Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 8D

MEETING DATE: **April 17, 2024**

SUBJECT: **Interest Crediting and Unallocated Earnings Policy**

SUBMITTED FOR: **_X_ Consent** **___ Deliberation and Action** **___ Receive and File**

RECOMMENDATION

Re-affirm the Interest Crediting and Unallocated Earnings Policy with no amendments.

PURPOSE

This item supports the Strategic Management Plan goal to provide prudent and effective funding policies and practices that assist in producing low contribution rate volatility and plan sustainability.

DISCUSSION

The Interest Crediting and Unallocated Earnings Policy establishes parameters and methodology to credit semiannual interest to member and employer reserve accounts and maintain a Contingency Reserve.

Pursuant to SCERS' practice of reviewing and refreshing policies every three years, Staff has re-evaluated the policy to consider whether any amendments are necessary due to legal changes or practical experience. In consultant with the SCERS' actuary, Staff has concluded that no amendments are necessary at this time.

ATTACHMENTS

- Board Order
- Interest Crediting and Unallocated Earnings Policy

Prepared by:	Reviewed by:
/s/	/s/
Margo Allen Chief Operations Officer	Eric Stern Chief Executive Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
April 17, 2024

AGENDA ITEM:

Interest Crediting and Unallocated Earnings Policy

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to re-affirm the Interest Crediting and Unallocated Earnings Policy with no amendments.

I HEREBY CERTIFY that the above order was passed and adopted on April 17, 2024, by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:
(Present but not voting)

James Diepenbrock
Board President

Eric Stern
Chief Executive Officer and
Board Secretary

INTEREST CREDITING AND UNALLOCATED EARNINGS POLICY

I. PURPOSE

This policy establishes the parameters and methodology to credit semiannual interest to the reserves of the Sacramento County Employees' Retirement System (SCERS or the Plan) in accordance with the County Employees Retirement Law of 1937 (CERL).

II. OBJECTIVES

- To distribute Available Earnings to the reserves of SCERS.
- To maintain a Contingency Reserve not to exceed 3% of the Plan's Market Value of Assets against deficiencies in future earnings.
- To consider distribution of unallocated earnings if and when the Contingency Reserves reaches 3% of the Plan's Market Value of Assets and the Plan achieves 100% funded status.

III. DEFINITIONS

A. General Definitions

Actuarially Assumed Investment Rate of Return: The expected investment earnings rate of return used in the annual actuarial valuation of the Plan, recommended to the SCERS Board by the Plan third-party actuary in an experience study and set by the SCERS Board.

Actuarial Value of Assets: The Market Value of Assets less deferred investment gains or losses as calculated under the Plan's seven year actuarial asset smoothing method.

Available Earnings: Represent the actual earnings of the Plan as determined based on the smoothed Actuarial Value of Assets and funds previously set aside in the Contingency Reserve.

Market Value of Assets: An asset value where the full value of investment earnings is recognized in a fiscal year.

Reserve Definitions

Valuation Reserves: Reserves used by the Plan's actuary to develop the valuation value of assets. These include the Member Reserve, Employer Reserve, and Retiree Reserve.

Other Valuation Reserves: Includes Employer Reserve, and Retiree Reserve.

Member Reserve: Represents the balance of accumulated member contributions and interest for active, inactive, and deferred members of SCERS.

Employer Reserve: Represents the balance of accumulated employer contributions and interest for future retirement payments to current active members. When a member retires and begins receiving retirement allowance, funds in this reserve associated with the retiring member are moved to the Retiree Reserve.

Retiree Reserve: Represents the balance of transfers from Member Reserve, Employer Reserve, and interest earnings, less payments to retired members and beneficiaries.

Contingency Reserve: Reserve against deficiencies in future earnings not to exceed 3% of Plan's Market Value of Assets.

Market Stabilization Reserve: Represents the financial statement reserve account and is the difference between the Market Value of Assets and the smoothed Actuarial Value of Assets.

IV. INTEREST CREDITING

A. Upon determining Available Earnings for the interest crediting period, SCERS shall credit interest semiannually based on Actuarial Value of Assets on June 30 and December 31 to all funds that have been on deposit for the entire six months immediately prior to the interest crediting date at the interest crediting rates and dollar amounts set forth below:

1. Member Reserve: The semiannual interest crediting rate for Member Reserves is one-half of the United States 5-Year Treasury Note Rate in the Federal Reserve Statistical Release H.15 Selected Interest Rates on the last publishing date of the interest crediting period. The semiannual interest crediting rate for Member Reserve shall be the lesser of the United States 5-Year Treasury Note Rate or the interest crediting rate applied to the Other Valuation Reserves. In no event shall the member's interest crediting rate be less than zero.

2. Other Valuation Reserves: Semiannual interest will be credited to the Other Valuation Reserves to the extent there are available earnings. Semiannual interest crediting rate is one-half of the Actuarially Assumed Investment Rate of Return. The Other Valuation Reserves are also credited, on June 30 and December 31, with the dollar difference between one-half of the Actuarially Assumed Investment Rate of Return on the Member Reserve and one-half of the Member Reserve Interest Crediting Rate. If the Available Earnings are not sufficient to credit interest to Valuation Reserves at the Actuarially Assumed Investment Rate of Return, such interest shall be applied on a pro rata basis to each of the Other Valuation Reserve. In no event shall the Other Valuation Reserves' interest crediting rate be less than zero.

B. Contingency Reserve: When Available Earnings exceed the amount required to credit interest to the Valuation Reserves, the balance of the Available Earnings after interest crediting, shall be applied to the Contingency Reserve until that balance reaches 3% of the Plan's Market Value of Assets.

C. Unallocated Earnings:

1. Once the Contingency Reserve balance reaches 3% of the Plan's Market Value of Assets, then distribute unallocated earnings to Other Valuation Reserves until the Plan achieves 100% funded status.

2. When both goals are reached, the Board, in its discretion and consistent with its fiduciary duties, may consider establishing higher thresholds, or may distribute some or all of the unallocated funds toward other purposes as permitted by the CERL.

V. APPLICATION

Staff shall apply the semiannual interest crediting to the Valuation Reserves in accordance with this policy. In the event there is unallocated earnings available after crediting interest at the Actuarially Assumed Investment Rate of Return, the Contingency Reserve reaches 3%, and the Plan achieves 100% funded status, staff will report to the Board and to determine the distribution of the funds toward other purposes.

The Board retains substantial discretion with respect to such matters under the CERL and Article XVI, Section 17 of the California Constitution and other provisions of state and federal law applicable to public retirement systems. This discretion includes the right to deviate from or alter a stated policy or procedure if the Board determines that such action is reasonable, appropriate, and prudent with respect to the Board's exercise of its fiduciary duties to secure the sound funding of the retirement system, and to act in the best interests of the system as a whole.

VI. PRE-2006 ALLOCATION FOR COST-OF-LIVING ADJUSTMENT (COLA) CONTRIBUTION-RATE OFFSET

While the Board has not provided additional, unallocated earnings for non-vested benefits since this policy's adoption in 2006, the Board has continued to provide an offset to COLA contribution rates for legacy members, using the balance available from pre-2006 allocations of unallocated earnings as reflected in the annual valuation, using a methodology determined by the System's actuary to provide the rate offset over the legacy members' expected future working lifetime. The balance available is tracked in an Employer Reserve subaccount maintained for this purpose by the actuary.

To minimize contribution-rate volatility and support the Board's duty of impartiality with respect to members, the Board determines that the residual balances from the pre-2006 allocations can continue to be used to offset COLA contribution rates as a percent of payroll for legacy members using the methodology previously established by the System's actuary, except that the offset to COLA contribution rates shall not exceed the percent of payroll provided for each membership group and tier as reflected in the June 30, 2020 valuation.

Furthermore, the Board determines that it is prudent, and in the best interest of all members and beneficiaries, that any residual balances remaining for a membership group shall revert to the Employer Reserves to reduce the Unfunded Actuarial Accrued Liability after all members in that plan and tier have terminated their active SCERS membership.

RESPONSIBILITIES

Executive Owner: Chief Executive Officer

POLICY HISTORY

Date	Description
04-17-2024	Board re-affirmed policy
03-17-2021	Board amended policy to add Section VI
06-19-2019	Board amended policy to clarify interest crediting
02-21-2018	Board affirmed in revised policy format
06-15-2016	Board reviewed and affirmed policy with no revisions
09-21-2006	Board approved new policy