ARTICLE II. BOARD ADMINISTRATIVE POLICIES

SECTION 3.0  FINANCIAL, ACTUARIAL, AUDIT ADMINISTRATION

3.1 ACTUARIAL FUNDING POLICY

Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by LACERS;
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

LACERS 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 or health 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 Actuarial Value of Assets in a systematic manner.

I. Actuarial Cost Method:

a. The Entry Age Normal method shall be applied for the existing and any future tiers of retirement or health benefit in determining the Normal Cost and the Actuarial Accrued Liability.

II. Asset Smoothing Method:

a. The gains or losses of each valuation period, as a result of comparing the Market Value of assets at the end of the period with what the Market Value would have been if the assumed rate of return on assets was realized during the period, shall be recognized in level amount over 7 years in calculating the Actuarial Value of Assets;

b. The Actuarial Value of Assets as determined above shall be limited to be within a corridor of 60% - 140% of the Market Value of assets.

c. This policy anticipates that future circumstances may warrant adjustments to change the pattern of the recognition of the net gains or losses after a period of significant market change followed by a period of market correction, upon receiving an analysis from LACERS’ actuary. Such adjustments would be appropriate when the net gains or losses are relatively small (i.e., the actuarial and market values are very close together) and the following conditions are met:
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i. The net gains or losses are unchanged as of the date of the adjustment; and

ii. The period over which the net gains and losses are fully recognized is unchanged as of the date of the adjustment.

III. Amortization Policy:

a. The Unfunded Actuarial Accrued Liability (UAAL), the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets, shall be amortized over various periods of time, depending on how the unfunded liability arose;

b. For UAAL identified before the June 30, 2010 actuarial valuation:

i. The UAAL as of June 30, 2005 shall be amortized over 30 years;

ii. Actuarial gains or losses shall be amortized over 15 years;

iii. Plan amendments, other than the City's Early Retirement Incentive Program of 2009-2010, shall be amortized over 30 years;

iv. The City's Early Retirement Incentive Program of 2009-2010 shall be amortized over 15 years;

v. Changes in actuarial assumptions and cost methods shall be amortized over 30 years;

c. For UAAL identified beginning from the June 30, 2010 actuarial valuation:

i. Actuarial gains or losses shall be amortized over 15 years;

ii. Plan amendments, other than Early Retirement Incentives, shall be amortized over 15 years;

iii. Early Retirement Incentives shall be amortized over 5 years;

iv. Changes in actuarial assumption and cost methods, other than those assumptions related with health benefit and reviewed annually by the Board, shall be amortized over 20 years;

v. Changes in actuarial assumptions related with health benefit and reviewed annually by the Board shall be amortized over 15 years;

vi. Actuarial funding surplus (an excess of Actuarial Value of Assets over Actuarial Accrued Liability) shall be amortized over 30 years;

vii. All UAAL layers for the Pension Plan as of June 30, 2012 shall be combined and amortized over 30 years, except the layers created in 2004 and 2005 for GASB
compliance and the layers created in 2009 as a result of the Early Retirement Incentive Program, which will maintain their original amortization schedules.

viii. All UAAL layers for the Retiree Health Plan as of the June 30, 2020 actuarial valuation shall be amortized over 21 years starting with the June 30, 2021 actuarial valuation.

d. UAAL shall be amortized over "closed" amortization periods;

e. 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;

f. Layers generated by various sources of UAAL shall be combined and/or restarted when:

i. It is required to comply with the amortization standards set forth by the Governmental Accounting Standards Board (GASB); or

ii. The net result of amortization of each layer is an amortization credit which would offset the Normal Cost; or

iii. Other conditions arise so that the Board considers that it is appropriate to do so.