

**Executive Team:**

**Dominic D. Brown, CPA, CFE**  
Chief Executive Officer

**Daryn Miller, CFA**  
Chief Investment Officer

**Jennifer Zahry, JD**  
Chief Legal Officer

**Matthew Henry, CFE**  
Chief Operations Officer



**Board of Retirement:**

Phil Franey, Chair  
David Couch, Vice-Chair  
Deon Duffey  
Juan Gonzalez  
Joseph D. Hughes  
Jordan Kaufman  
Rick Kratt  
John Sanders  
Tyler Whitezell  
Dustin Contreras, Alternate  
Chase Nunneley, Alternate  
Robb Seibly, Alternate

November 15, 2024

Members, Board of Retirement  
Employee Bargaining Units  
Requesting News Media  
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Finance Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Finance Committee will be held on Wednesday, November 20, 2024 at 10:30 a.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

**How to Participate: Listen to or View the Board Meeting**

To listen to the live audio of the Board meeting, please dial one of the following numbers (for best audio a landline is recommended) and enter ID# 889 2930 7844

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- <https://us02web.zoom.us/j/88929307844?pwd=JGjvXgS5emUiWgXXmBPidMKtqNtnDM.1>
- Passcode: 956716

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to [administration@kcera.org](mailto:administration@kcera.org).

Sincerely,

Dominic D. Brown  
Chief Executive Officer

Attachments

**AGENDA:**

All agenda item supporting documentation is available for public review on KCERA's website at [www.kcera.org](http://www.kcera.org) following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

**AMERICANS WITH DISABILITIES ACT  
(Government Code §54953.2)**

Disabled individuals who need special assistance to listen to and/or participate in the meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to [administration@kcera.org](mailto:administration@kcera.org). Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

**CALL TO ORDER**

**ROLL CALL (IN PERSON)**

**AB 2449 REMOTE APPEARANCE(S)**

*Items 1 and/or 2 withdrawn from agenda if no trustee(s) request to appear remotely:*

1. JUST CAUSE CIRCUMSTANCE(S):
  - a) The following Trustee(s) have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).
    - NONE
  - b) Call for Trustee(s) who wish to notify the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953) – RECEIVE/HEAR REQUEST(S); NO COMMITTEE ACTION REQUIRED
  
2. EMERGENCY CIRCUMSTANCE(S):
  - a) The following Trustee(s) have requested the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance." (See Government Code § 54953).
    - NONE
  - b) Call for Trustee(s) requesting the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance". (See Government Code § 54953) – TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE DUE TO EMERGENCY CIRCUMSTANCE

### **FINANCE MATTERS**

3. [Presentation of the Actuarial Audit of the June 30, 2023 Actuarial Valuations and Peer Review of the July 1, 2019 through June 30, 2022 Experience Study and June 30, 2023 GASB 67 Report performed by Cheiron, Inc., presented by Anne D. Harper, Principal Consulting Actuary, and Heather Fantz, Consulting Actuary, Cheiron, Inc. – RECOMMEND THE BOARD OF RETIREMENT RECEIVE AND FILE](#)
4. [Presentation of Independent Accountant's Report on Applying Agreed-Upon Procedures by Auditors Jason Ostroski, CPA, Principal, and Tim Rawal, CPA, Senior Manager, UHY LLP – RECOMMEND THE BOARD OF RETIREMENT RECEIVE AND FILE](#)
5. [Discussion and appropriate action on proposed Optional Settlement 4 Policy presented by Chief Executive Officer Dominic Brown, Chief Legal Officer Jennifer Zahry, and Actuary Molly Calcagno, Segal – RECOMMEND BOARD OF RETIREMENT APPROVE PROPOSED POLICY](#)

### **PUBLIC COMMENTS**

6. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

### **REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS**

7. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.
8. Adjournment

## **Kern County Employees' Retirement Association**

**Audit of the June 30, 2023  
Actuarial Valuations; Peer  
Review of the July 1, 2019  
through June 30, 2022  
Experience Study and June 30,  
2023 GASB 67 Report**

**Produced by Cheiron**

**November 2024**

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*Via Electronic Mail*

November 12, 2024

Board of Retirement  
Kern County Employees' Retirement Association  
11125 River Run Blvd.  
Bakersfield, CA 93311

Members of the Board:

Cheiron is pleased to present the results of our actuarial audit of the June 30, 2023 Actuarial Valuation and Review, June 30, 2023 Supplemental Retiree Benefits Reserve (SRBR) Actuarial Valuation and Review of the Kern County Employees' Retirement Association (KCERA), and the July 1, 2019 through June 30, 2022 Experience Study performed by Segal. We would like to thank Segal for providing us with information and explanations that facilitated the actuarial audit process and ensured that our findings are accurate and benefit KCERA.

We direct your attention to the executive summary section of our report that highlights the key findings of our review. The balance of the report provides details in support of these findings along with supplemental data, background information, and discussion of the process used in the evaluation of the work performed by Segal.

In preparing our report, we relied on information (some oral and some written) supplied by KCERA and Segal. This information includes, but is not limited to, actuarial assumptions and methods adopted by KCERA, the plan provisions, employee data, and financial information.

We performed an informal examination of the obvious characteristics of the data for reasonableness in accordance with Actuarial Standard of Practice No. 23. A detailed description of all information provided for this review is provided in the body of our report.

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

Members of the Board  
Kern County Employees' Retirement Association  
November 12, 2024  
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This report was prepared exclusively for the Kern County Employees' Retirement Association for the purpose described herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other users.

Sincerely,  
Cheiron



Anne D. Harper, FSA, EA, MAAA  
Principal Consulting Actuary



Graham A. Schmidt, FSA, EA, MAAA, FCA  
Principal Consulting Actuary

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION I – EXECUTIVE SUMMARY**

**Scope of Assignment**

Cheiron performed a complete independent replication of the KCERA June 30, 2023 Actuarial Valuation and Review, the June 30, 2023 SRBR Actuarial Valuation and Review, and a review of the July 1, 2019 to June 30, 2022 Experience Study.

We reviewed the census data provided by KCERA staff and compared it to the information used by Segal in their valuations. We then performed a full parallel valuation, including the calculation of the projected benefits, Actuarial Liability, and normal cost for all KCERA members, and compared the results to those shown in Segal's actuarial valuation reports.

This audit provides KCERA confirmation that:

- The results reported by Segal can be relied upon,
- The actuarial methods and assumptions comply with Actuarial Standards of Practice (ASOPs), and
- The communication of the actuarial valuation results is complete and reasonable.

**Key Findings and Recommendations**

The main findings of our review are as follows:

- As a result of our efforts, we are able to confirm that the liabilities and costs computed in the valuations as of June 30, 2023 are materially accurate and were computed in accordance with generally accepted actuarial principles. For the scope of this audit, materiality means the results in the aggregate are within plus or minus 5%.
- We have reviewed the economic assumptions recommended in the most recent Actuarial Experience Study performed by Segal and used in the June 30, 2023 actuarial valuation. We have found them to be reasonable and in accordance with generally accepted actuarial principles. We support Segal's recommendation to reduce the investment return assumption from 7.25% to 7.00%, as well as the inflation assumption from 2.75% to 2.50%.
  - However, we strongly suggest that Segal update their stochastic modeling to estimate the impact of the 50% allocation of future excess earnings to the SRBR, in order to be in compliance with the Actuarial Standards of Practice (ASOPs). We independently modeled the "skim" or "outflow" from the valuation to the SRBR reserves based on the current market environment and assumed rate of return and calculated an average "outflow" of 1.1% of assets compared to Segal's estimate of 0.3% (which was based on an analysis performed in 2015).
- Cheiron determined the demographic assumptions proposed in Segal's Experience Study to be generally reasonable and in compliance with acceptable standards of actuarial practice. We mostly agree with the rationales and processes that led to their recommendations. However,

**ACTUARIAL AUDIT REPORT OF THE  
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**SECTION I – EXECUTIVE SUMMARY**

we have a few recommendations Segal should consider at the time of the next experience study summarized below.

- For the demographic assumptions, we recommend that Segal disclose the number of exposures, actual and expected decrements for each age or service level and in total. Segal only provides the current, actual, and proposed rates for each age or service which gives no indication to the extent of the data available in making the recommended assumption changes. We recommended these disclosures in our previous audit of the June 30, 2019 experience study.
- We strongly recommend that Segal use at least six years of data to review the retirement experience. Segal included six years of valuation data for analyzing terminations, refunds and disability to increase the credibility of the data; and, 12 years for mortality experience. For the 2022 study, using six years of data was important to ensure that fluctuations in behavior during the pandemic are mitigated by also using the prior three-year period of experience. However, Segal only used the data from July 1, 2019 to June 30, 2022 for the retirement experience.
- We suggest Segal closely monitor the disability experience. If warranted by the data, we recommend further decreasing the rates for General members who are less than 45 years old and for Safety members who are over 50 years old.
- We commend Segal for including projections of the outstanding balance of the Unfunded Actuarial Liability (UAL) and UAL payment projections on pages 102-103 of the valuation report. However, we suggest that Segal also include projections of the employer contribution rate and funded status in their report to help the KCERA Board and stakeholders understand the dynamics of their actuarial funding policies and the impact of the new benefit tiers on the future costs of the system.
- KCERA's financial auditors have approved Segal's treatment of Article 5.5 of the CERL, the Supplemental Retiree Benefits Reserve in the GASB 67 reporting. However, an alternate methodology would be to include the liability associated with SRBR benefit payments related to future potential excess earnings in the Total Pension Liability (TPL) and the "crossover test" used in the determination of the discount rate.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

**Valuation Procedures**

Overall, we find that the June 30, 2023 actuarial valuation procedures applied in the reporting of the funded status and the determination of the funding requirements based on the current funding policies and adopted assumptions are technically reasonable and conform to the ASOPs. This is based on our review of: the valuation report, the census data used in the valuation, and our parallel valuation using the information described above.

**Valuation Results**

Our independent replication of the June 30, 2023 actuarial valuation found no material difference in calculations of plan liabilities, normal costs, Actuarial Value of Assets, and overall contribution rates from the amounts calculated by Segal based on the adopted assumptions and methods. Consequently, we conclude that the valuation prepared by Segal for KCERA as of June 30, 2023 is reasonable and can be relied on by the Board for its intended purpose.

Our replication of the measures of plan liabilities and costs is summarized in Table II-1 below. We note that all results are within 5% of Segal's calculation.

<b>Table II-1</b>			
<b>Summary of Valuation Results as of June 30, 2023</b>			
(\$ in thousands)			
	Segal	Cheiron	Ratio
Actuarial Liability	\$ 7,918,849	\$ 7,879,772	100%
Actuarial Value of Assets	<u>5,436,078</u>	<u>5,436,078</u>	100%
Unfunded Actuarial Liability (UAL)	\$ 2,482,771	\$ 2,443,694	98%
Funded Percentage	68.6%	69.0%	100%
<b>Contribution Rate by Component</b>			
Net Employer Normal Cost Rate	12.69%	13.02%	103%
UAL Payment Rate	<u>36.11%</u>	<u>35.57%</u>	99%
Total Employer Contribution	48.80%	48.59%	100%

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KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

To confirm that the match is close across all rate groups, we show a comparison of the present value of benefits for each rate group below in Table II-2. We note that all results are within the 5% threshold.

**Table II-2  
Present Value of Future Benefits  
(\$ in thousands)**

	Segal	Cheiron	Ratio
County General Tier I without Courts	\$ 4,081,283	\$ 4,073,773	100%
County General Tier IIA without Courts	235,103	232,488	99%
County General Tier IIB without Courts	492,485	487,869	99%
Courts Tier I	320,556	320,347	100%
Courts Tier IIA	13,751	13,766	100%
Courts Tier IIB	37,599	37,247	99%
County Safety Tier I	2,981,476	2,963,657	99%
County Safety Tier IIA	55,393	55,715	101%
County Safety Tier IIB	275,925	269,315	98%
District Category I Tier I	113,121	113,408	100%
District Category I Tier IIA	2,651	2,643	100%
District Category I Tier IIB	3,400	3,384	100%
District Category II Tier I	38,436	38,422	100%
District Category II Tier IIB	2,052	2,030	99%
District Category III Tier I	282,157	281,041	100%
District Category III Tier IIA	3,086	3,051	99%
District Category III Tier IIB	25,007	24,913	100%
District Category V Tier I	9,827	9,831	100%
District Category V Tier IIA	1,372	1,365	99%
District Category V Tier IIB	1,826	1,784	98%
District Category VI Tier I	6,548	6,571	100%
Berrneda Mesa Water District	10,270	10,226	100%
Inyokern	330	324	98%
<b>Total KCERA</b>	<b>\$ 8,993,654</b>	<b>\$ 8,953,171</b>	<b>100%</b>

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KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

Our replication of the actuarial accrued liability by Tier is shown below in Table II-3. We note that the liabilities by Tier are all within the 5% threshold.

**Table II-3  
Comparison of Actuarial Accrued Liability  
(\$ in thousands)**

	Segal	Cheiron	Ratio
County General without Courts	\$ 4,250,103	\$ 4,228,725	99%
Courts	324,862	324,293	100%
County Safety	2,904,465	2,888,423	99%
District Category I	110,595	110,792	100%
District Category II	36,647	36,570	100%
District Category III	264,265	263,102	100%
District Category V	11,241	11,214	100%
District Category VI	6,339	6,359	100%
Berrneda Mes Water District	10,003	9,969	100%
Inyokern	330	324	98%
<b>Total KCERA</b>	<b>\$ 7,918,850</b>	<b>\$ 7,879,772</b>	<b>100%</b>

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

Our replication of the employer contribution rates by Tier is shown below in Table II-4. We note that the employer rates by Tier are all within the 5% threshold.

**Table II-4  
Comparison of Employer Contribution Rates  
(\$ in thousands)**

	Segal	Cheiron	Ratio
County General Tier I without Courts	47.81%	48.25%	101%
County General Tier IIA without Courts	35.67%	35.60%	100%
County General Tier IIB without Courts	35.13%	34.90%	99%
Courts Tier I	45.38%	46.09%	102%
Courts Tier IIA	36.00%	35.93%	100%
Courts Tier IIB	35.13%	34.90%	99%
County Safety Tier I	89.63%	89.30%	100%
County Safety Tier IIA	80.13%	78.94%	99%
County Safety Tier IIB	75.34%	74.20%	98%
District Category I Tier I	56.96%	57.57%	101%
District Category I Tier IIA	43.77%	43.85%	100%
District Category I Tier IIB	42.60%	42.51%	100%
District Category II Tier I	53.95%	54.53%	101%
District Category II Tier IIB	42.60%	42.51%	100%
District Category III Tier I Buttonwillow	52.31%	54.15%	104%
District Category III Tier I SJVAPCD	48.54%	48.75%	100%
District Category III Tier IIA SJVAPCD	43.06%	43.05%	100%
District Category III Tier IIB	42.60%	42.51%	100%
District Category V Tier I	60.89%	61.57%	101%
District Category V Tier IIA	43.77%	43.85%	100%
District Category V Tier IIB	42.60%	42.51%	100%
District Category VI Tier I	60.89%	61.44%	101%
<b>Employers with Declining Payrolls</b>			
Berneda Mesa Water District	\$468	\$463	99%
Inyokern	\$14	\$14	100%
<b>Combined</b>	<b>48.80%</b>	<b>48.59%</b>	<b>100%</b>

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

**SRBR Valuation Results**

Our independent replication of the June 30, 2023 SRBR actuarial valuation found no material difference in the calculations of plan liabilities and Actuarial Value of Assets from the amounts calculated by Segal. Consequently, we conclude that the SRBR valuation prepared by Segal for KCERA as of June 30, 2023 is reasonable and can be relied on by the Board for its intended purpose.

Our replication of the present value of benefits for the SRBR are summarized in Table II-5 below. We note that the overall results are within 5% of Segal's calculation.

<b>Table II-5</b>			
<b>Summary of SRBR Valuation Results as of June 30, 2023</b>			
(\$ in thousands)			
	Segal	Cheiron	Ratio
Restructured SRBR	\$ 105,493	\$ 107,305	102%
Death Benefit	<u>18,054</u>	<u>17,945</u>	99%
Total	\$ 123,547	\$ 125,250	101%

**Employee Contribution Rates**

As part of the audit, we replicated the calculations of the individual member contribution rates based on the applicable provisions of the County Employees' Retirement Law (the CERL). We understand the member contribution rates to be made up of the following components:

- General Tier I (non SJVAPCD): Entry age-based rates which provide for 1/100<sup>th</sup> of One-Year Final Average Compensation at a retirement age of 55
- General Tier I (SJVAPCD): Entry age-based rates which provide for 50% of the total normal cost rate
- General Tier IIA (non-SJVAPCD): Entry age-based rates which provide for 1/120<sup>th</sup> of One-Year Final Average Compensation at a retirement age of 60
- General Tier IIA (SJVAPCD): Entry age-based rates which provide for 50% of the total normal cost rate
- General Tiers IIB and III: Non-entry age-based rates which provide for 50% of the total normal cost rate
- Safety Tier I: Entry age based rates which provide for 1/100<sup>th</sup> + 1/200<sup>th</sup> (Supplemental) of One-Year Final Average Compensation at a retirement age of 50
- Safety "3" Tier I: At all entry ages, the member contribution rate (Basic and Supplemental) for Safety Tier I members who enter at age 27, or
- Safety Tier IIA: Entry age-based rates which provide for 1/100<sup>th</sup> of Three-Year Final Average Compensation at a retirement age of 50

**ACTUARIAL AUDIT REPORT OF THE  
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**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

- Safety “3” Tier IIA: At all entry ages, the member contribution rate for Safety Tier IIA members who enter at age 27
- Safety Tier IIB: Non-entry age-based rates which provide for 50% of the total normal cost rate

Safety Tier I and IIA members with 30 or more years of service are exempt from paying member contributions. Various valuation groups have all or a portion of the member’s contribution “picked-up” by the employer, in some cases based on meeting certain service criteria.

We have verified the calculations of the member contribution rates based on the applicable provisions of the CERL for sample ages in Table II-6, Table II-7, and Table II-8. Our rates are within 5% of Segal’s rates for all General and Safety Tiers and our comparison is shown on the following pages. We do not show a comparison for General Tier III since there are currently no active members in that Tier.

<b>Table II-6 Member Contribution Rates Comparison by Plan Sample Entry Age 25</b>			
<b>Plan</b>	<b>Segal</b>	<b>Cheiron</b>	<b>Ratio</b>
General Tier I (non-SJVAPCD) <sup>1</sup>	7.95%	7.99%	101%
General Tier I (SJVAPCD)	11.40%	11.68%	102%
General Tier IIA (non-SJVAPCD)	5.73%	5.77%	101%
General Tier IIA (SJVAPCD)	5.45%	5.52%	101%
General Tier IIB	6.69%	6.49%	97%
Safety Tier I (excluding Safety 3 Members)	14.37%	14.37%	100%
Safety Tier I (Safety 3 Members)	14.89%	14.89%	100%
Safety Tier IIA (excluding Safety 3 Members)	9.62%	9.62%	100%
Safety Tier IIA (Safety 3 Members)	9.97%	9.97%	100%
SafetyTier IIB	14.46%	14.11%	98%

<sup>1</sup> Court Tier I employees pay an additional 8% of base pay.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

**Table II-7  
Member Contribution Rates Comparison by Plan  
Sample Entry Age 35**

<b>Plan</b>	<b>Segal</b>	<b>Cheiron</b>	<b>Ratio</b>
General Tier I (non-SJVAPCD) <sup>1</sup>	9.63%	9.67%	100%
General Tier I (SJVAPCD)	13.82%	14.13%	102%
General Tier IIA (non-SJVAPCD)	6.92%	6.96%	101%
General Tier IIA (SJVAPCD)	6.58%	6.65%	101%
General Tier IIB	6.69%	6.49%	97%
Safety Tier I (excluding Safety 3 Members)	17.32%	17.32%	100%
Safety Tier I (Safety 3 Members)	14.89%	14.89%	100%
Safety Tier IIA (excluding Safety 3 Members)	11.59%	11.59%	100%
Safety Tier IIA (Safety 3 Members)	9.97%	9.97%	100%
SafetyTier IIB	14.46%	14.11%	98%

<sup>1</sup> Court Tier I employees pay an additional 8% of base pay.

**Table II-8  
Member Contribution Rates Comparison by Plan  
Sample Entry Age 45**

<b>Plan</b>	<b>Segal</b>	<b>Cheiron</b>	<b>Ratio</b>
General Tier I (non-SJVAPCD) <sup>1</sup>	11.64%	11.69%	100%
General Tier I (SJVAPCD)	16.71%	17.09%	102%
General Tier IIA (non-SJVAPCD)	8.40%	8.45%	101%
General Tier IIA (SJVAPCD)	7.99%	8.08%	101%
General Tier IIB	6.69%	6.49%	97%
Safety Tier I (excluding Safety 3 Members)	20.00%	20.00%	100%
Safety Tier I (Safety 3 Members)	14.89%	14.89%	100%
Safety Tier IIA (excluding Safety 3 Members)	13.38%	13.38%	100%
Safety Tier IIA (Safety 3 Members)	9.97%	9.97%	100%
SafetyTier IIB	14.46%	14.11%	98%

<sup>1</sup> Court Tier I employees pay an additional 8% of base pay.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

**Census Data**

The KCERA Staff and Segal provided us with the data that was used in the June 30, 2023 actuarial valuation. We reviewed the information in both files and found that the data used in the valuation is valid, complete, and contains the necessary data elements for purposes of performing the actuarial valuations of KCERA.

We also find that the methods and requirements provided in the Actuarial Standard of Practice No. 23 *Data Quality* have been adhered to, to the extent applicable for the valuation of pension plan obligations.

In Table II-9 below, we compare the raw June 30, 2023 data file provided by KCERA to Segal's processed data file and found only very minor differences between the files.

<b>Table II-9 Summary of Member Statistics as of June 30, 2023</b>			
	Segal	KCERA Data	Ratio
<b>Active Members</b>			
Total Number	9,557	9,547	100%
Average Age	41.6	41.6	100%
Average Service	9.2	9.1	99%
Projected Compensation <sup>1</sup>	\$ 716,116,083	\$ 692,876,767	97%
Average Compensation	\$ 74,931	\$ 72,575	97%
<b>Vested Terminated Members</b>			
Total Number	4,391	4,413	101%
Average Age	41.3	41.3	100%
<b>Members in Pay Status</b>			
Service Retirees	4,432	4,454	100%
Service Retirees	6,967	6,974	100%
Disabled Retirees	838	838	100%
Beneficiaries	1,351	1,349	100%
<b>Total</b>	<u>9,156</u>	<u>9,161</u>	100%
Average Age	69.9	70.0	100%
Average Monthly Benefit	\$3,764	\$3,818	101%

<sup>1</sup> Segal's projected compensation includes salary increases for FYE June 30, 2024.

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**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

**Plan Provisions**

We compared the summary of plan provisions shown in *Section 4, Exhibit II* of Segal's June 30, 2023 valuation report to the benefits in the County Employees' Retirement Law of 1937 (CERL). In general, the plan provisions shown in Segal's exhibit match what is in the CERL and based on our close match of the Segal liabilities as part of our parallel valuation, we conclude that Segal has appropriately reflected these provisions in the actuarial valuation. We also reviewed the summary of plan provisions shown in *Section 3, Exhibit II* of Segal's SRBR report and compared them to documentation provided by KCERA, and found them to be consistent.

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**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS AND METHODS**

**Demographic Assumptions**

The June 30, 2023 actuarial valuation was based on the recommendations made by Segal in their Actuarial Experience Study covering the three-year period ending June 30, 2022. We have performed a review of their recommended assumptions which included collecting Segal's experience study data to assist in validating their results. This section of our report discloses the findings of our review.

For demographic assumption there are several metrics that we use to measure the reasonableness of a set of assumed rates:

- One metric we use is the ratio of the actual number of decrements for each group compared to the expected number of decrements (A/E ratio or actual-to-expected ratio). If the assumption is perfect, this ratio will be 100 percent, and any recommended assumption change should move the current A/E ratio towards 100 percent unless future experience is expected to be different than the experience during the period of study.
- Another metric is the percentage of the assumed rates that fall within the 90 percent confidence interval. Ideally, all rates would fall within the confidence interval, but often smoothing of rates from one age or service group to the next results in some assumptions that fall outside the confidence interval. The range of the confidence interval depends on the amount of credible data. The more data the narrower the range. Any assumption change should increase the percentage of rates that fall within the confidence interval unless future experience is expected to be different than the experience during the period of study.

Segal calculates A/E ratios for the mortality experience for General and Safety healthy and disabled retirees, and beneficiaries. They disclose the necessary information to calculate these ratios for the other decrements in total, except for the assumption related to the percentage electing to take a refund of contributions upon termination. At the time of the next experience study, we recommend that Segal disclose the number of exposures, actual and expected decrements for each age or service level and in total. Segal only provides the current, actual and proposed rates for each age or service level, which gives no indication to the extent of the data available in making the recommended assumption changes. We also recommended these disclosures in our previous audit of the June 30, 2019 experience study.

**Mortality**

The mortality assumptions Segal uses are the published benefit-weighted Pub-2010 Public Retirement Plans Mortality tables (Pub-2010).

Because higher income individuals also typically have higher pension benefit amounts, it is important for pension plans to use assumptions that are weighted to reflect the impact of benefit size on liability. Otherwise, the mortality assumptions could accurately predict the number of deaths at each age, but still underestimate the liabilities, if the higher-benefit members are outliving the lower-benefit members.

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**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS AND METHODS**

***Pub-2010 Contingent Survivors Table***

In our previous audit of the June 30, 2019 experience study, we questioned Segal's use of the Pub-2010 Contingent Survivors Table for expected future beneficiaries. We strongly support the recommended change in this study to use the Contingent Survivor mortality tables only for beneficiaries in pay status.

The Contingent Survivors Table was developed by the Retirement Plans Experience Committee (RPEC) of the Society of Actuaries based only on contingent survivor data after the death of the retiree. This is consistent with mortality experience that pension plans have available for beneficiaries. We agree that it is reasonable to use this table to value the liabilities for current beneficiaries in pay status, to the extent that the experience for the plan is consistent with the mortality rates included in the Contingent Survivors Table.

This mortality table has significantly higher mortality rates than the comparable General Pub-2010 table at younger ages due to the assumed grieving widow(er) effect. If it is used for designated beneficiaries in the calculation of joint-and-survivor benefits for active and retired members, it potentially overestimates the probability that they will die prior to their spouse's death, and subsequently under-estimates the actuarial liabilities of these benefits.

***Credibility***

Very few pension plans have sufficient experience to develop their own mortality tables. Most plans instead adjust a standard table. However, with approximately 1,000 deaths necessary for full credibility (defined by a 90% probability that the observed rate is within 5% of the true rate) and actual mortality rates quite low at most ages, many plans lack sufficient data to perform a full adjustment to a standard table (i.e., adjust the tables so the actual-to-expected ratio based on the plan's data is close or equal to 100%).

Segal's experience study report includes discussions regarding credibility, and we believe they have appropriately taken into account the credibility of the KCERA data for post-retirement mortality tables for healthy, disabled retirees and beneficiaries. In particular, we were able to verify that the recommended adjustments to these standard Pub-2010 mortality tables were appropriate based on the data they provided to Cheiron for our peer review.

The credibility for the healthy female retirees warranted an increase of 20% to the mortality rates compared to the current increase of 15%. However, since the pandemic occurred during this study period, we agree with Segal's recommendation to keep the 15% adjustment, and not increase the mortality assumption as a measure of conservatism.

In addition, we concur with reducing the adjustment for female beneficiaries from 10% to 5% based on the partial credibility of this population, even though it moves the actual-to-expected ratio further from 100%.

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**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS AND METHODS**

**Retirement**

The retirement rates used in the June 30, 2023 actuarial valuation varied by age, service, and Tier. We concur with this structure, specifically including service as a parameter, since all other things being equal, members with more service are more likely to retire since they have a larger benefit.

Segal only used the most recent three years of valuation data (2020-2022) in their analysis of the retirement assumptions. When performing experience studies for our California pension clients, we have seen that the pandemic generally had an impact on members' retirement behavior. For this reason and since we had the data from our last audit, we reviewed the retirement assumptions including the previous three years of valuation data (2017-2019).

The table below shows the experience and the actual-to-expected (A/E) ratios for General Tier I for the previous three and six years, respectively. The Tier II experience only includes the recent three-year period since experience prior to this is very limited. Experience after age 69 was excluded since all General members are assumed to retire at age 70.

We concur with the proposed decrease in retirement rates for General Tier I members with less than 25 years of service and for Tier II members since the A/E ratios moved closer to 100%.

However, Segal's recommendations to decrease the rates for General Tier I members with 25 or more years of service increased the A/E ratios further above 100%. The proposed assumptions decreased the expected number of retirements from 416 to 399, but the actual number of retirements was 427. Retirement assumptions that underestimate the number of retirements, especially with members with more service, generally result in actuarial liability losses. Under this scenario, retirees start receiving benefits sooner and will receive them for longer periods of time.

<b>General Tier I and II Retirement Experience</b>					
				<b>A/E Ratios</b>	
	<b>Actual</b>	<b>Expected</b>	<b>Proposed</b>	<b>Expected</b>	<b>Proposed</b>
<b>Tier I Members</b>					
<b>Less than 25 years of service</b>					
Previous 3-year period	403	414	389	97%	104%
<u>Recent 3-year period</u>	<u>305</u>	<u>344</u>	<u>324</u>	<u>89%</u>	<u>94%</u>
Total 6-year period	708	758	713	93%	99%
<b>25 or more years of service</b>					
Previous 3-year period	226	215	208	105%	109%
<u>Recent 3-year period</u>	<u>201</u>	<u>201</u>	<u>191</u>	<u>100%</u>	<u>105%</u>
Total 6-year period	427	416	399	103%	107%
<b>Tier IIA and IIB Members</b>	44	48	46	92%	96%

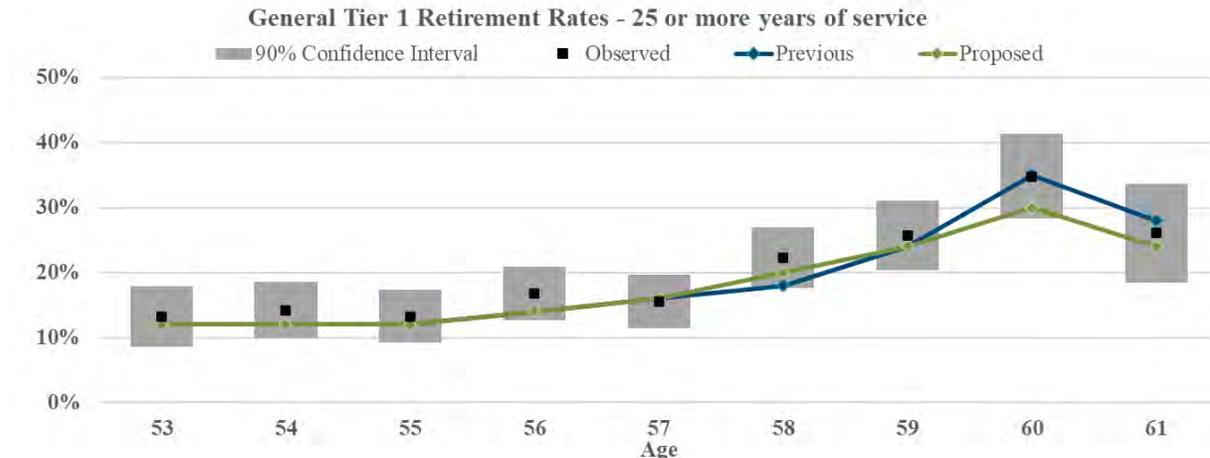
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The table below shows the detailed experience and statistics for General Tier I members with 25 or more years of service at ages 53 to 61 during the six-year period. At most ages, the proposed assumptions are lower than the actual experience and only at age 58 did the proposed assumption bring the A/E ratio closer to 100%.

General Tier I Retirement Rates - 25 or more Year of Service									
Age	Eligible	Retirements			Retirement Rates			A/E Ratios	
		Actual	Previous	Proposed	Actual	Previous	Proposed	Previous	Proposed
53	151	20	18	18	13%	12%	12%	110%	110%
54	162	23	19	19	14%	12%	12%	118%	118%
55	196	26	24	24	13%	12%	12%	111%	111%
56	220	37	31	31	17%	14%	14%	120%	120%
57	219	34	35	35	16%	16%	16%	97%	97%
58	215	48	39	43	22%	18%	20%	124%	112%
59	187	48	45	45	26%	24%	24%	107%	107%
60	138	48	48	41	35%	35%	30%	99%	116%
61	92	24	26	22	26%	28%	24%	93%	109%
<b>Total</b>	<b>1,580</b>	<b>308</b>	<b>285</b>	<b>278</b>	<b>19.5%</b>	<b>18.0%</b>	<b>17.6%</b>	<b>108%</b>	<b>111%</b>

The graph below shows the same retirement rates but graphically and we have included the 90% confidence intervals. The blue line represents the previous assumption at each age and the green line represents the assumptions that were recommended by Segal. The gray rectangles represent the 90 percent confidence intervals at each age.



Specifically, at ages 60 and 61, the previous assumptions were closer to the actual experience than the Segal’s recommended assumptions, though Segal only used the prior three years of data in setting their assumptions. We suggest Segal monitor the assumptions for this group in the next study and increase these assumptions if the A/E ratio continues to be greater than 100%.

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The table below shows the experience and the actual-to-expected (A/E) ratios for Safety Tier I for the previous three years and six years. Experience after age 64 was excluded since all Safety members are assumed to retire at age 65.

The retirement rates for the most recent three-year period – during the pandemic – and the previous three-year period are very different. Overall Safety Tier I retirement rate was 17.1% during 2019-2022 compared to 14.8% during 2016-2019. The spread in the rates were significantly greater for Safety members with 25 or more years of service at 35.4% during 2019-2022 compared to 24.9% during 2016-2019. We have generally seen this trend of higher retirement rates during the pandemic for Safety members in California.

Safety Retirement Experience						
	Eligible	Actual	Expected	Proposed	A/E Ratios	
					Expected	Proposed
<b>Tier I Members</b>						
<b>Less than 25 years of service</b>						
Previous 3-year period	608	64	54	68	119%	94%
<u>Recent 3-year period</u>	<u>896</u>	<u>121</u>	<u>75</u>	<u>96</u>	<u>161%</u>	<u>126%</u>
Total 6-year period	1,504	185	129	164	144%	113%
<b>25 or more years of service</b>						
Previous 3-year period	261	65	67	80	97%	81%
<u>Recent 3-year period</u>	<u>178</u>	<u>63</u>	<u>47</u>	<u>57</u>	<u>134%</u>	<u>111%</u>
Total 6-year period	439	128	114	137	113%	93%

We concur with the recommendation to increase the retirement rates for Safety members, which moved the A/E ratios to 100%. However, for members with less than 25 years of service, the proposed assumptions would have predicted only 164 retirements during the six-year period compared to the 185 actual retirements. If the experience is consistent in the next experience study, we suggest that Segal consider further increases to the retirement rates for members with less than 25 years of service to avoid underestimating retirements.

***Retirement Age for Deferred Vested Members***

In our last experience study, we suggested that Segal distinguish the retirement age assumption for inactive members between those with and without reciprocity and perform their analysis and assumption on this basis to more accurately estimate future retirement benefits.

We have generally found at the CERL systems we work with and ones where we have performed audits that the age at which deferred vested members typically commence benefits differs between those who have and have not established reciprocity, with those who establish reciprocity commencing benefits later on average.

This makes intuitive sense, since the members with reciprocity may benefit from deferring their retirement, if the final average compensation used to determine their KCERA benefit continues to

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increase during their employment with the other system. The same incentive does not exist for members without reciprocity.

In this study, Segal bifurcated the General deferred vested members as suggested above. They found that the average age at retirement during the experience study period was 55.7 for those without reciprocity and 60.2 for those with reciprocity and recommended separate assumptions accordingly.

There was limited data for the Safety deferred vested members that retired so Segal continues to combine the experience for these groups. We concur with lowering the proposed assumption from age 53 to age 51 based on the experience.

**Termination**

Segal used six years of experience to analyze the termination assumptions. We commend them for using more years of data since the experience shows that the termination rates for both General and Safety members were much higher during the most recent three-year period (2020-2022), when the pandemic was at its height.

<b>Termination Experience</b>					
	Actual	Expected	Proposed	A/E Ratios	
				Expected	Proposed
<b>General</b>					
Previous 3-year period	1,446	1,372	1,606	105%	90%
<u>Recent 3-year period</u>	<u>2,050</u>	<u>1,575</u>	<u>1,839</u>	<u>130%</u>	<u>111%</u>
Total 6-year period	3,496	2,947	3,445	119%	101%
<b>Safety</b>					
Previous 3-year period	195	145	192	135%	101%
<u>Recent 3-year period</u>	<u>245</u>	<u>134</u>	<u>176</u>	<u>183%</u>	<u>140%</u>
Total 6-year period	440	279	368	158%	120%

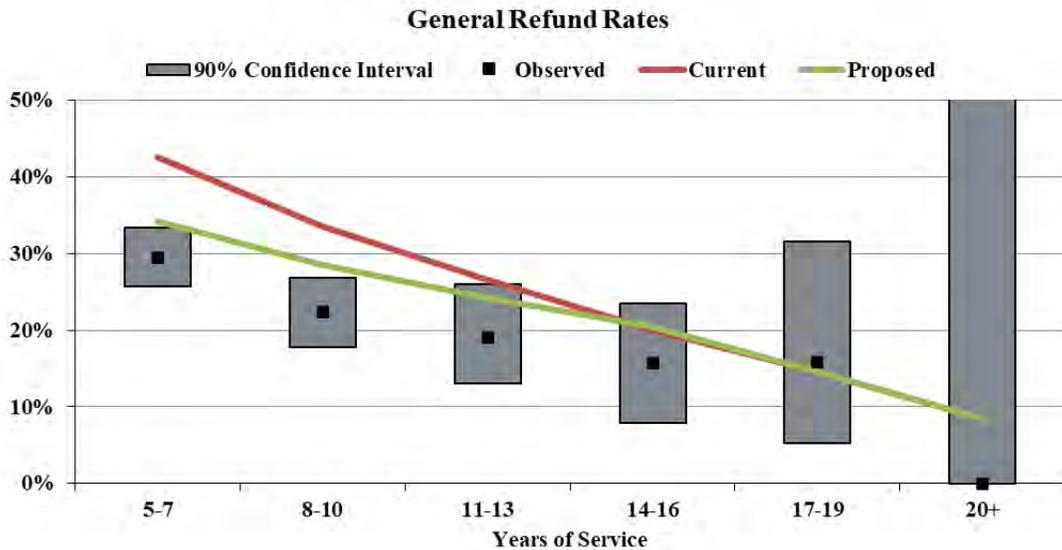
Segal’s recommended increases to the termination rates are reasonable and we agree that the change should not have brought the proposed number of terminations up to the actual terminations due to the impact the pandemic may have had on member behavior.

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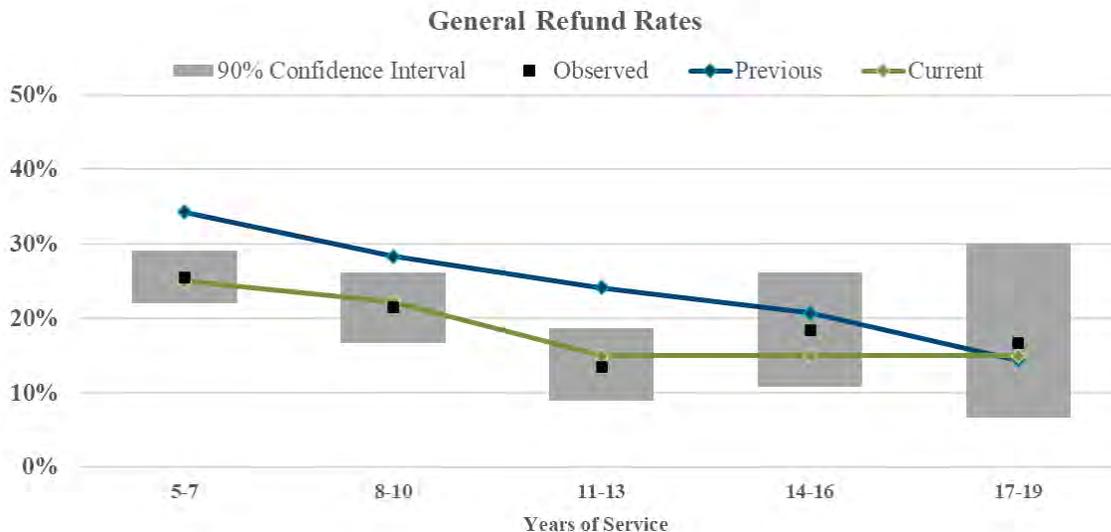
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**Refund Election upon Termination**

In our previous audit, we recommended that Segal monitor the rates at which General members elect a refund when they terminate employment instead of opting for a deferred annuity benefit at retirement. The graph below shows the refund experience from the **previous** study where the recommended assumptions (green line) were lowered but were still outside the 90% confidence interval for members with less than 11 years of service. The A/E ratio with the proposed assumption was only 82%, which overestimates the number of active members who elect a refund and could potentially undervalue Plan liabilities, especially for high-service members.



The graph below represents the experience from the most recent study. As we suggested, Segal lowered the refund rates to better reflect the actual experience for the previous six years. The A/E ratio using the previous assumptions is 74%, but using the current assumptions, it is 100%.



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The table below shows the refund election experience for both the General and Safety members.

Refund Election Experience					
	Actual	Expected	Proposed	A/E Ratios	
				Expected	Proposed
<b>General</b>					
Previous 3-year period	88	107	79	82%	111%
<u>Recent 3-year period</u>	<u>95</u>	<u>141</u>	<u>104</u>	<u>67%</u>	<u>91%</u>
Total 6-year period	183	248	183	74%	100%
<b>Safety</b>					
Previous 3-year period	23	28	22	82%	105%
<u>Recent 3-year period</u>	<u>24</u>	<u>35</u>	<u>27</u>	<u>69%</u>	<u>89%</u>
Total 6-year period	47	63	49	75%	96%

We concur with Segal’s recommended refund election assumptions for both the General and Safety groups since they reduce the number of expected refunds and are more in line with the actual experience during the last six years.

**Disability**

In our previous audit, we recommended Segal use more than three years of valuation data to perform their analysis. We commend Segal for using six years of valuation data in the Experience Study ending June 30, 2022. The reporting of a disability often occurs well after the member’s termination from active service. Frequently, members appear on the valuation data as terminated or retired for several years before switching to disabled status. For this reason, it is important to use several years of valuation data and to capture this timing delay of reported disabilities.

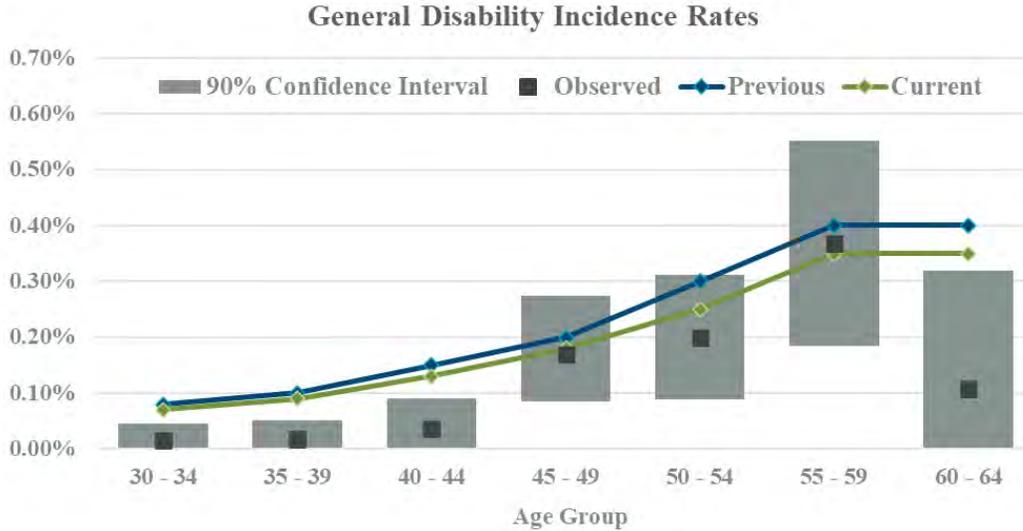
The table below shows that the number of actual disabilities for both General and Safety members was lower than the previous assumptions predicted. Segal’s recommended decreases to the General disability rates which increased the A/E ratio closer to 100%. However, they recommended an overall increase to the Safety disability rates, further decreasing the A/E ratio. We suggest that in the next study Segal closely monitors the experience and lowers the assumptions if warranted.

Disability Experience					
Group	Actual	Expected	Proposed	A/E Ratios	
				Expected	Proposed
General	32	62	54	52%	59%
Safety	40	51	52	78%	77%

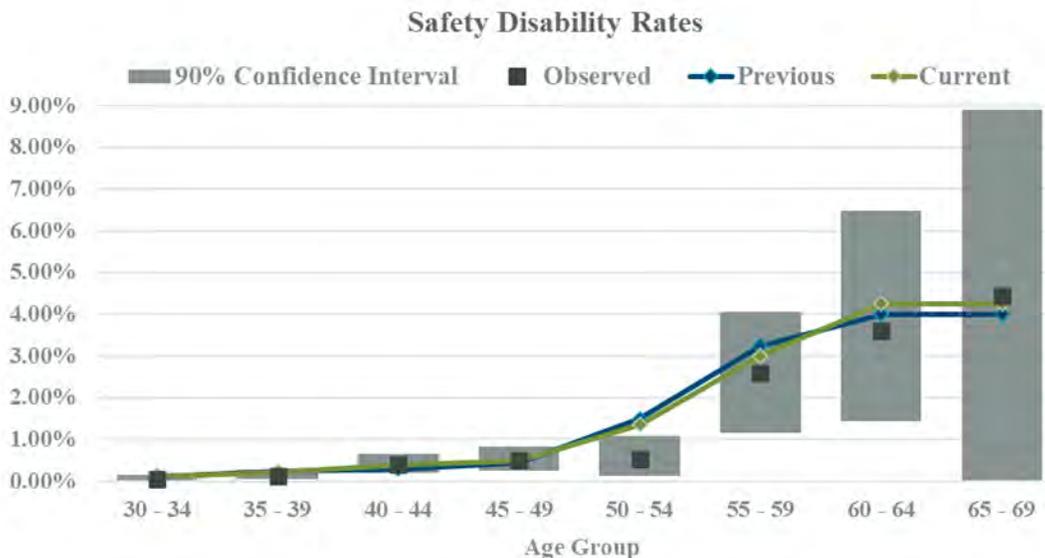
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Below is a graph that shows the disability experience for General members over the last six years with the previous and current assumptions that Segal proposed. We agree with Segal's recommendation to lower the rates at all ages. However, the experience shows that there is enough credible data to have proposed even lower assumptions for members who are less than 45 years old.



Below is a graph that shows the disability experience for Safety members over the last six years and the previous and current assumptions that Segal proposed. All of the current assumptions fall within the 90% confidence intervals, except for the assumptions at ages 50 to 54. The length of the confidence intervals varies depending on the credibility of the data. There is significantly more data at the younger ages as shown by the narrow confidence intervals, but there is enough data at ages 50-54 to consider a further reduction if the trend continues in the next experience study.



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*Other Demographic Assumptions*

We believe the analysis and assumptions proposed by Segal for the other demographic assumptions – including merit and promotional pay increases, percentage married and assumed spouse age differences – are reasonable based on the information presented, and consistent with the methods and assumptions we have seen used at other systems.

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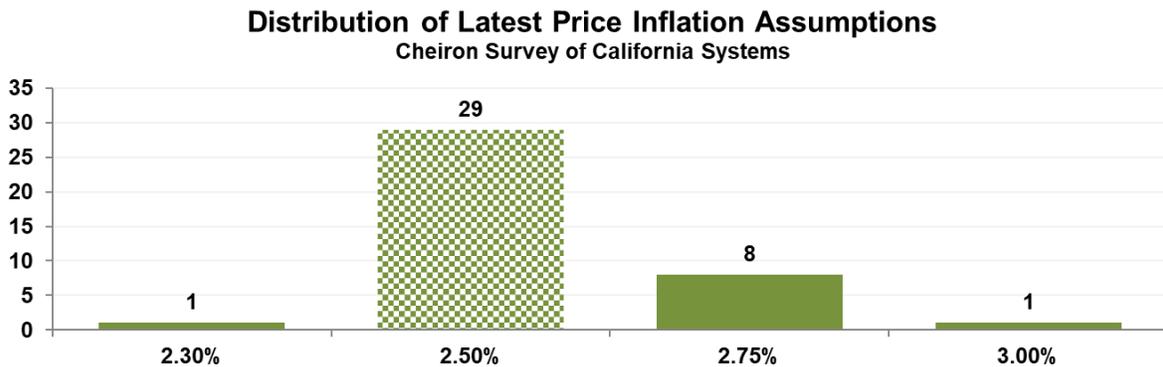
**Economic Assumptions**

Overall, the economic assumptions proposed in Segal’s review represent a reasonable set of assumptions. Segal recommended reducing inflation from 2.75% to 2.50%, payroll growth from 3.25% to 3.00%, and the rate of investment return from 7.25% to 7.00%. The cost-of-living assumption was maintained at 2.50% which is the annual cap for retiree benefit increases.

***Inflation***

Segal’s inflation assumption of 2.50% represents a reasonable inflation assumption in the long term. Segal notes in their report that the median inflation assumption used by 194 large public retirement funds in their 2021 fiscal year valuations was 2.50%. In addition, the average expectation for KCERA’s investment consultant (Verus) and five other investment advisory firms as well as Segal Marco Advisors was 2.43% over a 30-year horizon.

The chart below shows the distribution of the inflation from June 30, 2023 or January 1, 2023/December 31, 2022 actuarial valuations in California. The median inflation assumption is 2.50% with most systems using the same assumption as KCERA.



A market indicator of future expected inflation is the “break-even rate,” the difference in yields on 30-year inflation indexed U.S. Treasuries and the traditional U.S. Treasuries. Segal stated that as of February 2023, this difference in yields was about 2.3%.

Segal’s recommendation to reduce the overall payroll growth assumption from 3.25% to 3.00% is appropriate given their recommendation to reduce the assumed rate of inflation.

***Investment Returns and Expenses***

Beginning with this study, Segal converts “the portfolio’s expected arithmetic average return to an expected geometric average return.” We support Segal’s change in approach and confirm they have applied and described it appropriately. We also support their modification from prior experience studies to only adjust the assumed return for “investment consulting fees, custodian fees, and other miscellaneous investment expenses,” explicitly excluding investment expenses associated with active management; we use a similar approach for our clients.

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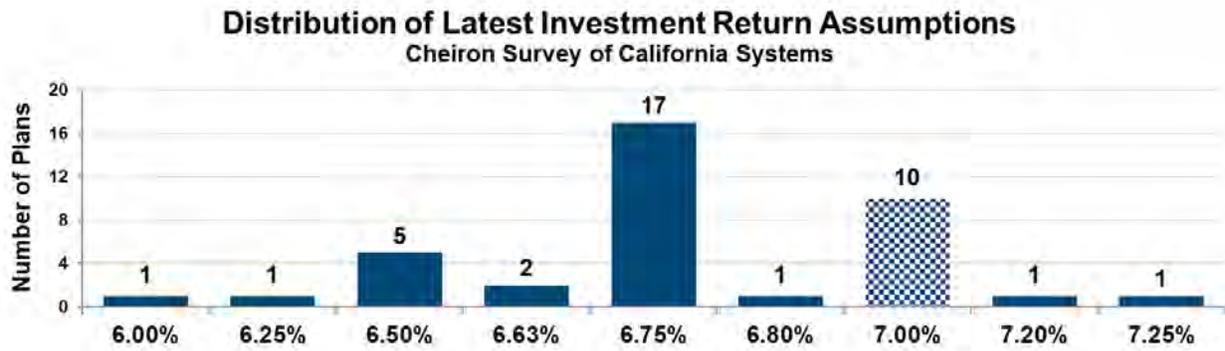
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Segal discusses the concept of a “risk adjustment,” noting that the “purpose of the risk adjustment (as measured by the corresponding confidence level) is to increase the likelihood of achieving the actuarial investment return in the long term.” To maintain a confidence of 56% that the compound return will meet or exceed the assumed investment return, a risk adjustment of 51 basis points is removed from the proposed net investment return assumption, resulting in a proposal of 7.00%. We find this recommendation, and the resulting return assumption of 7.00%, to be reasonable.

The following graph shows the distribution of investment return assumptions from 2014 through 2023 found in the Public Plans database as of June 6, 2024. KCERA’s assumed rate of return is at the median of 7.00% and has generally been at the median for most of the last 10 years.



The chart below shows the distribution of the latest investment return assumptions, from June 30, 2023 or January 1, 2023/December 31, 2022 actuarial valuations in California. KCERA’s assumed rate of return is shared with 9 other California Systems.



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**Impact of the SRBR**

Article 5.5 of the Statute authorizes the allocation of 50% of excess earnings to the SRBR. Thus, the impact of the 50/50 allocation between the valuation and SRBR reserves of “excess earnings” (i.e., smoothed earnings above the assumed return) makes it less likely that the expected return can be achieved on a compound basis.

Segal performed stochastic modeling in December 2015 to estimate the impact of the 50% allocation of future excess earnings to the SRBR. The result of the analysis indicated that future excess earnings would have about the same impact as an average “outflow” that would be approximately 0.3% of assets over time. In their June 30, 2023 report they calculated that this “outflow” would increase the Actuarial Liability by about \$291 million with a resulting increase in the employer contribution rate of 4.8% of payroll.

We independently modeled the equivalent “outflow” of assets and the impact of a 50% reduction in gains above the 7.00% assumed rate of return. For the return distribution, we used the arithmetic mean of 8.31% (5.81% real return plus KCERA’s 2.50% inflation) and the standard deviation of 12.69% provided by Verus and shown in Segal’s most recent Actuarial Experience Study report on pages 16 and 19. The modeling was performed using the publicly available tool for modeling gain-sharing provisions (<https://www.soa.org/research-reports/2012/research-consider-eval/>). Based on this model, the SRBR is expected to reduce the mean net return by an additional 1.27%.

We performed an additional analysis using an arithmetic mean of 7.75% and the same 12.69% standard deviation. We converted KCERA’s 7.00% geometric return to an arithmetic return by adding the 0.75% adjustment factor Segal used in their development of the investment return assumption on page 20 of their Actuarial Experience Study report. Based on these assumptions, the SRBR is expected to reduce the mean net return by an additional 1.12%.

Both of these estimates are higher than the impact reported by Segal in their Actuarial Experience Study report of 0.3%. However, our analysis does not consider the impact of the mechanics of KCERA’s Interest Crediting Policy or the deferred investment losses of \$214 million as of June 30, 2023.

The Interest Crediting Policy first allocates excess earnings to the Contingency Reserve, up to 3.0% of the Market Value of Assets, which as of June 30, 2023 is \$25.1 million or 0.47% of the Market Value of Assets. Next, the COLA Contribution Reserve (CCR) receives an allocation up to the amount determined to be payable by participating employers for the 2% COLA benefit contributions. Only then is 50% of any remaining earnings allocated to the SRBR. If the mechanics of the Interest Crediting Policy were incorporated into the gain-sharing model, the calculated “outflow” would be less.

In addition, since the “excess earnings” are determined on the smoothed returns and there are currently net deferred investment losses that will be recognized over the next five years, the Plan would need to have earnings consistently above the assumed 7.00% on the Market Value of Assets in the short term for there to be any allocations to the SRBR.

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Our streamlined analyses of the “outflow” are much higher than Segal’s by about 1.0% of assets over time. However, it does omit the mechanisms of the Interest Crediting Policy and does not consider the deferred investment losses. We suggest that Segal perform an update to their stochastic modeling and the calculation of the estimated average “outflow” of assets since market conditions have changed significantly and there have been changes to KCERA’s asset allocation and assumed rate of investment return since 2015.

The Actuarial Standard of Practice (ASOP) No. 27 “*Selection of Economic Assumptions for Measuring Pension Obligations*” requires that the actuarial assumptions be assessed for reasonableness at **each measurement date**. There is language specifically addressing the review of assumptions previously selected by the Actuary:

*3.13. Reviewing Assumptions Previously Selected by the Actuary: At each measurement date, the actuary should determine whether the economic assumptions previously selected by the actuary for a previous measurement date continue to be reasonable. In making this determination, the actuary should take into account changes in relevant factors known to the actuary that may affect future experience...*”

In addition, the recently revised ASOP No. 4 “*Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*,” effective for valuations issued after February 15, 2023 requires a calculation of a reasonable ADC, which requires reasonable methods and reasonable assumptions.

One of the purposes of the ASOP No. 4 revision was to address the situation where statute requires the actuary to follow procedures that are not reasonable under the ASOPs. On page 8 of their June 30, 2023 actuarial valuation report, Segal appears to be saying that they are not considering the impact of the gain sharing provisions of the SRBR in determining the Plan’s ADC because the statute precludes them from doing so. Prior to the revision, ASOP No. 4 only required a disclosure for this type of exception, as Segal has provided.

But under the new ASOP No. 4, the actuary now needs to take it one step further and say what the ADC would be if they were to use reasonable methods and assumptions, assessed at each measurement date. Segal has provided an estimate of how the ADC would change if the gain sharing provisions were to be included in the ADC. However, for the effect of gain sharing provisions, Segal is relying on an assumption developed using stochastic modeling performed in 2015 that is most likely outdated and no longer valid. Regardless of any actions taken by the Plan, Segal is responsible for reviewing the assumption for reasonableness.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS AND METHODS**

**Actuarial Methods**

Actuarial methods relate to the application of actuarial assumptions in the determination of Plan liabilities and contributions. These methods include the actuarial cost method, amortization policy, actuarial asset smoothing, and cost-sharing methodologies. The questions guiding our review of the actuarial methods were the following:

- Are the methods acceptable and appropriate for the intended purpose?
- Do the methods comply with relevant accounting and actuarial standards?

***Actuarial Cost Method***

The individual Entry Age Actuarial Cost Method is used in the June 30, 2023 actuarial valuation. Under this method, the expected cost of benefits for each individual member is allocated over that member's career as a level percentage of that member's expected salary. The normal cost for the plan is the sum of the individual normal costs calculated for each member. We concur with this methodology and note that it is a "Model Practice" based on the guidance issued by the California Actuarial Advisory Panel (CAAP), and a "Best Practice" based on guidance issued by the Government Finance Officers Association. Segal has also applied this method in a manner which complies with the disclosure requirements under GASB Statements 67 and 68.

***Asset Smoothing Method***

The Actuarial (or smoothed) Value of Assets is determined using a five-year period, semi-annually, for investment gains and losses. We have confirmed that the Segal report applies the actuarial smoothing method as described.

The KCERA asset smoothing method applies a 50% to 150% corridor to the final calculation of the Actuarial Value of Assets. Many other public plans we serve incorporate an 80% to 120% corridor below and above the Market Value of Assets.

In our opinion, the method used by KCERA satisfies the Actuarial Standard of Practice, which governs asset valuation methods (ASOP No. 44), which requires that the actuarial asset value should fall within a "reasonable range around the corresponding market value" and that differences between the actuarial and the market value should be "recognized within a reasonable period of time."

***Amortization Policy***

The current Amortization Policy for KCERA is a layered amortization policy, with the balance of the unfunded liability as of June 30, 2011 amortized as a level percentage of payroll over a closed 24.5-year period as of June 30, 2011 (12.5 years remaining as of June 30, 2023). On or after June 30, 2011 each subsequent year's unfunded liability attributable to experience gains or losses, assumption changes, and cost method changes is amortized as a level percentage of payroll over a newly closed 18-year period. Plan amendments are amortized over closed 15-year periods and early retirement incentive programs will be amortized over a period of up to five years.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS AND METHODS**

We have confirmed that the Segal report applies the amortization method as described. This amortization method is in accordance with funding policy guidance issued by the CAAP, GFOA, and the Conference of Consulting Actuaries Public Plans Community, as well as requirements for calculating a reasonable Actuarially Determined Contribution under the revised Actuarial Standard of Practice No. 4 (*Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*). This amortization policy also meets the minimum standards of the '37 Act.

However, there is no language supporting the amortization periods shown in *Exhibit H – Table for Amortization Bases* for the Implementation of the Alameda Decision and the respective refund layers and the Implementation of PEPRA Refund layers. Segal should include a rationale for the period they and the Board adopted to amortize the changes in the UAL as a result of these issues.

***Cost-Sharing Methods***

KCERA is a cost-sharing plan, wherein the assets of the Plan are available to fund the benefits of all members. This is different from an approach in which specific asset pools are tracked and held separately for each employer or cost group. As a result, methods and assumptions must be used to assign portions of the actuarial value of assets and the resulting unfunded accrued liability between the County General, County Safety, and the Districts. KCERA has adopted specific methods for how assets are assigned to “Declining Employers,” which currently includes two Districts (Berrenda Mesa and Inyokern).

We have verified the allocation of the valuation value of assets between the County General, County Safety, and District members as shown on page 26 of the June 30, 2023 valuation report, and we believe the methodologies used appear to be reasonable.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION IV – CONTENTS OF THE REPORT**

## **Contents of the Report**

We find the actuarial valuation report to be in compliance with Actuarial Standards of Practice.

### ***Projections***

We commend Segal for including projections of the outstanding balance of the Unfunded Actuarial Liability (UAL) and UAL payment projections if all assumptions are met in future years. However, we believe that the report would be significantly improved and more useful to readers if it also contained projections of future Employer contributions, Plan assets, and Plan liabilities. At a minimum, these projections should be based on all assumptions being met. A pension fund is a long-term proposition and focusing the valuation results primarily on what changed from the prior year to the current year misses a large part of the bigger picture.

Under KCERA's asset smoothing method there are gains and losses to be realized over the next four years if the investment returns actually achieve the target 7.00%. Also, the gradual interplay of the new Tiers in slowly reducing the costs is normally of interest to stakeholders. Including these dynamics using a projection of the contribution rate and funded status would enhance the communication of the valuation results.

These types of projections are suggested as one potential disclosure under the Actuarial Standard of Practice on risk assessments (ASOP 51). The standard requires that "*the actuary should assess the risks identified... including the potential effects of the identified risks on the plan's future financial condition. The assessment should take into account circumstances specific to the plan (for example, funding policy...)*" (Section 3.3). The methods for assessing risk (Section 3.4) include the scenario testing suggested in the above paragraph.

We note that on page 11 of the valuation summary Segal explains that in meeting this standard they performed a detailed analysis of risks of the Plan based on the results of the June 30, 2018 actuarial valuation in a separate risk assessment report, which we understand included these types of projections. However, we still recommend that those projections be included in the valuation report, as it would allow for regular updates of this information and enable a reader of the valuation to have complete information without having to review a second report.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION V – GASB 67 PEER REVIEW**

**GASB 67 Peer Review**

We performed a high-level review of the June 30, 2023 GASB 67 report which did not involve replicating any calculations from the underlying member data. The roll forward of the results from the June 30, 2022 funding valuation – including the implementation of the assumption changes due to the recent experience study – to produce the June 30, 2023 results are reasonable and consistent with the assumption changes including reducing the assumed rate of return from 7.25% to 7.00%.

Based on our review, we believe that there is one element in the development of the Total Pension Liability (TPL) that may not be consistent with the provisions of GASB 67.

- Under GASB Statements 67 and 68, the plan must include in the projection of plan benefits (and therefore the TPL) any ad-hoc COLAs or other supplemental benefits for which there is a clear expectation that the benefits will be granted (*substantively automatic*). The Entry Age Normal Method is then applied to determine which portion of the projected benefits should be included in the past service liability (TPL) versus future normal costs.
- We note that the County Employees' Retirement Law (CERL) does provide the Board with discretion as to when and how the SRBR assets will be distributed to the retirees. However, there is no discretion as to the fact that once a transfer to the SRBR has taken place, those assets must be used to provide additional benefits to the members. Because there is no discretion as to whether the future expected allocations to the SRBR will be made, they are substantively automatic, and therefore should be included in the projection of plan benefits.
- Segal acknowledges the expected impact of the future excess earnings in their Actuarial Valuation report and estimated the impact on the liability from these potential transfers using a stochastic model, which they note is one of the methods recommended under the Actuarial Standard of Practice. In their June 30, 2023 valuation report, Segal estimates the “outflow” would average approximately 0.3% of assets from on an estimate done in 2015, which would result in an increase of about \$291 million in the Actuarial Liability as of June 30, 2023. However, we estimated an outflow of approximately 1.1% based on current market conditions; although, we noted that this estimate may be somewhat conservative due to other mechanics involved in the SRBR.
- As a result, we believe that benefit payments for the GASB 67 crossover test should include an amount equal to the estimated “outflow” of assets to reflect the estimated future allocations to the SRBR. However, Segal states on page 7 of their GASB 67 report that “any outflows due to the 50/50 excess earnings allocation would not affect the outcome of the crossover test since the crossover test is performed based on the combined results of the statutory (non-SRBR) benefits and the SRBR.” We do not agree with this argument: if the crossover test is based on the combined results, then the test should also include the

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**SECTION V – GASB 67 PEER REVIEW**

benefit payments associated with the additional outflows derived from the future excess earnings.

- We understand that KCERA's financial auditors have approved the current methodology Segal employs, however, we believe the liability associated with SRBR benefit payments related to future excess earnings should be included in the TPL, in addition to the liability associated with the current scheduled SRBR payments. Segal included \$133.7 million in SRBR assets but only \$111.4 million in the GASB 67 TPL for the SRBR liabilities as of the valuation date, which reduced the Net Pension Liability by \$22.3 million.

In addition, we note one area where we believe that additional disclosure information would help in understanding the development of the information presented in the report. On page 20, the report shows the impact of a +/-1% change in the discount rate on the Net Pension Liability. We recommend showing the impact on the Total Pension Liability, the Fiduciary Net Position, and the Net Pension Liability. We think this provides more information to assess the impact of the change since the Fiduciary Net Position does not change in these comparisons.

With the exception of the one finding described above, we believe the remaining accounting and financial reporting is accurate and the assumptions and methods underlying the calculations are reasonable.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**APPENDIX A – GLOSSARY OF TERMS**

**1. Actuarial Assumptions**

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, investment income, and salary increases. Demographic assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**2. Actuarial Gain (Loss)**

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial funding method.

**3. Actuarial Liability**

The Actuarial Liability is the present value of all benefits accrued as of the valuation date using the methods and assumptions of the valuation. It is also referred to by some actuaries as the “accrued liability” or “actuarial accrued liability.”

**4. Actuarial Present Value**

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

**5. Actuarial Value of Assets**

The Actuarial Value of Assets equals the Market Value of Assets adjusted according to the smoothing method. The smoothing method is intended to smooth out the short-term volatility of investment returns in order to stabilize contribution rates and the funded status.

**6. Actuarial Cost Method**

A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal costs and the Actuarial Liability. It is sometimes referred to as the “actuarial funding method.”

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**APPENDIX A – GLOSSARY OF TERMS**

**7. Actuarially Determined Contribution**

A potential payment to the plan as determined by the actuary using a contribution allocation procedure. It may or may not be the amount actually paid by the plan sponsor or other contributing entity.

**8. Contribution Allocation Procedure**

A procedure that determines one or more actuarially determined contributions for a plan. The procedure uses an actuarial cost method and may use an asset valuation method and an amortization method. The procedure may include the normal cost plus an amortization payment of the unfunded actuarial accrued liability.

**9. Funded Status**

The Actuarial Value of Assets divided by the Actuarial Liability. The funded status can also be calculated using the Market Value of Assets.

**10. Governmental Accounting Standards Board**

The Governmental Accounting Standards Board (GASB) defines the accounting and financial reporting requirements for governmental entities. GASB Statement No. 67 defines the plan accounting and financial reporting for governmental pension plans, and GASB Statement No. 68 defines the employer accounting and financial reporting for participating in a governmental pension plan.

**11. Market Value of Assets**

The fair value of the Plan's assets assuming that all holdings are liquidated on the measurement date.

**12. Normal Cost**

The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. It is sometimes referred to as "current service cost." Any payment toward the Unfunded Actuarial Liability is not part of the normal cost.

**13. Present Value of Projected Benefits**

The estimated amount of assets needed today to pay for all benefits promised in the future to current members of the Plan, assuming all actuarial assumptions are met.

**ACTUARIAL AUDIT REPORT OF THE  
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**APPENDIX A – GLOSSARY OF TERMS**

**14. Present Value of Future Normal Costs**

The actuarial present value of retirement association benefits allocated to future years of service.

**15. Unfunded Actuarial Liability (UAL)**

The difference between the Actuarial Liability and the Actuarial Value of Assets. This is sometimes referred to as the “unfunded accrued liability.”



*Classic Values, Innovative Advice*

# **Kern County Employees' Retirement Association**

*Independent Accountant's Report on  
Applying Agreed-Upon Procedures*

*For the year ended June 30, 2024*

**Kern County Employees' Retirement Association**

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## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

Board of Retirement  
Kern County Employees' Retirement Association  
Bakersfield, California

We have performed the procedures enumerated on the subsequent pages related to Employer Reporting for the year ended June 30, 2024, on the following Kern County Employees' Retirement Association's (KCERA's) Plan Sponsors:

- Berrenda Mesa Water District
- Buttonwillow Recreation & Park District
- East Kern Cemetery District
- Inyokern Community Services District
- Kern County
- Kern County Superior Court
- Kern County Water Agency
- Kern Medical Hospital Authority
- Kern Mosquito & Vector Control District
- North of the River Sanitary District
- San Joaquin Valley Air Pollution Control District
- Shafter Recreation & Park District
- West Side Cemetery District
- West Side Mosquito & Vector Control District
- West Side Recreation & Park District

Management of KCERA's Plan Sponsors are responsible for Employer Reporting. In performing our agreed-upon procedures engagement, we have relied solely on representations provided by KCERA relating to the responsible party and its responsibility for the Employer Reporting.

KCERA has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of performing procedures related to employer reporting at KCERA's Plan Sponsors. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings by Plan Sponsor are detailed on the subsequent pages.

## **Kern County Employees' Retirement Association**

### *Independent Accountant's Report on Applying Agreed-Upon Procedures*

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#### Procedure #1

**Procedure:** Select a sample of 10 pay periods during the preceding calendar year to confirm that contributions were remitted by the sponsor agency to KCERA no more than three (3) days after the pay date.

**Result:** No exceptions were noted for Buttonwillow Recreation & Park District, Kern Mosquito & Vector Control District, North of the River Sanitary District, San Joaquin Valley Air Pollution Control District, West Side Cemetery District, and West Side Mosquito & Vector Control District.

Exceptions were noted at the following Plan Sponsors, as described below:

- Berrenda Mesa Water District: 1 of 10 pay periods remitted after the three-day period.
- East Kern Cemetery District: 1 of 10 pay periods remitted after the three-day period.
- Kern County: 2 of 10 pay periods remitted after the three-day period.
- Kern County Superior Court: 4 of 10 pay periods remitted after the three-day period.
- Kern County Water Agency: 8 of 10 pay periods remitted after the three-day period.
- Kern Medical Hospital Authority: 6 of 10 pay periods remitted after the three-day period.
- Shafter Recreation & Park District: 3 of 10 pay periods remitted after the three-day period.
- West Side Recreation & Park District: 10 of 10 pay periods remitted after the three-day period.

We were unable to perform this procedure for Inyokern Community Services District.

#### Procedure #2

**Procedure:** Obtain a population of all employees at each sponsor agency and select a sample of 25 employees (or all, if fewer than 25 employees at sponsor agency) to confirm that employee pay codes used to calculate contributions are eligible pensionable wages as defined by the Board of Retirement.

**Result:** There were no exceptions noted for Berrenda Mesa Water District, Buttonwillow Recreation & Park District, East Kern Cemetery District, Kern County, Kern County Superior Court, Kern County Water Agency, Kern Medical Hospital Authority, Kern Mosquito & Vector Control District, North of the River Sanitary District, San Joaquin Valley Air Pollution Control District, Shafter Recreation & Park District, West Side Cemetery District, West Side Mosquito & Vector Control District, and West Side Recreation & Park District.

We were unable to perform this procedure for Inyokern Community Services District.

#### Procedure #3

**Procedure:** Confirm that governance of the plan sponsor is using a board-approved salary schedule.

**Result:** There were no exceptions noted for Berrenda Mesa Water District, Buttonwillow Recreation & Park District, East Kern Cemetery District, Kern County, Kern County Superior Court, Kern County Water Agency, Kern Medical Hospital Authority, Kern Mosquito & Vector Control District, North of the River Sanitary District, San Joaquin Valley Air Pollution Control District, Shafter Recreation & Park District,

## **Kern County Employees' Retirement Association**

### *Independent Accountant's Report on Applying Agreed-Upon Procedures*

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West Side Cemetery District, West Side Mosquito & Vector Control District, and West Side Recreation & Park District.

We were unable to perform this procedure for Inyokern Community Services District.

#### Procedure #4

**Procedure:** Obtain documentation of internal control procedures in place for member enrollment at each plan sponsor and select a sample of 25 employees (or all, if fewer than 25 employees at sponsor agency) at each sponsor agency to confirm that:

- a) Employees were enrolled in KCERA within 30 days of appointment to an eligible position
- b) Internal control procedures at the sponsor agency surrounding plan enrollment were in place and documented.

**Result:** There were no exceptions noted for Berrenda Mesa Water District, Buttonwillow Recreation & Park District, East Kern Cemetery District, Kern County, Kern County Superior Court, Kern County Water Agency, Kern Medical Hospital Authority, Kern Mosquito & Vector Control District, North of the River Sanitary District, San Joaquin Valley Air Pollution Control District, West Side Mosquito & Vector Control District.

We were unable to perform this procedure for Inyokern Community Services District.

Exceptions were noted at the following Plan Sponsors, as described below:

#### **Procedure #4a):**

Shafter Recreation & Park District: Two of 25 employees were not enrolled in KCERA within 30 days of appointment to an eligible position.

West Side Cemetery District: Two of four employees were not enrolled in KCERA within 30 days of appointment to an eligible position.

#### **Procedure #4b):**

Shafter Recreation & Park District: Internal controls were not documented or in place at the sponsor agency.

We were engaged by KCERA to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on Employer Reporting. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

**Kern County Employees' Retirement Association**

*Independent Accountant's Report on Applying Agreed-Upon Procedures*

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We are required to be independent of KCERA and its Plan Sponsors and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

*UHY LLP*

Columbia, Maryland

November 13, 2024



**Date:** November 15, 2024  
**To:** Trustees, Finance Committee  
**From:** Jennifer Esquivel Zahry, Chief Legal Officer  
**Subject:** **Proposed Optional Settlement 4 Policy**

At the November 6, 2024 meeting, the Board referred the following to your Committee to review, discuss, and make a recommendation to the Board of Retirement.

The California Employees' Retirement Law of 1937 ("the CERL) provides for several optional retirement allowances: unmodified and Option 1, 2, 3, and 4. (California Government Code §§ 31761-31764; see *also* attached slides).

KCERA currently limits Option 4 elections to members who name multiple beneficiaries. This means a member who has been ordered to provide a continuing benefit to their former spouse, and who does not name a second beneficiary, must provide a 50% or a 100% continuance to the former spouse—even if the former spouse's community property interest is less than 50%. Potentially, this could require a member to receive a lesser pension payment during their lifetime and pay the former spouse more than his/her community property interest after the member's death.

Recently, KCERA Staff has learned that other CERL systems have interpreted Option 4 to allow for both a single beneficiary or multiple beneficiaries. KCERA agrees and believes that the ability to designate a single or multiple beneficiaries for an Option 4 continuance addresses the commonsense issue of family law courts issuing Domestic Relations Orders based on the former spouse's community share of the KCERA retirement, which is not limited to those percentages offered in Optional Settlements 1, 2, or 3.

To allow flexibility in such situations, and to ensure compliance with fiduciary duties and applicable law, KCERA Staff proposes the attached Optional Settlement 4 Policy. The proposed policy is consistent with Staff's current processes except that it would now allow a member to name a single beneficiary (former spouse) under an Option 4 to comply with a domestic relations order. The policy also formalizes KCERA's long-standing practice of delegating approval of Option 4 elections to the CEO following advice from the actuary that the member's Option 4 election does not place any additional financial burden upon the retirement system.

Based on the above, the attached materials and presentation to the Committee, Staff request the Committee recommend approval of the proposed policy to the Board of Retirement.



KERN COUNTY  
EMPLOYEES' RETIREMENT  
ASSOCIATION

## Optional Settlement 4 – Single Beneficiary

Presented by:  
**Jennifer Esquivel Zahry**  
Chief Legal Officer

# Optional Settlement 4

Optional settlement 4 consists of the right to elect in writing to have a retirement allowance paid to the member until the member's death and thereafter to have **other benefits as are approved by the board, upon the advice of the actuary**, continued throughout the life of and paid to the natural persons, having an insurable interest in the member's life, **as the member nominates** by written designation duly executed and filed with the board at the time of retirement. The designation **shall not, in the opinion of the board and the actuary, place any additional burden upon the retirement system.**

Government Code § 31764



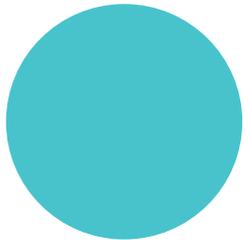
**Specify a certain  
continuance percentage**



**Actuary approval**

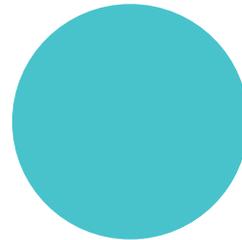
# Continuances

Optional Settlements: Government Code §§ 31761-31764



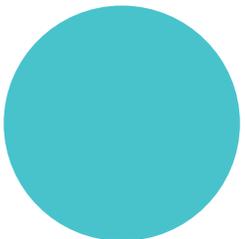
## Option One

Pay out the balance of the annuity.



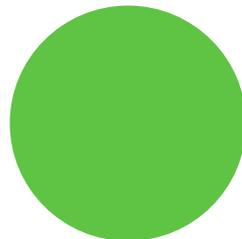
## Option 3

50% continuance to one person.



## Option Two

100% continuance to one person.



## Unmodified Gov. Code § 31760.1

60% continuance to surviving spouse  
(if none, minor child/children).



# Current Option 4 Approach

At present, KCERA only allows members to select Option 4 when they want to apportion a continuance among multiple beneficiaries.

Several other '37 Act systems allow Option 4 in the case of a single beneficiary.

**Upon review, staff believe expanding the Option 4 approach to include single beneficiary designations is in the best interest of our members.**

# Effect on Members: Divorces

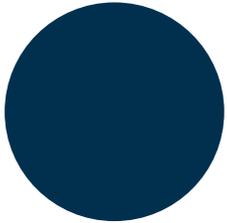
More tailored option,  
better suited to individual  
circumstances

- Community property interests are not limited to 50%, 60%\*, or 100%.
- Courts often default to the Time Rule in divorces, which calculates the percentage of time during the person's membership in KCERA they have been married to this person. Half of that percentage is the former spouse's community property interest in the member's KCERA retirement.
  - KCERA member 25 years of service, married 10 of the 25 years:  $10/25 = 40\%$  of the KCERA retirement is community property. Half of 40% = former spouse's interest is 20%.
- What are the options KCERA provides to members ordered to provide a continuance for their former spouse under the Time Rule?
  - Answer: 50%, 100%, Option 4 (if 2<sup>nd</sup> beneficiary available).

\*The unmodified 60% isn't available to members after divorce because the former spouse is not a "surviving spouse."

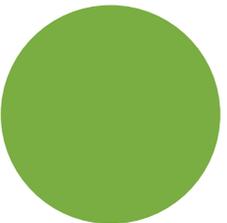


# Actuary Approval



## **CERL requirement**

Gov. Code § 31764 specifically requires actuary and Board approval.



## **Establish a preapproved range**

Fresno (FCERA's) example: establish a "Basic Optional Settlement 4" range preauthorized by the actuary and Board. Relieves the requirement of having to go to the actuary and Board for each file.





QUESTIONS?





## **OPTIONAL SETTLEMENT 4 POLICY**

### **PURPOSE**

The Board of Retirement (“Board”) of the Kern County Employees’ Retirement Association (“KCERA”) adopts this Optional Settlement 4 Policy to establish guidelines and procedures for member utilization of Optional Settlement 4 as provided by the California Employees’ Retirement Law of 1937 (“the CERL) under California Government Code<sup>1</sup> § 31764 (also referred to as “Option 4”).

### **AUTHORITY**

Option 4 offers a reduced benefit to the member with continuing benefits to more than one beneficiary, or a continuing benefit to a single beneficiary, in percentages different than those established by the unmodified or other optional settlement statutes. The CERL requires a member’s request for Option 4 be approved by the Board of Retirement, upon the advice of the actuary. In addition, the benefit structure under an Option 4 must not place any additional financial burden upon the retirement system.

Optional settlement 4 consists of the right to elect in writing to have a retirement allowance paid to the member until the member’s death and thereafter to have other benefits as are approved by the board, upon the advice of the actuary, continued throughout the life of and paid to the natural persons, having an insurable interest in the member’s life, as the member nominates by written designation duly executed and filed with the board at the time of retirement. The designation shall not, in the opinion of the board and the actuary, place any additional burden upon the retirement system.

(Cal. Gov. Code § 31764).

KCERA has determined that the phrasing “...paid to the natural persons, having an insurable interest in the member’s life” does not limit Option 4 to only to those situations where multiple beneficiaries are named; rather, this phrasing demonstrates that unlike Optional Settlements 1, 2, and 3, Option 4 is not limited to a single beneficiary and can allow multiple beneficiaries. The ability to designate a single or multiple beneficiaries for an Option 4 continuance addresses the commonsense issue of family law courts issuing Domestic Relations Orders based on the former spouse’s community share of the KCERA retirement, which is not limited to those percentages offered in Optional Settlements 1, 2, or 3.

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<sup>1</sup> All statutory references are to the California Government Code unless otherwise stated.

## POLICY

This Policy establishes the KCERA approach to Optional Settlement 4, as set forth below.

- I. KCERA allows a member to select Optional Settlement 4 to provide a continuance after the member's death to either a single beneficiary or to multiple beneficiaries.
- II. KCERA's staff may provide non-binding estimates of the member's benefit and continuance beneficiary(ies) benefit(s) for use by members in evaluating an Optional Settlement 4. Likewise, KCERA staff will inform members that these estimates are non-binding, as they have not been approved by the actuary.
- III. Should the member wish to proceed with formal election of Optional Settlement 4, the election shall not place any additional burden upon the retirement system:
  - a. For the purposes of this Policy, a "Basic Optional Settlement 4" is defined as an Option 4 election (a) that names a former spouse as single beneficiary, as required by a court-approved Domestic Relations Order or (b) that provides continuing benefits to multiple beneficiaries (without reversion to any other Option 4 beneficiaries upon the death of any beneficiary).
  - b. The Board of Retirement hereby delegates approval of all requests for a "Basic Optional Settlement 4" as defined above to KCERA's Chief Executive Officer, provided that the actuary has determined that the benefit structure does not place any additional financial burden upon the retirement system. The Board has determined that such delegation, accompanied by approval by the actuary, is prudent and administratively efficient.
  - c. KCERA staff will present Optional Settlement 4 elections other than "Basic Optional Settlement 4" elections to the Board for approval. "Basic Optional Settlement 4" election requests will not be reviewed by the Board on a case-by-case basis.
- IV. KCERA will provide the "Basic Optional Settlement 4" calculation at no cost to the member or the former spouse. However, KCERA may, in its discretion, assess costs for Optional Settlement 4 calculations other than "Basic Optional Settlement 4" elections against the member, a former spouse, or pursuant to a court order.
- V. A member's request for an Optional Settlement 4 calculation shall be made in writing on a form or forms approved by the KCERA Chief Executive Officer and, if applicable, accompanied by any required processing payment.

### POLICY REVIEW AND HISTORY

- 1) This policy shall be reviewed on an as-needed or three-year basis.
- 2) This policy was:
  - a) Adopted by the Board on [insert date].