

**SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**INTEREST CREDITING AND AVAILABLE EARNINGS POLICY**

(Adopted August 25, 2010; Revised April 27, 2016)

**PURPOSE OF POLICY:**

The purpose of this policy is to establish a methodology for (1) crediting interest to contributions and reserves in the retirement system; and (2) administering the remaining available earnings of the retirement system. The Board shall credit interest semi-annually to established reserves as provided by law, and administer any remaining available earnings of the system in accordance with the terms of this Policy.

**OBJECTIVES:**

1. Maintain consistency between the structure of SBCERS' reserve accounts and SBCERS' actuarial funding policies.
2. Assure that the reserve values track the market value of assets ("MVA") and the System's accrued actuarial liabilities ("AAL") over the long term.
3. Maintain stability in contribution rates and long term funding, establish a contingency reserve and, provide a framework for considering the disposition of excess reserves.

**GOVERNING LAW:**

SBCERS is governed by provisions of the County Employees' Retirement Law of 1937 (the "CERL"), as well as other federal and state laws relating to public employee retirement systems. The CERL generally governs interest crediting and the use of available earnings. Various reserves and designations are established and maintained by the Board of Retirement under policies and procedures adopted pursuant to the CERL, specifically Government Code Sections 31591 et seq.

**GENERAL PRINCIPLES:**

1. Define "Available Earnings," as the actual current period earnings of the fund calculated using MVA.
2. Credit Available Earnings to reserves pursuant to Government Code Section 31591 at Board-adopted interest rates appropriate to the specific reserves. Except as provided herein, those reserves shall be limited to the Member Contribution Reserve, consisting of contributions made by active and deferred members and accrued interest, the Retired Member Reserve, representing funds accumulated to pay retirement

benefits to retired members, and the County and District Reserve, consisting of employer contributions for future retirement payments to current active members and deferred members (collectively the "Benefit Reserves").

3. Maintain a Contra Tracking Account ("CTA") to track any shortfalls of Available Earnings relative to earnings required to credit full interest to the Benefit Reserves. Existing balances in the CTA are negative. If there are insufficient Available Earnings to fully credit the Benefit Reserves, any shortfall should be applied to increase the negative balance of the CTA. If available earnings are negative, the entire balance of the negative earnings, in addition to the credited interest, shall be added to the CTA. The CTA is a valuation reserve but will not be allocated any interest credits. If there are more than sufficient Available Earnings to fully credit interest to the Benefit Reserves, the balance shall be applied to decrease the negative balance of the CTA until such balance reaches zero.

4. Once the CTA reaches zero, any remaining Available Earnings shall be deemed a Contingency Reserve pursuant to Government Code Section 31592. The Contingency Reserve is a valuation reserve but will not be allocated any interest credits.

5. Once cumulative funding of the Benefit Reserves and the Contingency Reserve reach the equivalent of 110% of AAL, the Board may consider placing funds in excess of 110% of AVA in a non-valuation reserve, which shall not be allocated any interest credits, to be used for discretionary purposes as defined by the Policy.

### **INTEREST CREDITING AND AVAILABLE EARNINGS POLICY**

#### *Step 1- Determine Available Earnings*

Determine Available Earnings for the accounting period as consisting of the positive or negative earnings of the retirement fund for the period based on the difference between MVA at the end of the period and at the beginning of the period, adjusted by the cash flows during the period. Cash flows are employer and employee contributions less benefits paid less administrative expenses.

#### *Step 2 – Credit Benefit Reserves*

Credit interest to Benefit Reserves at the applicable Board-adopted crediting rates.

#### *Step 3 – Balance the CTA as Needed.*

Adjust the CTA pursuant to the procedures summarized in paragraph 2 of the General Principles.

#### *Step 4 – Fund a Contingency Reserve*

If the CTA is zero (or has a positive balance after step 3), transfer any remaining Available Earnings to the Contingency reserve. In the event that Available Earnings in future years are insufficient to fully fund the Benefit Reserves, the Contingency Reserve shall be used to fund such shortfalls and to offset any new entries to the CTA. At the time the Contingency Reserve is first funded, if not sooner, the Board shall review the investment risk of the retirement system and decide whether or not steps should be taken to reduce this risk.

#### *Step 5 – Consider Transfer of Funds from the Contingency Reserve in Excess of 110% of AAL.*

In the event that the combined total of the Benefit Reserves and the Contingency Reserve are greater than 110% of AAL, the Board may consider transferring funds in excess of 110% of AAL to a non-valuation reserve for discretionary purposes. Such purposes may include (1) providing ad hoc COLA benefits pursuant to Government Code Section 31874.3 or to fund other benefits authorized by the CERL and other applicable law; or (2) segregating such funds in a non-valuation reserve for future use to stabilize member and employer contributions in the event of extraordinary losses. The Board may, but need not, make such a transfer and may instead decide to maintain such funds in the Contingency Reserve as a valuation asset.

#### *Step 6 – Consideration of Supplemental Benefits*

Prior to any action to use funds in excess of 110% of AAL to provide supplemental benefits, the following conditions must be met: (a) the Board shall revisit its review of the investment risk of the system's investment portfolio and determine whether further steps should be taken to reduce this risk, (b) the Board shall make a finding that there is not an anticipated need to use such funds to replenish the Contingency Reserve due to investment losses occurring since the last actuarial valuation; (c) the Board shall obtain from SBCERS' actuary an analysis of the impact of such action on current and future liabilities, contribution rates, and funding; and (d) the Board shall obtain a legal opinion that such action is permitted by the CERL, is consistent with the Board's fiduciary duties and not in conflict with any other law, including without limitation the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and the United States Internal Revenue Code.