
- UAAL shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation;
- UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase; and
- If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of CalPEPRA), such actuarial surplus and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any prior UAAL amortization

layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

Other Policy Considerations

A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In order to allow the employer to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of SCERS' UAAL in the following valuation.

Any change in contribution rate requirement that results from plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

B. Phase-in of Increase in Employer's Contribution Rate

From time to time, the System has considered phasing in extraordinary changes in employer contribution rates. The Board reserves the right to exercise such discretion based on facts and circumstances and after receiving input from its actuary.

C. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
- Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board's best estimate of anticipated experience under SCERS and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

D. Glossary of Terms

Actuarial Funding Method – A technique to allocate present value of projected benefits among past and future periods of service.

Actuarial Accrued Liability – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.

Normal Cost – The portion of the present value of projected benefits that is attributed to current service by the actuarial funding method.

Entry Age Actuarial Cost Method – A funding method that calculates SCERS' Normal Cost as a level percentage of pay over the working lifetime of the plan's members.

Actuarial Value of Assets – The market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

Valuation Value of Assets – The value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

Unfunded Actuarial Accrued Liability – The portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Actuarial Accrued Liability from the Valuation Value of Assets.

Valuation Date – June 30 of every year.

ATTACHMENT 3

INTEREST CREDITING AND
UNALLOCATED EARNINGS POLICY

DOCUMENTS:

1 - POLICY PRESENTED IN REVISED POLICY FORMAT

Minor proposed revisions label and reorganize existing policy paragraphs, eliminate stating SCERS' specific annual investment return assumption percentage, and clarify that the estimated interest credits presented to the Board for approval will use amounts in the Contingency Reserve, if available and as needed, to achieve the target crediting rate on total valuation reserves. The Board retains discretion to modify SCERS' interest crediting procedure in fulfilling its fiduciary duty to secure the sound funding of the retirement system and to act in the best interests of the system as a whole.

For affirmation by the Board on February 21, 2018

2 - POLICY AS ADOPTED BY THE BOARD

On September 21, 2006

NOTE: Policy was edited periodically to update the stated percentage for the Board's annual investment return assumption for the plan when the Board changed that assumption.



INTEREST CREDITING AND UNALLOCATED EARNINGS POLICY

Revision Date: February 21, 2018

Policy Number: 002

Revision Number: 1

PURPOSE

This policy sets the goals, priorities, and methods for applying available earnings to the reserves of the Sacramento County Employees' Retirement System (SCERS), as determined by the SCERS Board of Retirement (Board).

POLICY OBJECTIVES

- Maintain a sound funded status and pursue full funding of vested retirement benefits through the reasonable and prudent application of available earnings
- Establish a contingency reserve level equal to 3% of plan assets to help mitigate earnings shortfalls and unexpected expenses.
- Only consider application of unallocated earnings to other purposes if and when vested retirement benefits are more than 100% funded and contingency reserves equal at least 3% of plan assets.

The Board reserves the right to set funding and contingency reserve thresholds greater than the stated levels, or to otherwise decline to consider such alternative application of funds if the Board determines that such actions are reasonable and prudent for securing long-term stability of funding for the vested benefits of the retirement system.

POLICY

A. Interest Crediting

Pursuant to Government Code Section 31591, regular interest is credited semiannually on June 30th and December 31st to all contributions in the retirement fund that have been on deposit for six months immediately prior to the interest crediting date.

1. Total Valuation Reserves

Interest is credited in a manner designed to keep the Total Valuation Reserves on track with the investment return assumption for the plan as adopted by the Board. A lower interest crediting rate will be used for Member Contribution Reserves, and the difference between that lower crediting rate and the Target Crediting Rate will be applied to the Other Valuation Reserves so that the overall valuation reserves crediting rate is maintained at the Target Crediting Rate, subject to the provisions of this policy regarding available earnings.

2. Member Contribution Reserves

The semiannual interest crediting rate for Member Contribution Reserves is one-half of the United States 5-Year Treasury Note Rate for the last business day of the interest crediting period in the Federal Reserve Statistical Release H.15 Selected Interest Rates, with the following provisos:

- a. The Member Contribution Reserves interest crediting rate will not be greater than the Target Crediting Rate; and
- b. If the projected semiannual interest crediting rate for the Other Valuation Reserves is less than the Target Crediting Rate for the Total Valuation Reserves, the interest crediting rate for the Member Contribution Reserves will be the semiannual interest crediting rate applied to the Other Valuation Reserves or one-half of the Treasury Note Rate, whichever is lower.

3. Other Valuation Reserves

Semiannual Interest will be credited to the Other Valuation Reserves to the extent there are available earnings. Available earnings will be comprised of (a) the actual earnings of the retirement fund based on the smoothed actuarial value of assets; and (b) funds previously set aside in the Contingency Reserve. Crediting interest to Total Valuation Reserves at the Target Crediting Rate is the highest priority with respect to the use of available funds. If the funds available are not sufficient to credit interest to Total Valuation Reserves at the Target Crediting Rate, interest shall be applied on a pro rata basis to each valuation reserve, taking into account the lower crediting rate for Member Contribution Reserves.

B. Application of Unallocated Earnings

Actual earnings of the retirement fund (based on the smoothed actuarial value of assets) that remain unallocated in a given interest crediting period after, but only after meeting the Target Crediting Rate for that period, will be applied equally toward:

- a. Addressing earnings deficiencies and other actuarial losses and assumption changes related to past periods by crediting Other Valuation Reserves; and
- b. Establishing target Contingency Reserve levels.

The equal application of such unallocated earnings will continue until such time as the retirement system has achieved a 100% funded status and established a Contingency Reserve equal to 3% of plan assets, respectively. When one goal is reached, the full amount of the unallocated earnings will be applied toward the second goal.

When both goals are reached, the Board, in its discretion and consistent with its fiduciary duties, may consider establishing higher thresholds, or the application of some or all of the funds toward other purposes as permitted by the County Employees' Retirement Law of 1937 (CERL). At any point, however, including prior to reaching stated target funding levels, if the Board determines that it is in the best interest of the retirement system to do so, the Board may use unallocated earnings to establish Contingency Reserves earmarked for an identified, anticipated, and extraordinary future expenditure.

APPLICATION

Staff shall estimate semiannual Interest crediting for Total Valuation Reserves in accordance with this policy, including the use of amounts from the Contingency Reserve, if any, to credit interest at the Target Crediting Rate, for Board approval. If it is estimated there will be unallocated earnings available after crediting interest at the Target Crediting Rate, staff will include for Board approval an estimate of the amount of those earnings to be applied to the Other Valuation Reserves and the amount of those earnings to be applied to the Contingency Reserve.

The Board retains substantial discretion with respect to such matters under the CERL and Article XVI, Section 17 of the California Constitution and other provisions of state and federal law applicable to public retirement systems. This discretion includes the right to deviate from or alter a stated policy or procedure if the Board determines that such action is reasonable, appropriate, and prudent with respect to the Board's exercise of its fiduciary duties to secure the sound funding of the retirement system, and to act in the best interests of the system as a whole.

DEFINITIONS

Member Contribution Reserves – A valuation reserve representing the balance of accumulated member contributions and interest for active, inactive, and deferred members of SCERS.

Contingency Reserve – A non-valuation reserve against deficiencies in future earnings and unexpected expenses established and maintained by SCERS pursuant to Government Code Section 31592.

Other Valuation Reserves – Includes Employer Reserves, Retiree Reserves, and Retiree Death Benefit Reserves.

Market Stabilization Reserve – A non-valuation reserve representing the unrecognized deferred gains and losses and is the difference between the smoothed actuarial value of assets and the market value of assets.

Target Crediting Rate – On an annual basis is equal to the investment return assumption for the plan; on a semiannual basis, is equal to one-half of the investment return assumption for the plan.

Total Valuation Reserves – Includes Member Contribution Reserves, Employer Reserves, Retiree Reserves, and Retiree Death Benefit Reserves.

BACKGROUND

Prior to September 2006, SCERS target for crediting interest to Member Contribution Reserves was a rate equal to the investment return assumption for the plan. In 2006, the Board considered alternative target interest crediting rates for Member Contribution Reserves and adopted this policy setting a lower crediting rate for Member Contribution Reserves but maintaining an overall Target Crediting Rate on Total Valuation Reserves equal to the investment return assumption for the plan.

RESPONSIBILITIES

Executive Owner: Chief Operations Officer

POLICY HISTORY

Date	Description
02-21-2018	<i>Board to affirm in revised policy format</i>
06-15-2016	Board reviewed and affirmed policy with no revisions
09-21-2006	Board approved new policy

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Interest Crediting and Unallocated Earnings Policy

Purpose of the Policy:

The policies and procedures outlined in this document represent the goals, priorities and methodologies for applying available earnings to the reserves of the Sacramento County Employees' Retirement System (SCERS), as determined by the SCERS Board of Retirement ('Board'). The authority of the Board in such matters is governed by the provisions of the County Employees' Retirement Law of 1937 ('1937 Act'), Article XVI, Section 17 of the California Constitution, and other provisions of state and federal law applicable to public retirement systems. While the policies and procedures outlined herein are intended to serve as guidelines for the decisions of the Board, under the law the Board retains substantial discretion with respect to such matters. This includes the right to deviate from or alter a stated policy or procedure if the Board determines that such action is reasonable, appropriate and prudent with respect to the Board's exercise of its fiduciary duties to secure the sound funding of the retirement system, and to act in the best interests of the system as a whole.

Fundamental Objective:

Maintain a sound funded status of the retirement system through the reasonable and prudent application of available earnings, including establishing a level of contingency reserves sufficient to make a meaningful contribution toward mitigating future earnings shortfalls and unexpected expenses.

Statement of Goals, Priorities and Principles:

1. Pursuing full funding of the vested retirement benefits and a contingency reserve equal to 3% of plan assets are co-equal, first priority goals.
2. Funding for non-vested benefits, or the application of funds to other purposes permitted by the 1937 Act, will only be considered by the Board if and when the vested retirement benefits are more than 100% funded and contingency reserves equal at least 3% of plan assets. The Board reserves the right to set funding and contingency reserve thresholds greater than the levels noted, or to otherwise decline to consider such alternative application of funds if the Board determines that such actions are reasonable and prudent for securing long-term stability of the costs of the vested benefits of the retirement system.

3. Interest will be credited in a manner designed to, and with the goal of, keeping the total actuarial valuation reserves on track with the actuarial earnings assumption (currently 7.50% per annum). A lower interest crediting rate will be utilized for the active member contribution reserves (as described in paragraph 6 below), but the difference between that lower rate and the 7.50% target crediting rate for the other actuarial reserves will be applied to the other valuation reserves so that the overall valuation reserve crediting rate is maintained at 7.50%, subject to the provisions regarding available earnings set forth immediately below.
4. Interest will be credited to the actuarial valuation reserves to the extent that there are available earnings. Available earnings will be comprised of (a) the actual earnings of the retirement fund based on the smoothed actuarial value of assets; and (b) funds previously set aside in the contingency reserves. Crediting interest at the overall valuation reserve target crediting rate (currently 7.50%) is the highest priority with respect to the use of available earnings, however, based on the Board's assessment of what is in the overall best interests of the retirement system, the Board reserves the right to determine whether, and to what extent, it will draw upon the contingency reserves to achieve the target crediting rate. If the funds available to credit interest, as determined by the Board, are not sufficient to credit interest at the target crediting rate, the funds available shall be applied on a pro rata basis to the valuation reserves, taking into account the differential crediting rate for the active member contribution reserves.
5. Actual earnings of the retirement fund (based on the smoothed actuarial value of assets) that remain unallocated in a given interest crediting period after, but only after, meeting the full target interest crediting rate for that period (currently 3.75% or one-half of 7.50%), will be applied equally toward (a) addressing earnings deficiencies related to past periods; and (b) establishing target contingency reserve levels. The equal application of such unallocated earnings will continue until such time as the retirement system has achieved a 100% funded status and established contingency reserves equal to 3% of plan assets, respectively. When one goal is reached, the full amount of the unallocated earnings will be applied toward the second goal. When both goals are reached, the Board, in its discretion, and consistent with its fiduciary duties, may consider establishing higher thresholds, or the application of some or all of the funds toward other purposes permitted by the 1937 Act. At any point, however, including prior to reaching stated target funding levels, if the Board determines that it is in the best interest of the retirement system to do so, the Board may utilize unallocated earnings to establish contingency reserves earmarked for an identified, anticipated and extraordinary future expenditure.

6. Interest will be credited to the active employee contribution reserves semi-annually. The interest crediting rate will be one-half of the United States 5-Year Treasury Note Rate for the last business day of the interest crediting period in the Federal Reserve Statistical Release H.15 Selected Interest Rates, with the following provisos: (a) The active member contribution reserves interest crediting rate will be no greater than one-half of the actuarial assumed earnings rate (currently 7.50%); and (b) If the projected interest crediting rate for the other valuation reserves is less than one-half of the overall target crediting rate for the valuation reserves (i.e., 3.75% or one-half of 7.50%), the interest crediting rate for the active member contribution reserves will be one-half of the interest rate applied to the other valuation reserves or one-half of the Treasury Note Rate, whichever is lower.

ATTACHMENT 4

PRIVACY AND CONFIDENTIALITY POLICY

DOCUMENTS:

1 - POLICY PRESENTED IN REVISED POLICY FORMAT

Minor edits to clarify the conditions under which a SCERS vendor would be required to sign the Confidentiality Agreement and to consolidate the existing three different forms of Confidentiality Agreement (Board Member, Employee, Vendor) into one Confidentiality Agreement form with three alternate signature blocks.

For affirmation by the Board on February 21, 2018

2 - POLICY AS ADOPTED BY THE BOARD

On July 16, 2009

NOTE: Since the original adoption in 2009, the policy and each of the Confidentiality Agreement forms has been updated with SCERS latest logo.



PRIVACY AND CONFIDENTIALITY POLICY

Revision Date: February 21, 2018

Policy Number: 009

Revision Number: 1

PURPOSE

This policy provides a comprehensive plan to enable the Sacramento County Employees' Retirement System (SCERS): to meet its commitment to protect the privacy of its members; to protect the security of SCERS, its employees, and its assets; and to comply with relevant legal requirements.

DEFINITIONS

Confidential Information - This is information obtained or created by SCERS which is restricted as to access, disclosure or use. It may be found in any medium, whether oral, written, or electronic. It includes the following:

- a. **PI:** Personal Information (PI) is any non-public information that is identifiable to an individual. Examples include demographic information such as the individual's age or address, or it may be health information, such as his or her medical history. It includes member records and sworn statements.
- b. **SI:** Security Information (SI) is information that, if improperly disclosed, could adversely impact the security of SCERS or its members, employees, or assets. Examples include information about SCERS' information technology systems and security, financial accounts, etc.
- c. **PRI:** Privileged Information (PRI) is information that falls into a legally recognized category that is protected from compulsory disclosure. An example is attorney-client communications.

Employees – For purposes of this policy means all SCERS personnel who are directly or indirectly supervised by the SCERSE Board and/or SCERS management.

Individual - Any person who is the subject of PI.

POLICY

SCERS shall maintain the confidentiality of information that could impact the security of its members, its employees, or its assets, as well as legally privileged information. Accordingly, SCERS does not sell or trade members' personal information; nor does

SCERS disclose it to anyone other than those who need it to provide member services or those who are legally entitled to it.

1. In accordance with applicable laws and SCERS' mission, all SCERS employees are responsible for ensuring that PI, including member records and sworn statements, are not disclosed except to:
 - Authorized SCERS employees for approved purposes,
 - The member upon request, or
 - Third parties who have appropriate authorizing documentation.
2. In addition, SCERS employees are responsible for ensuring that PI is obtained, used or shared only to the minimum necessary extent that is required to further SCERS' mission, within the constraints of applicable laws. This means that access to PI is permitted on a need-to-know basis.
3. Reasonable safeguards are to be implemented to ensure the privacy of PI, including controls on who can access the information, how the information is used, how it is obtained, stored and shared, and how it is eventually discarded. Member sworn statements and member records are to be kept confidential.
4. SI and PRI are to be secured at all times from unauthorized disclosure or use.
5. The deliberate or negligent mishandling or misuse of PI, SI, or PRI is considered to be misconduct and is enforced through employee discipline.

APPLICATION

SCERS' privacy policy will be implemented through the following activities:

1. SCERS will obtain a complete and signed Confidentiality Agreement (attached) from every Board of Retirement Member, SCERS employee, and all other persons associated with SCERS who in the course of that association will or may encounter Confidential Information to ensure the confidentiality of PI, SI, and PRI is maintained.
2. SCERS will maintain policies and procedures that provide guidance for the handling of PI, SI, and PRI.
3. SCERS will implement physical and electronic controls to protect the privacy of PI, SI, and PRI.
4. SCERS will train all employees upon entry and periodically thereafter on privacy and confidentiality policies and procedures.
5. SCERS will maintain proper disclosures and disclaimers in all publications and communications with outside parties that may involve PI.

6. SCERS will obtain a written authorization from the individual before disclosing that individual's PI to third parties other than third parties working on behalf of SCERS or those who require the information by law or pursuant to a court order (e.g., government agencies, litigants). Other exceptions may apply as well.
7. SCERS will obtain appropriate supporting documentation from third parties who require PI by law or pursuant to a court order before disclosing PI to such parties (e.g., government agencies, litigants).
8. SCERS will establish procedures for receiving and responding to disputes regarding PI, for providing individuals access to their own PI, and for notifying individuals about any unauthorized use of their PI.
9. SCERS will periodically review this privacy policy to ensure that it addresses all relevant laws and risks inherent in the handling of PI.
10. SCERS will monitor compliance with this policy and applicable laws. This may include periodic audits and other monitoring tools.

BACKGROUND

There are a number of laws that address privacy and security issues. The most significant law in this area is Government Code Section 31532 which precludes disclosure of SCERS' member records and sworn statements unless proper authorization is provided. Beyond these legal requirements, SCERS continuously reviews legislation and privacy and security practices to ensure the privacy of its members and the security of its operations.

See also SCERS' "Protection of Individual Records Policy" that identifies the retirement benefit information that is disclosable by SCERS pursuant to a Public Records Act request.

RESPONSIBILITIES

Executive Owner: Chief Operating Officer

POLICY HISTORY

Date	Description
01-17-2018	<i>Board to affirm in revised policy format</i>
05-23-2009	Board approved new policy



Instructions:

This form is to be completed and signed by all Retirement Board Members, all SCERS employees, and all other persons associated with SCERS who in the course of that association will or may encounter information that is considered confidential. The signed form will remain with the Chief Executive Officer for a period of no less than six (6) years from the last day of the signer's employment or association with SCERS.

CONFIDENTIALITY AGREEMENT

I, _____, understand that, in the course of my employment or association with SCERS, I may encounter information that is considered confidential (hereinafter referred to as Confidential Information). I further understand that all Confidential Information must be protected from improper use or disclosure. In addition to other applicable federal and state laws, SCERS is required by California Government Code section 31532 to ensure that “sworn statements and individual records of members shall be confidential and shall not be disclosed to anyone except insofar as may be necessary for the administration of the County Employees’ Retirement Law or upon order of a court of competent jurisdiction, or upon written authorization by the member.”

Confidential Information includes:

- **Personal Information (PI)**, which is any non-public information identifiable to an individual (e.g. member records and employee files),
- **Security Information (SI)**, which, if improperly disclosed, could adversely impact the security of SCERS, its employees, or its assets, (e.g. information about SCERS information technology systems and security, or financial accounts, etc.)
- **Privileged Information (PRI)**, which is information that falls into a legally recognized category that is protected from compulsory disclosure (e.g. attorney-client communications).

I have read and understand SCERS’ Privacy and Confidentiality Policy, which protects the confidentiality of PI, SI and PRI.

I hereby agree that I will not at any time (either during my employment or association with SCERS or after my employment or association ends) use, access or disclose any Confidential Information to any person or entity, internally or externally, except as is required and permitted in the course of my duties and responsibilities with SCERS, as set forth in SCERS’ Privacy and Confidentiality Policy and related procedures or as permitted under applicable federal or state laws.

I understand this obligation extends to any Confidential Information that I may have acquired or may acquire during the course of my employment or association with SCERS, whether in oral, written or electronic form and regardless of (1) the manner in which access was obtained, (2) whether the Confidential Information came into my custody, possession, or knowledge, or was developed, compiled, prepared or used by me, before or after the date of this Agreement, and (3) whether the Confidential Information has been published or has become a part of the public domain, or has been put in my possession or knowledge by a third person not acting on behalf of SCERS, or was in my possession or knowledge prior to the commencement of my employment or association with SCERS.

I understand and acknowledge my responsibility to apply SCERS' Privacy and Confidentiality Policy and related procedures during the course of my employment or association with SCERS.

I understand that this obligation will survive the termination of my employment or association with SCERS, regardless of the reason for such termination, and that my obligations under this Agreement are in addition to, and not exclusive of, any and all of my other obligations and duties to SCERS, whether express or implied, in fact or in law.

As a **SCERS Retirement Board Member**, I understand that my unauthorized use or disclosure of Confidential Information may result in the imposition of civil and/or criminal penalties under applicable federal and state law.

Signed _____ Date _____

As a **SCERS Employee**, I understand that my unauthorized use or disclosure of Confidential Information may result in disciplinary action, up to and including the termination of employment with SCERS and the imposition of civil and/or criminal penalties under applicable federal and state law. I also understand that the original of this signed Agreement will be included in my employee file at SCERS.

Signed _____ Date _____

As a **SCERS Vendor** I understand that my unauthorized use or disclosure of Confidential Information may result in the termination of my association with SCERS and the imposition of civil and/or criminal penalties under applicable federal and state law.

Name _____ Title _____

Company _____

Address _____
City State Zip Code

Signed _____ Date _____



SCERS Privacy and Confidentiality Policy

A. INTRODUCTION:

1. One of the Core Values in fulfilling SCERS' mission as a retirement system is protecting the privacy of our members and their beneficiaries and the security of SCERS' operations. Accordingly, SCERS does not sell or trade members' personal information; nor does SCERS disclose it to anyone other than those who need it to provide member services or those who are legally entitled to it. SCERS also maintains the confidentiality of information that could impact the security of its members, its personnel, or its assets, as well as legally privileged information.

B. DEFINITIONS:

1. **Confidential Information:** This is information obtained or created by SCERS which is restricted as to access, disclosure or use. It may be found in any medium, whether oral, written, or electronic. It includes the following:
 - a. **PI:** Personal Information (PI) is any non-public information that is identifiable to an individual. It may be demographic, such as the individual's age or address, or it may be health information, such as his or her medical history. It includes member records and sworn statements.
 - b. **SI:** Security Information (SI) is information which, if improperly disclosed, could adversely impact the security of a SCERS member, a SCERS staff member, or SCERS' assets. Examples include information about SCERS' computer systems, financial accounts, and access systems.
 - c. **PRI:** Privileged Information (PRI) is information which falls into a legally recognized category that is protected from compulsory disclosure. An example is attorney-client communications.
2. **Individual:** Any person who is the subject of PI.

C. OBJECTIVE:

1. This privacy and confidentiality policy provides guidance to enable SCERS to meet its commitment to protect the privacy of its members, protect the security of SCERS, its employees and its assets, and comply with relevant legal requirements.
2. There are a number of laws that address privacy and security issues. The following laws most significantly impact SCERS.
 - a. In the 1937 Act, California Government Code 31532 precludes disclosure of SCERS' member records and sworn statements unless proper authorization is provided.
3. Beyond these legal requirements, SCERS continuously reviews legislation and privacy and security practices to ensure the privacy of its members and the security of its operations.

D. PRIVACY POLICY DIRECTIVES:

1. In accordance with applicable laws and SCERS' mission, all SCERS employees* are responsible for ensuring that PI, including member records and sworn statements, are not disclosed except to:
 - Authorized SCERS employees for approved purposes,
 - The member upon request, or
 - Third parties who have appropriate authorizing documentation.
2. In addition, SCERS employees are responsible for ensuring that PI is obtained, used or shared only to the minimum necessary extent that is required to further SCERS' mission, within the constraints of applicable laws. This means that access to PI is permitted on a need-to-know basis.
3. Reasonable safeguards are to be implemented to ensure the privacy of PI, including controls on who can access the information, how the information is used, how it is obtained, stored and shared, and how it is eventually discarded. Member sworn statements and member records are to be kept confidential.
4. SI and PRI are to be secured at all times from unauthorized disclosure or use.
5. The deliberate or negligent mishandling or misuse of PI, SI, or PRI is considered to be misconduct and is enforced through employee discipline.

*With regard to this policy only, the term "employee(s)" refers to all SCERS personnel who are directly or indirectly supervised by SCERS management or the SCERS Board.

E. PRIVACY POLICY PROGRAM:

SCERS' privacy policy will be implemented through the following activities:

1. SCERS will maintain policies and procedures which provide guidance for the handling of PI.
2. SCERS will maintain policies and procedures which provide guidance for the handling of SI.
3. SCERS will maintain policies and procedures which provide guidance for the handling of PRI.
4. SCERS will implement physical and electronic controls to protect the privacy of PI, SI and PRI.
5. SCERS will train all employees upon entry and periodically on privacy and confidentiality policies and procedures. Staff and board members will be required to execute a confidentiality/non-disclosure agreement.
6. SCERS will maintain proper disclosures and disclaimers in all publications and communications with outside parties that may involve PI.
7. SCERS will obtain a written authorization from the individual before disclosing PI to third parties other than third parties working on behalf of SCERS or those who require the information by law or per a court order (e.g.: government agencies, litigants). Other exceptions may apply as well.
8. SCERS will obtain appropriate supporting documentation from third parties who require PI by law or per a court order before disclosing PI to such parties (e.g.: government agencies, litigants).
9. SCERS will maintain, as needed, proper contractual agreements with outside parties working on behalf of SCERS, including non-disclosure/confidentiality agreements, to ensure confidentiality of PI, SI and PRI.
10. SCERS will establish procedures for receiving and responding to disputes regarding PI, for providing individuals access to their own PI, and for notifying individuals about any unauthorized use of their PI.
11. SCERS will periodically review this privacy policy to ensure that it addresses all relevant laws and risks inherent in the handling of PI.
12. SCERS will monitor compliance with this policy and applicable laws. This may include periodic audits and other monitoring tools.



TRUSTEE CONFIDENTIALITY AGREEMENT

Instructions

This form is to be signed by SCERS Trustees. The signed form will remain with the Chief Executive Officer for a period of no less than six (6) years from the last day of service.



**TRUSTEE CONFIDENTIALITY AGREEMENT OF
THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM (SCERS)**

I, _____, understand that, in the course of association with SCERS as a Trustee, I may encounter information that is considered confidential (hereafter referred to as Confidential Information). I further understand that all Confidential Information must be protected from improper use or disclosure. In addition to other applicable federal and state laws, SCERS is required by California Government Code section 31532 to ensure that "sworn statements and individual records of members shall be confidential and shall not be disclosed to anyone except insofar as may be necessary for the administration of this chapter or upon order of a court of competent jurisdiction, or upon written authorization by the member."

Confidential Information includes:

- Personal Information (PI), which is non-public information identifiable to an individual (e.g. member records and personnel files),
- Security Information (SI), which impacts the security of SCERS' assets or personnel or members, or
- Privileged Information (PRI), which includes information protected by the attorney-client privilege.

I have read and understand SCERS' Privacy and Confidentiality Policy, which protects the confidentiality of PI, SI and PRI and other federal and state laws.

In consideration of my position with SCERS, I hereby agree that I will not at any time (either during my association with SCERS or after my association ends) use, access or disclose any confidential information to any person or entity, internally or externally, except as is required and permitted in the course of my duties and responsibilities with SCERS, as set forth in SCERS' privacy policies and procedures or as permitted under appropriate federal or state laws.

I understand this obligation extends to any Confidential Information that I may have acquired or may acquire during the course of my association with SCERS, whether in oral, written or electronic form and regardless of (1) the manner in which access was obtained, (2) whether the Confidential Information came into my custody, possession, or knowledge, or was developed, compiled, prepared or used by me, before or after the date of this Agreement, and (3) whether the Confidential Information has been published or has become a part of the public domain, or has been put in my possession or knowledge by a third person not acting on behalf of SCERS, or was in my possession or knowledge prior to my commencing work for SCERS.

I understand and acknowledge my responsibility to apply SCERS' policies and procedures during the course of my association. I also understand that unauthorized use or disclosure of Confidential

SCERS Privacy and Confidentiality Policy – Trustee Confidentiality Agreement

Information may result in the imposition of civil and criminal penalties under applicable federal and state law.

I understand that this obligation will survive the termination of my association with SCERS, regardless of the reason for such termination, and that my obligations under this Agreement are in addition to, and not exclusive of, any and all of my other obligations and duties to SCERS, whether express or implied, in fact or in law.

Signed _____ Date _____



STAFF CONFIDENTIALITY AGREEMENT

Instructions

This form is to be signed by all permanent and temporary SCERS employees. The signed form will remain in the employee file in Human Resources for a period of no less than 6 years from the last day of service.



**EMPLOYEE CONFIDENTIALITY AGREEMENT OF
THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM (SCERS)**

I, _____, understand that, in the course of my employment or association with SCERS, I may encounter information that is considered confidential (hereafter referred to as Confidential Information). I further understand that all Confidential Information must be protected from improper use or disclosure. In addition to other applicable federal and state laws, SCERS is required by California Government Code section 31532 to ensure that “sworn statements and individual records of members shall be confidential and shall not be disclosed to anyone except insofar as may be necessary for the administration of this chapter or upon order of a court of competent jurisdiction, or upon written authorization by the member.”

Confidential Information includes:

- Personal Information (PI), which is non-public information identifiable to an individual (e.g. member records and personnel files),
- Security Information (SI), which impacts the security of SCERS' assets or personnel or members, or
- Privileged Information (PRI), which includes information protected by the attorney-client privilege.

I have read and understand SCERS' Privacy and Confidentiality Policy, which protects the confidentiality of PI, SI and PRI and other federal and state laws.

In consideration of my employment or compensation from SCERS, I hereby agree that I will not at any time (either during my employment or association with SCERS or after my employment or association ends), access or disclose any confidential information to any person or entity, internally or externally, except as is required and permitted in the course of my duties and responsibilities with SCERS, as set forth in SCERS' privacy policies and procedures or as permitted under appropriate federal or state laws.

I understand this obligation extends to any Confidential Information that I may have acquired or may acquire during the course of my employment or association with SCERS, whether in oral, written or electronic form and regardless of (1) the manner in which access was obtained, (2) whether the Confidential Information came into my custody, possession, or knowledge, or was developed, compiled, prepared or used by me, before or after the date of this Agreement, and (3) whether the Confidential Information has been published or has become a part of the public domain, or has been put in my possession or knowledge by a third person not acting on behalf of SCERS, or was in my possession or knowledge prior to my commencing work for SCERS.

SCERS Privacy and Confidentiality Policy – Staff Confidentiality Agreement

I understand and acknowledge my responsibility to apply SCERS' policies and procedures during the course of my employment or association. I also understand that unauthorized use or disclosure of Confidential Information will result in disciplinary action, up to and including the termination of employment or association with SCERS and the imposition of civil and criminal penalties under applicable federal and state law, as well as professional disciplinary action as appropriate.

I understand that this obligation will survive the termination of my employment or end of my association with SCERS, regardless of the reason for such termination, and that my obligations under this Agreement are in addition to, and not exclusive of, any and all of my other obligations and duties to SCERS, whether express or implied, in fact or in law.

I understand that the original of this signed agreement will be included in my employee file at SCERS.

Signed _____ Date _____



**VENDOR AND VISITOR CONFIDENTIALITY AGREEMENT
GOVERNING THE ACCESS AND USE OF
SCERS' CONFIDENTIAL INFORMATION**

Instructions

This form is to be signed by a contractor or visitor to SCERS who, in order to perform the desired service, must have access to private or confidential information or areas containing private or confidential information. The signed form must be filed along with any contract information for a period of no less than six (6) years from the last day of service provided by the contractor.



**VENDOR AND VISITOR CONFIDENTIALITY AGREEMENT
GOVERNING THE ACCESS AND USE
OF SCERS' CONFIDENTIAL INFORMATION**

I, _____,
NAME
a representative of _____,
COMPANY

have read and understand SCERS' Privacy Policy. I understand that, during my association with SCERS, I may be exposed to the following kinds of information:

- Personal Information (PI), which is non-public information identifiable to an individual,
- SCERS' proprietary information.

PI and SCERS' proprietary information are collectively referred to as "Confidential Information." I further understand that all Confidential Information must be protected from improper use or disclosure.

In consideration of my compensation from SCERS and of SCERS' permitting me access to the Confidential Information, I hereby warrant and agree that I will not at any time (either during my association with SCERS or after my association ends) use, access or disclose any Confidential Information to any person or entity, internally or externally, except as is required and permitted in the course of my duties and responsibilities with SCERS, as set forth in SCERS' Privacy Policy.

I understand this obligation extends to any Confidential Information that I may have acquired or may acquire during the course of my association with SCERS, whether in oral, written or electronic form and regardless of (1) the manner in which access was obtained, (2) whether the Confidential Information came into my custody, possession, or knowledge, or was developed, compiled, prepared or used by me, before or after the date of this Agreement, and (3) whether the Confidential Information has been published or has become a part of the public domain, or has been put in my possession or knowledge by a third person not acting on behalf of SCERS, or was in my possession or knowledge prior to my commencing work for SCERS.

I understand and acknowledge my responsibility to apply SCERS' policies and procedures during the course of my association. I also understand that unauthorized use or disclosure of Confidential Information may result in disciplinary action, up to and including the termination of my association with SCERS and the imposition of civil penalties and criminal penalties under applicable federal and state law, as well as professional disciplinary action as appropriate.

SCERS Privacy and Confidentiality Policy – Vendor Confidentiality Agreement

I understand that this obligation will survive the termination of my association with SCERS, regardless of the reason for such termination, and that my obligations under this Agreement are in addition to, and not exclusive of, any and all of my other obligations and duties to SCERS, whether expressed or implied, in fact or in law.

NAME _____ TITLE _____

COMPANY _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

SIGNED _____ DATE _____

ATTACHMENT 5

CONFLICT OF INTEREST CODE (COIC)

DOCUMENTS:

1 - COIC PRESENTED IN REVISED FORMAT

Amendments update designated positions and Government Code Section 87200 filers (code filers), update disclosure categories, add Appendix C listing agency positions that are code filers, and clarify how the CEO may designate one or more SCERS' consultants as subject to the disclosure requirements.

Board Resolution 2018-02 for adoption on February 21, 2018 to amend SCERS' Conflict of Interest Code

NOTE: The amended Code will be effective upon approval by the Sacramento County Board of Supervisors in its capacity as the COIC reviewing body.

2 – COIC AS AMENDED BY THE BOARD

On August 17, 2016 by Board Resolution 2016-07

On February 18, 2010 by Board Resolution 2010-03



CONFLICT OF INTEREST CODE

Revision Date: February 21, 2018

Policy Number: 027

Revision Number: 04

PURPOSE

To establish the Conflict of Interest Code for the Sacramento County Employees' Retirement System (SCERS) as required by the Political Reform Act (Government Code Section 81000, et seq.) for state and local agencies.

POLICY

The Fair Political Practices Commission (FPPC) has adopted a regulation, 2 Cal. Code of Regs. Section 18730 that contains the terms of a standard conflict of interest code. The terms of that Section 18730 and any amendments thereto adopted by the FPPC are hereby incorporated by reference and, along with the attached Appendix A – Designated Positions, Appendix B – Disclosure Categories, and Appendix C – Agency Positions that Manage Public Investments for the Purpose of Government Code Section 87200, constitute the Sacramento County Employees' Retirement System (SCERS) Conflict of Interest Code (Code).

APPLICATION

Pursuant to Section 4 of the standard conflict of interest code, designated employees shall file statements of economic interest (Form 700) with the Sacramento County Clerk. Any SCERS Retirement Board members or employees already required to file statements of economic interest pursuant to Government Code Section 87200, et seq. are identified in Appendix C and no additional disclosure is required by this Code. Officials designated in Appendix C shall file their disclosure statements with the Sacramento County Clerk or to the appropriate agency pursuant to 2 Cal. Code of Regs. Section 18753(d).

Responsibility for accurately reporting disclosable interest rests solely with the person(s) required to file pursuant to statute or this Code and not with SCERS.

Pursuant to Government Code Section 87314, Appendix C entitled "Agency Positions that Manage Public Investments for the Purpose of Section 87200 of the Government Code" shall remain posted on SCERS website in a manner that is easily identifiable and accessible.

BACKGROUND

The Political Reform Act, Government Code Section 81000, et seq., requires every state and local government agency to adopt a conflict of interest code. The FPPC has adopted regulation, 2 Cal. Code of Regs. Section 18730 that contains the terms of a standard conflict of interest code, and which may be amended by the FPPC after public notice and hearings to conform to amendments to the Political Reform Act. This standard conflict of interest code can be incorporated by reference into local conflict of interest codes.

RESPONSIBILITIES

Executive Owner: General Counsel

Review Frequency: At least once every two years (usually pursuant to written notice from the Sacramento County Board of Supervisors)

POLICY HISTORY

Date	Description
02-21-2018	<i>Board to amend Code in revised format by Resolution 2018-02</i>
02-28-2017	Approved by Board of Supervisors
08-17-2016	Board amended Appendix A; Resolution 2016-07
03-24-2010	Approved by Board of Supervisors
02-18-2010	Board amended Appendix A; Resolution 2010-03
12-05-2000	Approved by Board of Supervisors
10-19-2000	Board replaced Code in Resolution 2000-05
05-23-1985	Board adopted Code

DESIGNATED POSITIONS

Persons occupying the following positions are designated as persons who must disclose economic interests as specified under categories described in Appendix B.

<u>POSITION</u>	<u>DISCLOSURE CATEGORY</u>
Chief Benefits Officer (Asst. Retirement Administrator – Benefits)	All Categories
Chief Operations Officer (Asst. Retirement Administrator – Operations)	All Categories
Chief Strategy Officer (Asst. Retirement Administrator – Enterprise Solutions Management)	All Categories
General Counsel (Retirement General Counsel)	All Categories
Retirement Services Managers	Category 3
Senior Accounting Manager	Category 3
Accounting Managers	Category 3
Senior Information Technology Analyst	Category 3
Consultants*	All Categories

* The Chief Executive Officer may determine that a particular consultant performs a type or range of duties that would cause the consultant to be subject to comply with the disclosure requirements described in this Code. Such determination shall be made in the sole discretion of the Chief Executive Officer in writing and include a description of the consultant’s duties upon which the requirement and extent of disclosure is based. The determination is a public record and shall be retained for public inspection in the same manner and location as this Code.

NOTE: The following positions, although not designated in this Conflict of Interest Code, are required to file Form 700 as “public officials who manage public investments” under Government Code Section 87200:

Retirement Board Members	
Chief Executive Officer	(Retirement Administrator)
Chief Investment Officer	(Chief Investment Officer – Retirement)
Deputy Chief Investment Officer	(Asst. Retirement Administrator – Investments)
Investment Officers	(Retirement Investment Officers)

DISCLOSURE CATEGORIES¹**CATEGORY 1**

Investments in any business, entity, or real estate venture of the type which the Retirement Board is legally authorized to invest, or in any type of entity that provides services or supplies of the type used by SCERS (currently Schedules A-1 and/or A-2 of Form 700)

CATEGORY 2

Interests in Real Property that could be affected by any decision made or participated in by the designated individual (currently Schedules B and/or C of Form 700). If the designated individual is a trustee or SCERS employee, disclosure is only required on real property located in the County of Sacramento.

CATEGORY 3

Income from any source of the type in which the Retirement Board is legally authorized to invest, or from any person or entity that provides services or supplies of the type used by SCERS (currently Schedules, C, D, E, and/or F of Form 700).

CATEGORY 4

Any Position Held as a director, officer, partner, trustee, or any position of management in any business entity that offers or holds investments of the type in which the Retirement Board is legally authorized to invest, or in any type of entity that provides services or supplies of the type used by SCERS (currently Schedule C of Form 700).

¹ Only investments in and sources of income from business entities, and sources of income which do business in the geographic area of SCERS, or real property interests located in the County of Sacramento need to be reported.

**Agency Positions that Manage Public Investments for
Purposes of Section 87200 of the Government Code**

Retirement Board Members

Chief Executive Officer

(Retirement Administrator)

Chief Investment Officer

(Chief Investment Officer - Retirement)

Deputy Chief Investment Officer

(Asst. Retirement Administrator – Investments)

Investment Officers

(Retirement Investment Officers)

RESOLUTION NO. SCERS 2018-02

**RESOLUTION OF THE BOARD OF RETIREMENT
OF THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
TO AMEND THE CONFLICT OF INTEREST CODE**

WHEREAS, the Political Reform Act, Government Code Sections 81000, et. seq., requires every local agency to adopt a conflict of interest code; and,

WHEREAS, the Board last amended its conflict of interest code on August 17, 2016 ("current conflict of interest code"); and,

WHEREAS, the current conflict of interest code was approved by the Board of Supervisors as the code reviewing body on February 28, 2017; and,

WHEREAS, it is necessary to amend the current conflict of interest code to add certain designated positions and list both the functional job titles and job classifications (if different) for the Designated Positions in Appendix A; and

WHEREAS, it is appropriate to update the Disclosure Categories in Appendix B to clarify the types of economic interests each Designated Position must disclose; and

WHEREAS, it is necessary to add the list of Agency Positions that Manage Public Investments as Appendix C to comply with the requirements of Government Code Section 87314; and

WHEREAS, the Board has reformatted its conflict of interest code in the Board's standard policy format;

NOW, THEREFORE, BE IT RESOLVED that the current conflict of interest code is hereby replaced with the amended Conflict of Interest Code (attached hereto) that incorporates by reference the provisions of 2 Cal. Code of Regs. Section 18730 (as adopted by, and as may be amended from time to time by, the California Fair Political Practices Commission); the updated Designated Positions (Appendix A); the revised Disclosure Categories (Appendix B); and the new list of Agency Positions that Manage Public Investments (Appendix C), all of which together constitute the Conflict of Interest Code for the Sacramento County Employees' Retirement System ("SCERS"); and

BE IT FURTHER RESOLVED that this conflict of interest code shall be effective upon approval by the Sacramento County Board of Supervisors in its capacity as the code reviewing body.

On motion made by Member _____, Seconded by Member _____, the foregoing Resolution was passed and adopted by the Board of the Sacramento County Employees' Retirement System this 21st day of February, 2018, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

Secretary of the Board of the
Sacramento County Employees'
Retirement System

President of the Board of the
Sacramento County Employees'
Retirement System

RESOLUTION NO. SCERS 2016-07

RESOLUTION OF THE BOARD OF RETIREMENT
OF THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
TO AMEND THE CONFLICT OF INTEREST CODE

WHEREAS, the Political Reform Act, Government Code Sections 81000, et. seq., requires every local agency to adopt a conflict of interest code; and,

WHEREAS, your Board last amended its conflict of interest code on February 18, 2010 ("current conflict of interest code"); and,

WHEREAS, the current conflict of interest code was approved by the Board of Supervisors as code reviewing body; and,

WHEREAS, it is necessary to amend the current conflict of interest code in order to add certain designated positions required to disclose financial interests in accordance with specified disclosure categories;

NOW, THEREFORE BE IT RESOLVED that the current conflict of interest code is amended, as follows:

The provisions of 2 Cal. Adm. Code Section 18730 (copy attached), as amended from time to time by the California Fair Political Practices Commission ("FPPC"), together with the appendices A and B attached hereto designating positions and applicable disclosure categories, respectively, are hereby adopted and incorporated by reference as the Conflict of Interest Code for the Sacramento County Employees' Retirement System ("SCERS").

Persons holding designated positions shall file statements of economic interest (Form 700) with SCERS, which shall retain copies of such statements, and forward the originals of such statements to the County Clerk as filing officer.

This conflict of interest code shall be effective upon approval by the Sacramento County Board of Supervisors in its capacity as code reviewing body.

On motion made by Member Kelly, Seconded by Member Pittman, the foregoing Resolution was passed and adopted by the Board of the Sacramento County Employees' Retirement System this 17th day of August, 2016, by the following vote:

AYES: Fowler, Kelly, DeVore, Baird, DeBord, Lamera, Pittman, and Conneally

NOES: none

ABSTAIN:

ABSENT: Diepenbrock and Gin

ATTEST:


Secretary of the Board of the
Sacramento County Employees'
Retirement System


President of the Board of the
Sacramento County Employees'
Retirement System

APPENDIX A

DESIGNATED POSITIONS

Persons occupying the following positions are designated as persons who must disclose financial interests as specified under categories described in Appendix B:

<u>POSITION</u>	<u>DISCLOSURE CATEGORY</u>
Assistant Retirement Administrator(s)	All categories
General Counsel	All categories
Investment Officer(s)	All categories
Retirement Services Manager	Category 3
Senior Accounting Manager	Category 3
Accounting Manager	Category 3
*Consultants	All categories

*The Chief Executive Officer may determine in writing that a particular consultant performs a range of duties that is limited in scope, and is therefore not required to comply, in whole or in part, with the disclosure requirements described in this code. Such written determination shall include a description of the consultant's duties and, based upon that description, a determination of the extent of disclosure required, if any. The determination is a public record, and shall be retained for public inspection in the same manner and location as this conflict of interest code.

Note: The following positions, although not designated in this Conflict of Interest Code, are required to file Form 700 as "public officials who manage public investments" under Government Code Section 87200 ("Code Filers"):

Members of the Retirement Board
Chief Executive Officer
Chief Investment Officer

APPENDIX B

DISCLOSURE CATEGORIES

CATEGORY 1

All interests in real property required to be disclosed by the FPPC in Form 700, but also including any interest in real property in which SCERS has an investment, whether direct or indirect.

CATEGORY 2

All investments, business positions and sources of income, including gifts, loans and travel payments, required to be disclosed by the FPPC in Form 700.

CATEGORY 3

All investments, business positions, and sources of income, including gifts, loans and travel payments, involving persons or business entities that provide, or may offer to provide, goods and services to SCERS, for which a person holding a designated position may participate in the making of a contract for such goods or services.

RESOLUTION NO. SCERS 2010-03

**RESOLUTION OF THE BOARD OF RETIREMENT
OF THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
TO AMEND THE CONFLICT OF INTEREST CODE**

WHEREAS, the Political Reform Act, Government Code Sections 81000, et. seq., requires every local agency to adopt a conflict of interest code; and,

WHEREAS, the Board last amended its conflict of interest code on October 19, 2000 ("current conflict of interest code"); and,

WHEREAS, the current conflict of interest code was approved by the Board of Supervisors as code reviewing body on December 5, 2000; and,

WHEREAS, it is necessary to amend the current conflict of interest code in order to add certain designated positions required to disclose financial interests in accordance with specified disclosure categories;

NOW, THEREFORE BE IT RESOLVED that the current conflict of interest code is amended, as follows:

The provisions of 2 Cal. Adm. Code Section 18730 (copy attached), as amended from time to time by the California Fair Political Practices Commission ("FPPC"), together with the appendices A and B attached hereto designating positions and applicable disclosure categories, respectively, are hereby adopted and incorporated by reference as the Conflict of Interest Code for the Sacramento County Employees' Retirement System ("SCERS").

Persons holding designated positions shall file statements of economic interest (Form 700) with SCERS, which shall retain copies of such statements, and forward the originals of such statements to the County Clerk as filing officer.

This conflict of interest code shall be effective upon approval by the Sacramento County Board of Supervisors in its capacity as code reviewing body.

On motion made by Member Kelly, Seconded by Member Wolford-Landers, the foregoing Resolution was passed and adopted by the Board of the Sacramento County Employees' Retirement System this 18th day of February, 2010, by the following vote:

AYES: DeVore, Kelly, Hickox, Johnson, O'Neil, Wolford-Landers, Woods

NOES: None

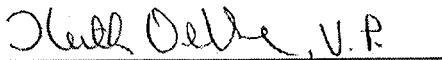
ABSTAIN: None

ABSENT: Diepenbrock, Norris

ATTEST:



Secretary of the Board of the
Sacramento County Employees'
Retirement System



President of the Board of the
Sacramento County Employees'
Retirement System



Executive Staff
Richard Stensrud
Chief Executive Officer
James G. Line
General Counsel
Kathryn T. Regalia
Chief Operations Officer
John W. Gobel, Sr.
Chief Benefits Officer

SCERS Conflict of Interest Code

Under the California Political Reform Act (Government Code §81000 et seq.) all public agencies are required to adopt a conflict of interest code, and to periodically review the Code to insure that it stays up to date.

The Code is required to include three primary elements:

- a) Terms of the Code. Such substantive provisions as those regarding disclosure requirements, restrictions on participation in making governmental decisions, etc. The Fair Political Practices Commission ("FPPC") recommends that local agencies incorporate its Regulation 18730 for this element, including any changes adopted by the FPPC from time to time. Accordingly, the Code will automatically be updated regarding any regulatory changes in the substantive law.
- b) Designated Positions. A list of positions within the organization that make or participate in making decisions, such as voting on matters, negotiating contracts, and making recommendations to the Board. Basically, the positions that will be required to file Form 700. Note: certain positions are required to file Form 700 because they are specifically designated in Government Code §87200 or are determined to manage the investment of public funds (so-called "Code filers). In addition, since 2000 the FPPC has made it clear that certain outside consultants, such as investment managers and the investment consultant are required to be included as designated positions.
- c) Disclosure Categories. The Code adopted by a local agency is required to have its Code, or any amendment, reviewed and approved by its Code Reviewing Body before the Code or amendment will become effective (Government Code §87303). The Board of Supervisors is the Code Reviewing Body for SCERS.

Amendment to SCERS Conflict of Interest Code has been approved by SCERS Board on February 18, 2010.

APPENDIX A

DESIGNATED POSITIONS

Persons occupying the following positions are designated as persons who must disclose financial interests as specified under categories described in Appendix B:

<u>POSITION</u>	<u>DISCLOSURE CATEGORY</u>
Assistant Retirement Administrator(s)	All categories
General Counsel	All categories
Investment Officer(s)	All categories
Retirement Services Manager	Category 3
Accounting Manager	Category 3
*Consultants	All categories

*The Chief Executive Officer may determine in writing that a particular consultant performs a range of duties that is limited in scope, and is therefore not required to comply, in whole or in part, with the disclosure requirements described in this code. Such written determination shall include a description of the consultant's duties and, based upon that description, a determination of the extent of disclosure required, if any. The determination is a public record, and shall be retained for public inspection in the same manner and location as this conflict of interest code.

Note: The following positions, although not designated in this Conflict of Interest Code, are required to file Form 700 as "public officials who manage public investments" under Government Code Section 87200 ("Code Filers"):

Members of the Retirement Board
Chief Executive Officer
Chief Investment Officer

APPENDIX B

DISCLOSURE CATEGORIES

CATEGORY 1

All interests in real property required to be disclosed by the FPPC in Form 700, but also including any interest in real property in which SCERS has an investment, whether direct or indirect.

CATEGORY 2

All investments, business positions and sources of income, including gifts, loans and travel payments, required to be disclosed by the FPPC in Form 700.

CATEGORY 3

All investments, business positions, and sources of income, including gifts, loans and travel payments, involving persons or business entities that provide, or may offer to provide, goods and services to SCERS, for which a person holding a designated position may participate in the making of a contract for such goods or services.