# Excess Earnings and Interest Posting Policy

**Purpose:** The purpose of the Stanislaus County Employees' Retirement Associations' (StanCERA) Policy on Excess Earnings and Interest Posting is to declare and provide direction for the determination and distribution of annual earnings in excess of expenses, accounting deficits, the maintenance of specific non-valuation reserves and interest crediting of valuation reserves.

The main objective of the policy is the enhancement and maintenance of the ability of the system to pay retirement pension benefits prior to the use of earnings for reasons other than the payment of retirement pension benefits.

**Interest Crediting and Policy Distribution of Excess Earnings:** Excess earnings of StanCERA may be declared only in years which the market value of assets equal or exceed the actuarially determined liabilities. The timing of the declaration will depend on the actuary's determination of the liabilities. Before excess earnings can be declared, the funds' annual earnings must be used to pay for certain expenses and other reserves that the Board has expressed an interest in maintaining. Each year, 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 maintain a 1% Contingency Fund unless otherwise directed by the Board of Retirement.
3) Earnings shall be used to eliminate any prior loss contra-reserve balances. Negative earnings would cause the contra valuation reserve to increase.
4) Valuation Reserve Interest Crediting

    - Fund is below 100% funded on a market value of assets basis

        - Any remaining residual earnings shall be distributed on a pro rata basis between those reserves established for vested retirement benefits including, Active Member reserves, $5,000 Retiree Burial Allowance Reserve, Employer Advance reserves and Retiree reserves for annuities, pensions and funded cost of living adjustments with the following caveat:

            The percentage of earnings allocated to the Active Member reserves shall be capped at the actuarially determined return assumption, will determine the semi-annual percent of interest to be posted to individual member account balances' in the subsequent fiscal year on December 31 and June 30, and of that percentage, the refundable percentage of earnings credited to member accounts will be capped at .25% per annum compounded semiannually.

- Fund is at or greater than 100% funded on a market basis
  - Member Reserves shall be credited at a rate determined by the Board of Retirement (normally, and no higher than the actuarially determined return assumption), and of that percentage, the refundable percentage of earnings credited to member accounts will be capped at .25% per annum compounded semiannually.

  - All other reserves shall be credited at a rate derived from the “Distribution of Excess Earnings”, Section 5

5) Distribution of Excess Earnings; Should excess earnings exist, they would be available as follows:
   a) If the **market value** funded ratio is 100% to 105%, 75% of excess earnings will be used to fund the pension liability (distributed evenly on a pro rata basis across all valuation reserves, other than Member), 25% will be available at the discretion of the Retirement Board
   b) If the **market value** funded ratio is 105% 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
   c) If the **market value** funded ratio exceeds 115%, the Retirement Board has total discretion as to the use of excess earnings

**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 1% 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 market value funded ratio is 100% or greater and the retirement system has exceeded its assumed rate of return for three consecutive fiscal years. If the funded ratio of the retirement system falls below 100% 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 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 100% and the 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.

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 1% 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 market funded ratio is 100% or greater and the retirement system has exceeded its assumed rate of return for three consecutive fiscal years. If the funded ratio of the retirement system falls below 100% 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 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 100% and the 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.

**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 (Employer Normal Cost), the Retirement Board will not make such credit and will continue to require that the full normal contributions (normal cost) 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.

**Policy Review**

This Board shall review this policy at least every three years.

**Policy History**

Adopted by the Retirement Board on July 1, 2004

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| Revised | 06/14/2006 |
| Revised | 05/25/2010 |
| Revised | 08/28/2012 – Effective 5/25/12 |
| Revised | 06/30/2014 |
| Revised | 12/16/2015 |

Reviewed and amended by the Board of Retirement

Rick Santos, Executive Director

Approval/Adoption Date: July 1, 2004