OAKLAND COUNTY EMPLOYEES' RETIREMENT SYSTEM
DEFINED BENEFIT PLAN

ACTUARIAL FUNDING POLICY

I. GENERAL

A. Purpose

(1) In accordance with its fiduciary duty for the administration and management of the Oakland County Employees' Retirement System ("OCERS"), and consistent with established actuarial standards of practice, the Oakland County Retirement and Deferred Compensation Board (the "Retirement Board") desires to establish a formal Actuarial Funding Policy to ensure the systematic funding of future pension obligations of the OCERS Defined Benefit Plan (the "DB Plan").

B. Background

(1) The DB Plan is a public employee retirement system that was established in 1946 to provide retirement income to qualifying employees and former employees of Oakland County, and their survivor beneficiaries. The DB Plan was closed to new hires at various dates as negotiated through collective bargaining. As of May 27, 1995, the DB Plan was fully closed to all new hires of the County.

(2) DB Plan benefits are financed through a combination of employee and employer contributions along with the investment return on those contributions. Benefit and contributions levels may vary within the DB Plan depending on a member's classification.

(3) OCERS is governed in accordance with the provisions of the Oakland County Employees' Retirement System Restated Resolution, as may be amended from time to time, and applicable state and federal laws including, without limitation, the Michigan Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended ("Act 314") (MCL 38.1132 *et seq.*).

C. Policy Objectives

(1) Maintain adequate levels of assets sufficient to fund all benefits expected to be paid to members and beneficiaries when due.

(2) Maintain stability of employer contributions, if necessary, consistent with other funding objectives.

(3) Support the public policy goals of accountability and transparency.

(4) Monitor material risks to assist in any risk management strategies the Retirement Board deems appropriate.

(5) Promote reasonable and equitable allocation of the cost of benefits over time.

(6) Provide a reasonable margin for adverse experience to offset risk.

(7) Review the DB Plan's investment return assumption, potentially in conjunction with a periodic asset liability study and in consideration of the Retirement Board's risk profile.

(8) Maintain the DB Plan's fully funded status.

II. LEGAL

A. Annual Actuarial Valuation

(1) Section 20h(4) of the Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended ("Act 314") [MCL 38.1140h(4)], requires the DB Plan to have an actuarial valuation performed annually as follows:

> Except as otherwise provided in this subsection, a system shall have an annual actuarial valuation with assets valued on a market-related basis. The actuarial present value of total projected benefits shall include all pension benefits to be provided by the system to members or beneficiaries pursuant to the terms of the system and any additional statutory or contractual agreements to provide pension benefits through the system that are in force at the actuarial valuation date, including, but not limited to, service credits purchased by members, deferred retirement option plans, early retirement programs, and postretirement adjustment programs.

B. Annual Employer Contribution

(1) The Retirement Board is required, pursuant to Section 20m of Act 314 [MCL 38.1140m], to annually certify the annual required contribution to be made by the employer as follows:

> The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of any system shall confirm in the annual actuarial valuation required under section 20h and the summary annual report required under section 13 that each system under this act provides for the payment of the required employer contribution as provided in this section and shall confirm in the summary annual report that the system has received the required employer contribution for the year covered in the summary annual report. The required employer contribution is the actuarially determined contribution amount. An annual required employer contribution in a system under this act shall consist of a current service cost payment and a payment of at least the annual accrued amortized interest on any unfunded actuarial liability and the payment of the annual accrued amortized portion of the unfunded principal liability. For fiscal years that

begin before January 1, 2006, the required employer contribution shall not be determined using an amortization period greater than 40 years. Except as otherwise provided in this section, for fiscal years that begin after December 31, 2005, the required employer contribution shall not be determined using an amortization period greater than 30 years. . . . In a plan year, any current service cost payment may be offset by a credit for amortization of accrued assets, if any, in excess of actuarial accrued liability. A required employer contribution for a system administered under this act shall allocate the actuarial present value of future plan benefits between the current service costs to be paid in the future and the actuarial accrued liability. The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of a system shall act upon the recommendation of an actuary and the board and the actuary shall take into account the standards of practice of the actuarial standards board of the American academy of actuaries in making the determination of the required employer contribution.

C. Summary Annual Report

(1) Pursuant to Section 13(3)(i) of Act 314 [MCL 38.1133(3)(i)], the Retirement Board shall annually publish, to its webpage, a summary annual report that includes all of the following information:

(a) The name of the system;
(b) The names of the DB Plan's investment fiduciaries;
(c) The names of the DB Plan's service providers;
(d) The DB Plan's assets and liabilities and changes in net plan assets on a fiscal year basis;
(e) The DB Plan's funded ratio on a fiscal year basis;
(f) The DB Plan's investment performance, net of fees, on a rolling calendar-year basis for the previous 1, 3, 5, 7, and 10-year periods;
(g) The DB Plan's administrative and investment expenses under GASB standards including, without limitation, a list of all expenditures made with soft dollars and all expenditures for Trustee training and education, including travel, that are paid with DB Plan assets;
(h) The DB Plan's itemized budget including all projected expenditures including, without limitation, expenditures for Trustee education and training, including travel, to be paid with DB Plan assets;
(i) The following information from the DB Plan's most recent annual actuarial valuation:

(i) the number of active members;
(ii) the number of retirees and beneficiaries;
(iii) the average annual retirement allowance;
(iv) the total annual retirement allowances being paid;

(v) the valuation payroll;
(vi) the County's normal costs of benefits as a percentage of payroll;
(vii) the County's total contribution rate as a percentage of payroll;
(viii) the weighted average of member contributions, if any;
(ix) the actuarial assumed rate of investment return;
(x) the actuarial assumed rate of long-term wage inflation;
(xi) the smoothing method utilized to determine the funding value of assets;
(xii) the DB Plan's amortization method and period;
(xiii) the DB Plan's actuarial cost method; and
(xiv) whether DB Plan membership is open or closed to specific groups of employees.

D. Public Act 202 of 2017

(1) Pursuant to Section 5(6) of the Protecting Local Government Retirement and Benefits Act [MCL 38.2805(6)], Public Act 202 of 2017, as amended ("PA 202"), the County is annually required to submit an electronic report to the Department of Treasury no later than six months following the end of the County's fiscal year. The report must include the following information:

(a) The funded ratio of the DB Plan using the uniform actuarial assumptions established by the State Treasurer;
(b) The County's annual required contribution to the DB Plan; and
(c) The County's annual general fund operating revenues, if any.

(2) The Retirement Administrator shall compile and report all information required under PA 202.

(3) Any and all costs incurred as a result of the additional reporting required under PA 202 shall be deemed an expense of the DB Plan and paid in accordance with its customary practice.

III. POLICY

A. Actuarial Cost Method

(1) The individual entry age normal actuarial cost method of valuation shall be utilized in determining actuarial accrued liability and normal cost for members with the following characteristics:

(a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and

(b) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

(2) Differences in the past between assumed experience and actual experience (actuarial gains and losses) shall be amortized over a reasonable period as determined by the Retirement Board in consultation with its Actuary.

B. Asset Smoothing Method

(1) The investment gains or losses of each valuation period, resulting from the difference between actual investment return and assumed investment return, shall be recognized annually in level amounts over a period not to exceed five (5) years in calculating the funding value of assets.

C. Amortization Method

(1) A level dollar amortization method shall be used to systematically pay off any unfunded actuarial accrued liabilities over a reasonable period as determined by the Retirement Board in consultation with its Actuary, but not to exceed 30 years.

(2) Unfunded liabilities associated with benefit changes or assumption changes shall be funded over a period determined by the Retirement Board in consultation with its actuary.

(3) Unfunded liabilities arising from benefit changes provided to retirees or in conjunction with early retirement incentive programs offered by the employer shall be separately funded over a period determined by the Retirement Board in consultation with its actuary.

D. Assumptions

(1) The economic and demographic actuarial assumptions utilized to determine the contribution requirements and benefit values of the DB Plan shall be determined by the Retirement Board in consultation with its actuary, subject to the following limitations:

(a) The assumed rate of investment return shall not exceed 7.25%, compounded annually; and

(b) Mortality shall be based on a version of the RP-2014 Mortality Table or a more recent table.

E. Funding Target

(1) The targeted funded ratio of the DB Plan shall be at least 100%.

F. Risk Management

(1) Assumption Changes

(a) The actuarial assumptions utilized to determine the annual contribution requirements and valuations shall be those last adopted by the Retirement Board based on the most recent experience study and upon the advice and recommendation of the Retirement Board's actuary. The Retirement Board's actuary shall conduct an experience study every five years. The results of the experience study shall be the basis for the actuarial assumptions recommended to the Retirement Board.

(b) The actuarial assumptions may be revised during the five-year period between experience studies if significant plan design changes, asset allocation changes, or other significant economic events occur, as advised by the actuary.

(2) Risk Measures. The following risk measures will be annually determined by the Retirement Board's actuary to provide quantifiable measurements of risk as it applies to the DB Plan.

(a) Funded ratio;

(b) Total unfunded actuarial accrued liabilities as a percentage of total payroll of DB Plan membership;

(c) Total assets as a percentage of total payroll of DB Plan membership; and

(d) Total actuarial accrued liabilities as a percentage of total payroll of DB Plan membership.

(3) Risk Control

(a) The Retirement Board shall carefully monitor the risk measures identified above and shall consider steps to mitigate risk, particularly as the funded ratio increases.

IV. REVIEW AND AMENDMENT

A. Periodic Review

(1) This Actuarial Funding Policy shall be reviewed no less frequently than once every five years in conjunction with the required experience study performed by the Retirement Board's actuary, and may be reviewed at any time in the Retirement Board's discretion.

B. Review of Actuary

(1) Pursuant to Section 4(1)(d) of Public Act 202 of 2017, as amended [MCL 38.2804(1)(d)], at least once every eight years the Retirement Board shall:

(a) have a peer actuarial audit conducted by an actuary that is not the DB Plan actuary; or

(b) replace the DB Plan's actuary.

C. Amendment

(1) The Retirement Board, in consultation with its Actuary and Legal Counsel, may amend this Actuary Funding Policy at any time as deemed necessary to address changes in the makeup, benefit structure and/or funding status of the DB Plan.