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REGULAR INTEREST AND EXCESS INTEREST CREDITING POLICY

PURPOSE

I. The purpose of this policy is to establish the process to be used by the Kern County Employees' Retirement Associations ("KCERA") to credit semi-annual interest to reserves. This policy shall include, but may not be limited to, the following:

1. Defining the reserves maintained by KCERA;
2. Determining the regular and excess rates of interest at which reserves are to be credited; and
3. Determining the priorities and sequence by which interest will be credited to the reserves.

GOVERNING LAW

II. KCERA is governed by provisions of the County Employees Retirement Law of 1937 ("CERL"), as well as other federal and State laws relating to public retirement systems.

CERL generally governs interest crediting and excess earnings. Under CERL, interest is credited every 6 months. Various reserves and designations are established and maintained by the Board under procedures adopted by the Board pursuant to Article 5.5 of CERL.

OBJECTIVES

III. The policy has been developed with the following objectives:

1. To comply with appropriate legal and regulatory requirements.
2. To maintain consistency between the reserving structure and the actuarial funding of KCERA.
3. To limit, to the extent possible, the volatility of interest crediting from period to period.
4. To limit, to the extent possible, the charging of losses to valuation reserves.

5. To assure that the reserve values track the market value of assets over the long term.

CURRENT RESERVES

IV. KCERA maintains the following reserves:

Valuation Reserves:

Member Deposit Reserves – The reserves to which member contributions are credited. These contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon retirement of a member, a transfer is made to Retired Member Reserves (Annuity).

Employer Advance Reserves – The reserves to which basic employer contributions are credited. Upon retirement of a member, a transfer is made to Retired Member Reserves (Pension).

Cost-of-Living Reserves – The reserves to which cost-of-living employer contributions are credited.

Retired Member Reserves (Annuity & Pension) – The reserves to which transfers are made from Member Deposit Reserves and Employer Advance Reserves at the time of a member's retirement. The total of these reserves should equal the present value (excluding cost-of-living increases) of the total benefit due all retirees and eligible beneficiaries.

Allocated Supplemental Retiree Benefit Reserve (0.5% COLA Reserve) – In accordance with the 2001 Settlement Agreement between KCERA and the Kern Law Enforcement Association et al ("Ventura Settlement"), funds were earmarked from the Supplemental Retiree Benefit Reserve (SRBR) to fund some of the cost associated with an increase from a 2.0% COLA benefit to a 2.5% COLA benefit. Unlike the Unallocated SRBR, this portion of the SRBR is treated as a valuation reserve and can only be used to provide the additional 0.5% COLA benefit. This reserve is used to pay for an additional 0.5% COLA benefit until the allocated amount is exhausted. At that time, the Cost-of-Living Reserve will be used to pay for the additional 0.5% COLA benefit.

Non-valuation Reserves:

COLA Contribution Reserve (CCR) – The amounts in the CCR, established pursuant to Section 31617, are set aside to provide credit towards future employer contributions for the 2% COLA benefits. The funds in the CCR, if any, are applied as of the subsequent July 1 in lieu of cash contributions otherwise expected to be paid by the employers. Any funds in the CCR as of December 31 will be used to determine the amount of employer contributions that will be reduced for the subsequent fiscal year commencing July 1. Such amounts will be transferred from the CCR to the Cost-of-Living Reserve on July 1. Any interest earned on the CCR after December 31 will remain in the CCR and be used towards the subsequent year's determination of the credits.

Contingency Reserve – The reserve is maintained in an amount equal to 3% of the total market value of assets to provide funds to offset future deficiencies in interest earnings, losses on investment or other contingencies. This reserve consists of the minimum 1% required pursuant to Section 31616 plus a discretionary 2% as also permitted by Section 31616. If the Contingency Reserve is negative, then it will be included as an offset to the valuation value of assets used to determine the employers' contribution rates in the annual actuarial valuation.

Supplemental Retiree Benefit Reserve (SRBR) – This reserve is used for the payment of benefits provided to members who are retired or beneficiaries as determined by the Board in accordance with Section 31618 of the CERL. The SRBR Reserve is divided into two parts:

1. Allocated SRBR (0.5% COLA Reserve) – This reserve was originally funded by the SRBR. However, this reserve is now treated as a valuation reserve and can only be used to provide the additional 0.5% COLA benefit.
2. Unallocated SRBR – This reserve is the remaining amount of the total SRBR less the Allocated SRBR (0.5% COLA Reserve).

Financial Statement Reserves and Accounts:

Market Stabilization Reserve – The difference between the current market value of assets and the actuarial value of assets used to establish the above reserves.

GENERAL POLICIES

V. 1. Base "Available Earnings" on actual current period earnings of the fund calculated on the actuarial value of assets as determined under the Board's funding policy, plus any positive balance in the Contingency Reserve.

2. Credit regular interest at the assumed annual valuation interest rate on the valuation reserves, the CCR and the Unallocated SRBR. Earnings will be credited twice each year to all reserves that have been on deposit for six full months, in accordance with Section 31615 of the CERL. The crediting of interest will take effect on June 30 and December 31 of each year. Allocations of interest credits as of June 30 of each fiscal year will take into consideration interest credits made as of December 31 of the same fiscal year in determining whether or not the full assumed annual interest rate has been allocated.

3. Maintain a 3% Contingency Reserve. This reserve is made up of the minimum 1% required pursuant to Section 31616 plus a discretionary 2% as permitted also by Section 31616.

4. Any Available Earnings remaining after crediting full interest to valuation reserves, the CCR and the Unallocated SRBR, and restoring the Contingency Reserve to its target level constitute Excess Earnings. The Excess Earnings will be allocated in the following order of priority:

   A. Allocate up to the amount determined to be payable by participating employers for the 2.0% COLA benefit contributions in the prior fiscal year to the CCR. This allocation is made even if all or a portion of the employers' contributions for the 2.0% COLA benefits for that twelve-month period were made with credits from the CCR for such prior period instead of contributions actually paid by the employers.

   B. Allocate one-half of the remaining earnings to the Unallocated SRBR.

   Allocate the other one-half of the remaining earnings to the valuation reserves and the CCR in proportion to the amounts in each of those reserves, on the balance in the fund for at least six full months. The Allocated SRBR (0.5% COLA Reserve) does not participate in this allocating of remaining earnings.

REGULAR INTEREST CREDITING POLICY

VI. **Step 1 Determine "Available Earnings" for accounting period as the sum of:**

   A. Earnings of the retirement fund for the period based on actuarial value of assets, expressed in dollars. This could be a negative amount.

   B. Positive balance in the Contingency Reserve.

   If sum of A. and B. is negative, such negative amount is only credited to the Contingency Reserve but not to the valuation reserves, the CCR or the Unallocated SRBR.

Step 2 Credit interest to the valuation reserves, the CCR and the Unallocated SRBR:

   A. Credit the valuation reserves, the CCR and the Unallocated SRBR at a rate up to the assumed annual valuation interest rate.

   B. Deduct the interest credited above from Available Earnings. If the amount of interest credited is more than the Available Earnings, credit in Step 2A only up to the amount of the Available Earnings.

Step 3 Maintain a Contingency Reserve of 3.0%:

Transfer from any remaining Available Earnings into the Contingency Reserve the amount required to maintain a Contingency Reserve of 3% of market value.

EXCESS INTEREST CREDITING POLICY

VII. **Step 1 Apply any remaining available earnings as follows:**

A. Allocate up to the amount determined to be payable by participating employers for the 2.0% COLA benefit contributions in the prior fiscal year to the CCR. This allocation is made even if all or a portion of the employers' contributions for the 2.0% COLA benefits for that twelve-month period were made with credits from the CCR for such prior period instead of contributions actually paid by the employers.

B. Allocate one-half of any remaining earnings to the Unallocated SRBR.

Allocate the other one-half of the remaining earnings to the valuation reserves and the CCR in proportion to the amounts in each of those reserves, on the balance in the fund for at least six full months. The Allocated SRBR (0.5% COLA Reserve) does not participate in this allocation of remaining earnings.

Step 2 Consider discretionary uses of the Unallocated SRBR:

The usage of funds in the Unallocated SRBR is entirely at the discretion of the Board according to its SRBR benefit payment policy.

ADOPTION AND EFFECTIVE DATE

VIII. This policy has been adopted by a majority vote of the KCERA Board, and can be amended by the KCERA Board by a majority vote. This policy is effective with the six-month interest crediting period ending December 31, 2013.

POLICY REVIEW AND HISTORY

1) This policy will be reviewed at least every five (5) years.
2) This policy was:
   a) Adopted by the Board on October 30, 2013.
   b) Amended by the Board on June 8, 2022.