



May 19, 2025

Board of Retirement
Ventura County Employees' Retirement Association
1190 S. Victoria Ave., Ste. 200
Ventura, CA 93003

SUBJECT: Review Actuarial Future Projection Options; Consider and Take Possible Action to Adopt Recommendation of Finance Committee to Engage Segal to Prepare a Risk Report under Option 3: Historical Analysis & Projections

Dear Board Members:

Staff have been in discussions with VCERA's actuary, Segal and the Finance Committee regarding options for actuarial future projections that would provide VCERA with information to assist with future planning for surplus management and overall insight into possible scenarios for its pension plan. On April 21, 2025, Segal gave a presentation to the Finance Committee with various options. Of the options presented, the Finance Committee (and staff) recommend Option 3: Historical Analysis & Projections.

Background

As VCERA approaches full funding status, Segal has advised that a Surplus Management Policy be developed as part of VCERA's overall Actuarial Funding Policy. To develop a policy like this, it is helpful to have some education and insight into VCERA's plan history as well as illustrations of various projected metrics, including employer contribution rates, funded ratios and unfunded actuarial accrued liabilities (UAAL). The additional historical analysis may also serve as a valuable reference for the plan stakeholders.

In addition, during the actuarial audit performed last year, actuary Cheiron suggested that VCERA look at future projections to get a fuller picture of potential impacts of the assumptions and changes in the employer contribution rates as the plan approaches full funding. At a minimum, they recommended a projection of the Actuarially Determined Contribution (ADC) rate and the funded status of the plan, assuming all assumptions are met. Other options could include showing the impact of a stress test, such as a large deviation from the assumed rate of return and how that might impact the plan in the short and long term. At the October 28, 2024 Board meeting where the audit was discussed, the motion included direction to staff to "Address Recommendations from the Report" and direction was given to have the future projection options reviewed by the Finance Committee.

At the April 21, 2025 Finance Committee meeting, Segal presented four options for projection studies:

- Option 1 would cover basic short and/or long-term projections, assuming all assumptions are met.
- Option 2 would expand to include the impact of one year favorable or unfavorable market return on all future years of funding (“deterministic scenario testing”).
- Option 3 would be an Actuarial Standards of Practice No. 51 Risk Report that contains projections as well as a historical analysis of the UAAL and impact on employer contribution rates.
- Option 4 would expand to stochastic modeling that includes probabilities by performing 10,000 trial outcomes of future stock market returns.

After considering these various options, the Finance Committee passed a motion to “Recommend Option 3 for One-Time with Understanding that When Review the Report, May Choose to Establish the Frequency to Receive Future Reports”. In other words, the Committee recommended that Segal be engaged to perform Option 3 as a one-time project initially, and after reviewing the results, decide whether the report should be created on a regular periodic basis. The estimated cost for an Option 3 Report is \$20,000 to \$30,000.

RECOMMENDATION: Review Actuarial Future Projection Options and Authorize Staff to Engage Segal to Prepare a Risk Report under Option 3: Historical Analysis & Projections, as One-Time Project

Staff and Segal will be available to discuss this item further at the May 19, 2025, Board Meeting.

Sincerely,

A handwritten signature in cursive script that reads "Amy Herron".

Amy Herron, CPA, CPFO, PMP
Retirement Administrator