

Stanislaus County Employees' Retirement Association's  
Excess Earnings Policy  
(revised May 25, 2010)

**Purpose:** This revision of the Stanislaus County Employees' Retirement Association's (StanCERA's) Policy on Excess Earnings is to update the Policy from the one adopted in July 2004, revised on June 14, 2006 in light of the Memorandum of Understanding with Stanislaus County on the maintenance of a 2% Contingency Reserve at that time and to add the tying of retiree ad hoc benefits paid from excess earnings to a high actuarial funded status of StanCERA before retiree ad hoc benefits are paid.

**Effective Date:** The following revised Excess Earnings Policy was adopted by the Retirement Board on May 25, 2010.

**Interest Crediting and Policy Distribution of Excess Earnings:** Excess earnings of StanCERA shall be declared only in years in which earnings (**based on the actuarial value of assets**) exceed the costs of administration, investment management and other fees related to investments, actuarial studies, regular interest posting to all vested retirement benefit reserve accounts and the elimination of any accumulated deficits or losses. Earnings shall be posted in the following order until all earnings are allocated.

- 1) Earnings shall be used to pay for all administrative, investment, and actuarial expenses.
- 2) Earnings shall be used to eliminate any prior loss contra-reserve balances.
- 3) Interest shall be credited at the rate determined by the Retirement Board (normally, and no higher than, the actuarially assumed rate of return) to all **valuation** reserves (those reserves established for vested retirement benefits including Member Contribution reserves, Employer Advance reserves and Retiree reserves for annuities, pensions, funded cost of living adjustments and survivors' death benefits).
- 4) After crediting the **valuation** reserves with the Board-approved rate of interest, undistributed earnings (excess earnings) would be available as follows:
  - a) If the actuarially determined funded ratio is below 90%, all excess earnings will be used to fund the pension liability
  - b) If the funded ratio is at least 90% to under 100%, 75% of excess earnings will be used to fund the pension liability, 25% will be available at the discretion of the Retirement Board
  - c) If the funded ratio is 100% to 115%, 50% of the excess earnings will be placed in the Contingency Reserve and 50% will be available at the discretion of the Retirement Board
  - d) If the funded ratio exceeds 115%, the Retirement Board has total discretion as to the use of excess earnings

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**Discretionary Use of Excess Earnings:** The Retirement Board may use its discretion in allocating discretionary excess earnings for **any or none of the** following uses:

- 1) Augment the Contingency Reserve. The Retirement Board may allocate discretionary excess earnings to increase the Contingency Reserve (Government Code section 31592). This Reserve can be used in times of market down turns to offset net annual losses from investments.
  
- 2) Increase retiree allowances in lieu of the payment of health insurance premiums. If the Contingency Reserve is 2% of the retirement system's assets or greater, the Retirement Board may, pursuant to Government Code section 31691.1, allocate its discretionary excess earnings to fund an increase in retirees' and beneficiaries' allowances in lieu of the payment of health insurance premiums. No payments shall be made from this funding unless and until the retirement system's actuarial funded ratio is 90% or greater and the retirement system has exceeded its actuarially assumed rate of return for three consecutive fiscal years. If the funded ratio of the retirement system falls below 90% during the funding period, all excess earnings that were allocated to fund this retiree ad hoc benefit will be transferred to mandatory reserves to increase the funded ratio. If the actuarial assumed rate of return has not been exceeded for three consecutive years, no payments will be made from the accumulated discretionary excess earnings. If money has been allocated to fund this ad hoc benefit, the retirement system's funded ratio is over 90% and the actuarially assumed rate of return has been exceeded for three consecutive fiscal years, then a one time lump sum payment of this ad hoc benefit may be approved by the Retirement Board to be made to retirees and beneficiaries not to exceed \$3,600 per recipient if no such ad hoc retiree benefit has been made for eleven (11) consecutive retiree payrolls prior to the month of payment. The amount paid to each retiree or beneficiary shall be in accordance with the recipient's years of StanCERA service credit and as determined by the Revocable Health Benefits Subsidy Policy. The amount shall be an annual amount which is the equivalent of the monthly amount times 12. This amount shall only be paid once in twelve (12) consecutive retiree payrolls.

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- 3) Pay a special or supplemental cost of living adjustment to retirees and beneficiaries who have lost 20% or more of their purchasing power [Government Code section 31874.3 (b) ]. If the Contingency Reserve is 2% of the retirement system's assets or greater, the Retirement Board may, pursuant to Government Code section 31874.3 (b), allocate its discretionary excess earnings to fund an increase in retirees' and beneficiaries' allowances for the potential payment of a special or supplemental cost of living adjustment if the recipient has accumulated 20% or more in unused inflation credits. No payments may be made from this funding unless and until the retirement system's actuarial funded ratio is 90% or greater and the retirement system has exceeded its actuarially assumed rate of return for three consecutive fiscal years. If the funded ratio of the retirement system falls below 90% during the funding period, all excess earnings that were allocated to fund this retiree ad hoc benefit will be transferred to mandatory reserves to increase the funded ratio. If the actuarial assumed rate of return has not been exceeded for three consecutive years, no payments will be made from the accumulated discretionary excess earnings. If money has been allocated to fund this ad hoc benefit, the retirement system's funded ratio is over 90% and the actuarially assumed rate of return has been exceeded for three consecutive fiscal years, then a one time lump sum payment may be approved by the Retirement Board to be made to retirees and beneficiaries not to exceed \$2,400 per recipient if no such retiree ad hoc benefit has been paid for eleven (11) consecutive retiree payrolls prior to the month of payment. The amount paid to each retiree or beneficiary shall be in accordance with the recipient's unused inflation credits as determined by the actuary. The amount shall be an annual amount which is the equivalent of the monthly amount times 12. This amount shall only be paid once in 12 consecutive retiree payrolls.

**Prior Years' Excess Earnings Reserves:** Any reserves accumulated prior to July 1, 2009 that were generated from previous years' excess earnings remain at the discretion of the Retirement Board.

**Employer Contributions:** The Retirement Board will always require that the normal Employer Contributions will be made. If the retirement system is "over-funded" and the actuary would reduce the employer contributions from the normal annual service credit of members, the Retirement Board will not make such credit and will continue to require that the full normal contributions be made for the full year of service of all members.

**Policy Review:** This Policy will be reviewed at least biennially in conjunction with the reviews of all Retirement Board policies. When changes are contemplated to this Policy, the new proposed language shall be given to the Board of Directors of the Retired Employees of Stanislaus County (RESCO) for its input prior to final adoption by the Retirement Board. Such action is in accordance with Government Code section 31592.5.