**STANISLAUS COUNTY**
**EMPLOYEES' RETIREMENT ASSOCIATION**
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**Modesto, CA 95354**
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# AGENDA

BOARD OF RETIREMENT
832 12th Street, Suite 600 – **Wesley W. Hall Board Room**
Modesto, CA 95354

**June 13, 2012**
**2:00 p.m.**

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

**CONSENT ITEMS**: These matters include routine administrative actions and are identified under the Consent Items heading.

**PUBLIC COMMENT**: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

**BOARD AGENDAS & MINUTES:** Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

**NOTICE REGARDING NON-ENGLISH SPEAKERS**: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

**REASONABLE ACCOMMODATIONS**: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order

2. Roll Call

3. Announcements

4. Public Comment

5. Consent Items

   a. Approval of the May 22, 2012, Administrative/Investment Meeting Minutes **View**

5. Consent Items (Cont.)

b. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

1. Rowe Barney, Env. Resources, Effective 06-02-12
2. Ruth Bennett, DCSS, Effective 06-11-12
3. Mitchel Boyer, CSA, Effective 05-29-12
4. Linda Carter, Clerk-Recorder, Effective 06-16-12
5. Christopher Dickinson, District Attorney, Effective 06-02-12
6. Susan Guest, Library, Effective 06-29-12
7. Sonya Harrigfeld, Env. Resources/Parks, Effective 06-02-12
8. Bruce Houston, Sheriff, Effective 06-14-12
9. Marcia Houston, CSA, Effective 06-16-12
10. Linda Jersild, CSA, Effective 06-02-12
11. Wanda Jean Little, CSA, Effective 06-30-12
12. Janice Milliken, Law Library, Effective 06-30-12
13. Christine O'Neal, CSA, Effective 06-02-12
14. Marina Rodriguez, DCSS, Effective 06-02-12
15. Patricia Sanwo, BHRS, Effective 06-16-12
16. Dorothy, Sinclair, District Attorney, Effective 06-08-12

c. Approval of Deferred Retirement(s) – **Section 31700**

1. Dyane Burgos, CSA, Effective 04-07-12
2. Stacey L. Della, BHRS, Effective 06-02-12
3. Kelly Hayes, BOS, Effective 12-31-11
4. Stephanie Hernandez, HSA, Effective 03-02-12
5. Alexander M. Kern, Law Library, Effective 05-26-12
6. Corey Morris, CSA, Effective 05-18-12
7. Nicole Phillips, CSA, Effective 05-05-12

6. Executive Director

a. Discussion and Action on StanCERA's Draft Excess Earnings Policy **View**

b. Verbal Update on the Vacant Office Space at 832 12th St., 6th Floor

c. Verbal Report on StanCERA's May 1, 2012, Pre-Retirement Seminar

7. Members' Forum (Information and Future Agenda Requests Only)

8. Closed Session

> Pursuant to Government Code Section 31532 regarding the confidentiality of member records, under the authority set forth in Government Code Section 54956.9 regarding litigation, and under the authority set forth in Government Code Section 54957, et seq., regarding the confidentiality of personnel records, the following disability retirement matter(s) will be heard in closed session. If a disability applicant present wishes to attend the session on his/her application, they may at this time request an open session hearing. If a member so elects, be advised open session rules apply: the general public may be present, notes will be taken, and minutes available to the general public will reflect the discussion held; and under the authority set forth in Government Code Section 54954.5, et seq., regarding the confidentiality of personnel records, the following matter(s) will be heard in closed session.

a. Discussion and Action on the Application for a Service-Connected Disability Retirement by StanCERA Deferred Member Aaron Gallagher

b. Conference with Legal Counsel – Pending Litigation – One Case:
In Re: Bank of New York Mellon Corporation Foreign Exchange Transactions Litigation, U.S. District Court, Southern District of New York, Case Numbers12-mdl-2335 (LAK) and 1:12-cv-03067 (LAK)
Government Code Section 54956.9(a)

c. Conference with Legal Counsel – Pending Litigation – One Case:
O'Neal et al v. Stanislaus County Employees' Retirement Association
Stanislaus County Superior Court Case No. 648469
Government Code Section 54956.9(a)

d. Conference with Legal Counsel – Pending Litigation – One Case:
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County Superior Court Case No. 1-11-CV202224
Government Code Section 54956.9(b)

9. Adjournment

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# PLEASE POST FOR EMPLOYEE VIEWING

**BOARD OF RETIREMENT MINUTES** **May 22, 2012**

**Members Present**: Maria De Anda, Jim De Martini, Gordon Ford, Darin Gharat, Jeff Grover, Mike Lynch, Ron Martin, Michael O'Neal and Donna Riley

***Alternate Member Absent:*** *Joan Clendenin, Alternate Retiree Representative*

**Staff Present:** Rick Santos, Executive Director
Kelly Cerny, Executive Board Secretary
Dawn Lea, Benefits Manager
Kathy Johnson, Accountant
Reed Love, I.T. Coordinator

**Others Present:** Fred Silva, General Legal Counsel
Paul Harte & Nathan Pratt, Strategic Investment Solutions (SIS), Inc.
Harvey Leiderman, Reed Smith, via teleconference
Stan Risen, County Chief Executive Office

1. Meeting called to order at 1:59 p.m. by Jim De Martini, Chair.

2. **Roll Call**

3. **Announcements**

   Mr. Santos announced and introduced StanCERA's three new employees, Reed Love, I.T. Coordinator, Mary Williams, Administrative Assistant, and Alaine Taa, Retirement Technician.

4. **Public Comment**

   None.

5. **Closed Session**

   Motion was made by Darin Gharat and seconded by Maria De Anda to commence to Closed Session at 2:03 p.m.

   Motion carried.

5. **Closed Session (Cont.)**

Motion was made by Darin Gharat and seconded by Jeff Grover to return to Open Session at 2:41 p.m.

Motion carried.

Mr. O'Neal arrived at 2:42 p.m.

Ms. Cerny read the findings of the Closed Session:

a. Conference with Legal Counsel – Pending Litigation – One Case:
In Re: Bank of New York Mellon Corporation Foreign Exchange Transactions Litigation, U.S. District Court, Southern District of New York,
Case Numbers12-mdl-2335 (LAK) and 1:12-cv-03067 (LAK)
Government Code Section 54956.9(a)

No report.

b. Conference with Legal Counsel – Pending Litigation – One Case:
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County Superior Court Case No. 1-11-CV202224
Government Code Section 54956.9(b)

No action taken.

c. Conference with Legal Counsel – Pending Litigation – One Case:
O'Neal et al v. Stanislaus County Employees' Retirement Association
Stanislaus County Superior Court Case No. 648469
Government Code Section 54956.9(a)

Motion was made by Jeff Grover and seconded by Maria De Anda to authorize StanCERA's Executive Director and General Legal Counsel to contact Stanislaus County Counsel and report back to the Board of Retirement.

Motion carried.

6. **Consent Items**

Ms. Cerny announced that Consent Item #6d. the Deferred Retirement dates, were off by one day and will be amended in the May 22, 2012, Board meeting Minutes.

Motion was made by Darin Gharat and seconded by Maria De Anda to approve the Consent Items as presented and amended.

Motion carried.

a. Approval of the April 24, 2012, Investment Meeting Minutes

b. StanCERA Investment Managers Review List for Quarter Ending March 31, 2012

6. **<u>Consent Items (Cont.)</u>**

c. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

1. Claudia Cunningham, Auditor-Controller, Effective 05-05-12
2. Bernard Fairfield, Public Defender, Effective 04-16-12
3. Kathleen Gomez, HSA, Effective 05-18-12
4. Sharyn Holt, HSA, Effective 05-05-12
5. Linda Macy, County Counsel, Effective 04-10-12
6. James Munoz, Sheriff, Effective 05-01-12
7. Mark Phillips, City of Ceres, Effective 03-01-12
8. Martha Selover, Sheriff, Effective 03-10-12
9. Robin Vanderheiden, BHRS, Effective 05-04-12

Revised

d. Approval of Deferred Retirement(s) – **Section 31700**

1. Agustin Alberto, CSA, Effective ~~08-31-11~~ 09-01-11
2. Cindy Sokun Am, CSA, Effective ~~03-28-12~~ 03-28-12
3. Steven M. Berkowitz, BHRS, Effective 03-16-12
4. Jennifer B. Carlsen, BHRS, Effective 01-04-12
5. Christie Ceballos, HSA, Effective ~~12-02-11~~ 12-03-11
6. Laura Guerrero, Sheriff, Effective ~~04-20-12~~ 04-21-12
7. Carol Foutz, Probation, Effective ~~02-09-12~~ 02-10-12
8. Joana Frank, CSA, Effective ~~04-03-12~~ 04-04-12
9. Trang, Nguyen, CSA, Effective ~~01-20-12~~ 01-21-12
10. Teresa Olson, HSA, Effective ~~03-02-12~~ 03-03-12
11. Stephen Spiegel, CSA, Effective ~~05-04-12~~ 05-05-12
12. George Justin Vasquez, GSA, Effective ~~04-18-12~~ 04-19-12

e. Approval of Death Benefit(s) – **Section 31781**

1. Francisco Alvarez, Deceased, May 13, 2012, Active Member, Options Pursuant to Government Code Sections 31781, 31781.1, and 31781.3

7. **<u>Strategic Investment Solutions (SIS), Inc.</u>**

a. StanCERA's Investment Performance Analysis for the Quarter Ending March 31, 2012

Mr. Harte presented the first quarter investment performance analysis through March 31, 2012. The composite fund returned 8.6% in the first quarter of 2012 and ranked in the 16$^{th}$ percentile among other public funds greater than $100 million. The median return was 7.5%. The fund beat its policy index (7.6%) during this time period. Longer term, the three and five year returns of 19.4% and 3.3%, ranked above the median among total public plans (16.2% and 3.1%), respectively.

Asset allocation and economic assumptions will be reviewed later this year to consider strategies that improve overall risk-adjusted returns.

7. **Strategic Investment Solutions (SIS), Inc. [Cont.]**

b. Discussion and Action on StanCERA's Quarterly Manager Review List – Performance Through March 31, 2012

No action taken.

c. StanCERA's Monthly Performance Review for the Month Ending April 30, 2012

Mr. Harte presented the monthly performance review for the period ending April 30, 2012. StanCERA's portfolio was $1.416 billion, a -0.73% decrease from the prior month. StanCERA's portfolio return for the month of April was -0.52%. The overall rate of return for this fiscal year to date is 2.42%, under StanCERA's fiscal year to date policy index of 3.84%.

d. Report on "Top 10 Holdings" by StanCERA Investment Managers

e. Discussion and Action on the Disposition of the RAFI Long Short Fund

Motion was made by Gordon Ford and seconded by Jim DeMartini to withdraw from Research Affiliates (RAFI) Long Short Fund effective May 23, 2012.

Motion carried.

8. **Executive Director**

a. Presentation, Discussion and Action on StanCERA's 2012-2013 Fiscal Year Administrative Budget

Motion was made by Jeff Grover and seconded by Darin Gharat to adopt StanCERA's 2012-2013 fiscal year administrative budget as presented.

Motion carried.

9. **Members' Forum (Information and Future Agenda Requests Only)**

Ms. De Anda requested that an educational session on securities lending investments be given at a future Board meeting.

Mr. Santos informed the Board that staff conducted a preliminary analysis regarding a change in custodial banks. The analysis demonstrates that costs can be reduced and value added by sending out a Request for Proposal (RFP). The process is complex and staff will begin it in 2013.

9. **Members' Forum (Information and Future Agenda Requests Only) [Cont.]**

Ms. Cerny announced Board members had received the brochure of the State Association of County Retirement Systems' (SACRS) UC Berkeley Haas School of Business Public Pension Investment Management Program, July 16-18 2012.

10. **Adjournment**

Meeting adjourned at 3:40 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:
FRED A. SILVA, GENERAL LEGAL COUNSEL

By: ______________________
Fred A. Silva, General Legal Counsel

Agenda

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06/13/12
Item #6a

**Retirement Board Meeting**
**June 13, 2012**

TO: Board of Retirement

FROM: Rick Santos, Executive Director

**SUBJECT: DRAFT EXCESS EARNINGS POLICY**

I. RECOMMENDATION: Approve the following recommended changes to the Excess Earnings Policy

1) Reaffirm the intent to maintain a non-valuation contingency reserve
2) Define excess earnings on a market value basis
3) Define the System's funded ratio on a market value basis
4) Define how earnings are allocated when the System is funded below 90%
5) Discontinue the "Prior Years' Excess Earnings Reserves" policy subsection

II. EXECUTIVE SUMMARY:

This draft is being brought to the Board since current policy requires that the Excess Earnings Policy be reviewed every two years. The last review and change to this document (Attachment 1) was May 25, 2010. After today's review and discussion regarding this draft (Attachment 4), staff can rework and bring a final policy back to the Board for approval and notify RESCO of the proposed changes as required by Government Code Section 31592.5.

There is a good amount of latitude inherent in 1937 Act Code Sections regarding excess earnings and interest crediting. In fact, when one reviews other 1937 Act System policies, it is clear that there is about as many different interest crediting and excess earnings policies as there are 1937 Act Systems. Some policies are vague or general in nature, while some are explicit. Attachment 2 gives a few examples of what other Systems look at when determining how to credit reserves and Attachment 3 spells out more specifically Member Reserve Crediting Policies.

The main intent of the suggested rework is simplification. The one significant change staff is requesting is in the interest crediting policy when the System's funded ratio is below 90%. Based on minutes and audio from past meetings, the Board's intent appears to keep the interest crediting rate at 0% on member contribution reserves until the System reaches a more healthy state. Unfortunately, if member contribution reserves are credited at 0% and earnings exceed expenses, residual earnings will still exist that need to be distributed across the other valuation reserves. However, current policy states that interest is credited to *all* valuation reserves (which necessarily includes member) and consequently, staff seeks policy that cleans up this inconsistency when member reserves are credited at 0%.

All recommended changes are meant to facilitate simplicity, clarification and efficient execution. Staff is not recommending any changes to the bulk of the policy; in fact, all discretionary use of excess earnings remains completely intact and unchanged.

III. ANALYSIS:

*Recommendations*

***Reaffirm the intent to maintain a non-valuation contingency reserve***

In June of 2006, the County and StanCERA entered into a 5-year agreement by which StanCERA transferred approximately $12.7 million from a 3% contingency reserve to an employer advance reserve. This transfer represented 1% of System assets and left 2% in the contingency reserve. The agreement expired on June 30, 2011.

Current excess earnings policy makes reference to the maintenance of a 2% contingency reserve before any discretionary excess earnings can be used to pay for other ad hoc benefits. As of June 30, 2010, the Board replenished the 2% reserve, however, given the 22% return in fiscal year 2010-2011, the reserve dropped below the 2% level and subsequently was not replenished. As of June 30, 2011, the reserve held $23.8 million, representing 1.7% of System assets.

Staff is recommending that the Board either reaffirm its intent to maintain the 2% contingency reserve or choose some other level. Government Code Section 31592.2 requires a contingency reserve of at least 1% before excess earnings can be used to fund other ad hoc benefits.

As the fund and reserve sit now, should the Board approve a level of 1.7% or higher, a transfer will need to be made into the reserve at the end of this fiscal year which would cause contribution rates to be higher in fiscal year 2013-2014. If the level chosen is 2%, staff estimates an increase of about 0.15%. Afterwards, in years where earnings exceed expenses, a transfer will need to be made to maintain the desired level. In years where earnings do not cover expenses, the reserve will exceed its maintenance level and staff would transfer a portion of those assets back to the valuation reserves (as per Government Code Section 31592).

***Define excess earnings on a market value basis***

Current policy states that excess earnings shall be declared only in years in which earnings on an *actuarial basis* exceed administrative and investment costs. In some years, this policy will create an inconsistency. For example, it is entirely possible that the fund could earn an actual return of 0% but an actuarial return just under 8%. In this instance, there could be actuarial earnings that are well in excess of expenses, yet actual earnings that don't even cover expenses. This occurrence is a natural function of the actuarial smoothing method and will actually happen quite often over time. In fact, it is almost never the case that actuarial earnings and actual earnings are equal. For instance, in fiscal year 2010-2011 the fund earned nearly $262 million, however, the actuarial earnings were only $42 million.

III. ANALYSIS (Cont.):

*Recommendations (Cont.)*

***Define the System's funded ratio on a market value basis***

Should the Board agree to determine earnings on a market basis, for consistency, the System's funded ratio should be determined likewise. Further, in reviewing past meeting minutes and audio, is appears the health of the System is a major concern in the determination and/or use of excess earnings. Since a market measure is more closely aligned with the plan's health, staff is recommending a market measure for the funded ratio. An example may make the rationale for the change clearer.

Since our asset smoothing policy allows the smoothed value of assets to actually be 20% above the true market value at times, there are situations where the policy would *require* the Board to discuss the disposition of excess earnings at the same time the market value funded ratio of the System is considerably less than 90%. In fact, a worst case scenario exists where the fund is just over 90% funded on an actuarial basis and 75% funded on a market basis.

***Define how earnings are allocated when the System is funded below 90%***

1. ***What should the member contribution rate automatically be set at?***
2. ***Affirm a policy change to distribute residual earnings evenly among all valuation reserves except member***

Current policy states "Interest shall be credited at the rate determined by the Retirement Board to ***all*** valuation reserves". As mentioned on the first page of this item, this creates an inconsistency when member reserves are credited with 0%.

Since the Board has shown a desire to maintain a 0% crediting rate for member reserves until the System reaches a healthier state, staff is asking the Board to decide and include in policy, what that member crediting rate should automatically be when the System is funded below 90%. Additionally, staff is asking to include in policy that any earnings in excess of expenses, contingency reserve maintenance and contra loss account restoration, be distributed evenly among all other valuation reserves. This change will avoid having to come to the Board each year for direction when the System is funded below 90%.

***Discontinue the "Prior Years' Excess Earnings Reserves" policy subsection***

The inclusion of this subsection doesn't give the Board any additional discretion on the use of the remaining assets in the non-valuation reserves that it doesn't already have.

IV. RISK: None.

V. STRATEGIC PLAN: Goal 3, Strategy C4; Revise the Excess Earnings Policy linking retiree ad hoc benefits to StanCERA's actuarial funded status.

VI. BUDGET IMPACT: None.

Rick Santos, Executive Director

Attachments

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

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

**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.

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.

**Attachment 2**
**Examples of 1937 Systems' Interest Crediting Policy - General**

- Credit all reserves based on the actuarial valuation
- Credit all reserves based on actual earnings
- Credit all reserves each year with the actuarial return using the contra account as a balancing item in the event of losses
- Credit all reserves based on investment performance over the last 5 years
- Allow Board full discretion to set one rate for member reserves and some other criteria (above) for all other valuation reserves

**Attachment 3**
**Examples of 1937 Act Systems' Interest Crediting Policy – Member Reserves**

**OCERS –** Credits semi-annually June 30 and December 31 at 2.5%. 5.1% annually

**Mendocino** - Interest is credited to member accounts each June 30th and December 31st when there are excess earnings to the fund

**Merced** - credited interest on June 30th and December 31st of each year based on the previous six month's balance, investment earnings, and according to MCERA's interest crediting policy.

*"At the regular meetings immediately preceding June 30 and December 31 of each year, the Board will declare the rate of interest which shall be credited to the members' and employers' accounts prospectively in accordance with the 1937 Act".*

*"At the Retirement Board meeting immediately preceding December 31st and June 30 of each year, the Board shall declare the rate of interest which shall be credited to the employees' contributions. Such rate shall be adopted in conformance with the Board of Retirement Interest Crediting Policy currently in effect"*

**Tulare –** "*In accordance with the County Employees Retirement Law, interest is posted on the prior six month's balance in your account as of June 30 and December 31. The rate of interest posted to your account is determined by the Board of Retirement based on the investment performance of the overall pooled assets of the retirement system over the most recent five years"*

**Marin –** Has an explicit interest crediting policy. This policy essentially credits all valuation reserves at the actuarial assumed rate of interest. Any shortfall goes into the contra loss account. Any excess in excess of keeping a 1% contingency reserve, follows an "unrestricted earnings policy"

**Ventura** - Interest is credited to the member accounts each June 30 and December 31

**Sonoma** - Interest is credited to your contributions every June 30 (based on the prior December 31 balance) and on December 31 (based on the prior June 30 balance). The Retirement Board sets the rate at which interest is credited to your account after an actuarial review of the System

**Kern** - Depending on plan earnings, interest may be credited to your account semiannually on June 30 and December 31

Stanislaus County Employees' Retirement Association's
Excess Earnings Policy
(revised June 4, 2012)

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

The main objective of the policy is the achievement and maintenance of the ability of the ~~a fiscally sound~~ system to pay retirement pension benefits, ~~funded status~~ prior to the use of earnings for reasons other than the ~~funding~~payment of retirement pension benefits. Revisions to this policy are normally required biennially.
~~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.~~

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**Effective Date:** The following revised Excess Earnings Policy was adopted by the Retirement Board on__________.

**Interest Crediting and Policy Distribution of Excess Earnings:** Excess earnings of StanCERA shall be declared only in years in which earnings (based on the market ~~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.

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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) Earnings shall be used to maintain a _____ % contingency fund.
4) Valuation Reserve Interest Crediting

   - Fund is below 90% funded on a market basis
     - Member Reserves shalel be credited at ~~0~~X%
     - Any remaining residual earnings shall be distri-buted evenly between all other valuation reserves (those reserves established for vested retirement benefits including, Employer Advance reserves and Retiree reserves for annuities, pensions, funded cost of living adjustments and survivors' death benefits) on a pro rata basis by size.

   - Fund is at or greater than 90% funded on a market basis

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- Member Reserves shall be credited at a rate determined by the Board of Retirement (normally, and no higher than the actuarially determined return assumption)
- All other reserves shall be credited at a rate derived from the "~~Interest Credited and Policy distributi~~Distribution of ~~on of~~ Excess Earnings", Section 5

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~~3)~~ **~~Interest Credited and Policy d~~Distribution of Excess Earnings** ~~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).~~

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5) After crediting the Member Contribution valuation reserve~~s~~ with the Board-approved rate of interest, ~~undistributed~~undistributed earnings (excess earnings) would be available as follows:

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~~5) If the market actuarially determined funded ratio is below 90%,~~
   ~~a) The interest crediting rate for the Member Contribution Reserve will be set at 0%. Earnings in excess of expenses, contingency reserve maintenance and contra loss account restoration, will be distributed evenly among all other valuation reserves (those reserves established for vested retirement benefits including, Employer Advance reserves and Retiree reserves for annuities, pensions, funded cost of living adjustments and survivors' death benefits).~~
   a) If the market value funded ratio is at least 90% to under 100%, 75% of excess earnings will be used to fund the pension liability (distributed evenly on a pro rata basis by size 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 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
   c) If the market value 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 market value ~~actuarial~~ funded ratio is 90% or greater and the retirement system has exceeded its ~~market value actuarially assumedassumed~~ 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 assumed ~~market value 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.

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~~market funded ratio is 90% or greater and the retirement system has exceeded its assumed ~~market value 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 assumed ~~market value 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 assumed ~~market value 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.

## Historical Notes

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| Adopted | 07/01/2004 |
| Revised | 06/14/2006 |
| Revised | 05/25/2010 |
| Revised | 06/04/2012 |

Stanislaus County Employees' Retirement Association's
Excess Earnings Policy
(Revised June 4, 2012)

**Purpose:** The purpose of the Stanislaus County Employees' Retirement Associations' (StanCERA) Policy on Excess Earnings is to declare and provide direction for the determination and distribution of annual earnings in excess of expenses, accounting deficits, the maintenance of a loss contingency reserve 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. Revisions to this policy are normally required biennially.

**Effective Date:** The following revised Excess Earnings Policy was adopted by the Retirement Board on___________.

**Interest Crediting and Policy Distribution of Excess Earnings:** Excess earnings of StanCERA shall be declared only in years in which earnings (based on the market 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) Earnings shall be used to maintain a ____ % contingency fund.
4) Valuation Reserve Interest Crediting

   - Fund is below 90% funded on a market basis
     - Member Reserves shall be credited at X%
     - Any remaining residual earnings shall be distributed evenly between all other valuation reserves (those reserves established for vested retirement benefits including, Employer Advance reserves and Retiree reserves for annuities, pensions, funded cost of living adjustments and survivors' death benefits) on a pro rata basis by size.

   - Fund is at or greater than 90% 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)
     - All other reserves shall be credited at a rate derived from the "Distribution of Excess Earnings", Section 5

5) **Distribution of Excess Earnings** After crediting the Member Contribution valuation reserve with the Board-approved rate of interest, undistributed earnings (excess earnings) would be available as follows:
   a) If the market value funded ratio is at least 90% to under 100%, 75% of excess earnings will be used to fund the pension liability (distributed evenly on a pro rata basis by size 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 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
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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 market value funded ratio is 90% 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 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 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 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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