

Executive Team

Dominic D. Brown, CPA, CFE
Executive Director

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
General Counsel

Matthew Henry, CFE
Assistant Executive Director

**KERN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**



Board of Retirement

Dustin Dodgin, Chair
Juan Gonzalez, Vice-Chair
David Couch
Phil Franey
Jordan Kaufman
Rick Kratt
Edward Robinson
Lauren Skidmore
Tyler Whitezell
Bradly Brandon, Alternate
Chase Nunneley, Alternate
Robb Seibly, Alternate

February 19, 2021

Members, Board of Retirement
Employee Bargaining Units
Requesting News Media
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Finance Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Finance Committee will be held on Friday, February 26, 2021 at 1:30 p.m. via teleconference, pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020. Items of business will be limited to the matters shown on the attached agenda.

If you wish to listen to the teleconference meeting, please dial one of the following numbers and enter Meeting ID# 289-998-6429:

- (669) 900-9128
- (888) 788-0099 (U.S. Toll-free)
- (877) 853-5247 (U.S. Toll-free)

If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to administration@kcera.org.

Sincerely,

Dominic D. Brown
Executive Director

Attachment

AGENDA:

All agenda item supporting documentation is available for public review on KCERA's website at www.kcera.org following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

**AMERICANS WITH DISABILITIES ACT
(Government Code §54953.2)**

Disabled individuals who need special assistance to listen to and/or participate in the teleconference meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to administration@kcera.org. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

ROLL CALL

1. [Trustee Education regarding Supplemental Retiree Benefit Reserve \(SRBR\)](#), presented by Executive Director Dominic Brown, and Paul Angelo and Molly Calcagno, Segal – RECEIVE EDUCATIONAL TRAINING (20 MINUTES TRUSTEE EDUCATION CREDIT)
2. [Discussion and appropriate action regarding Supplemental Retiree Benefit Reserve \(SRBR\)](#) – DIRECT STAFF TO WORK WITH SEGAL TO DEVELOP OPTIONS FOR CONSIDERATION AND BRING BACK TO THE FINANCE COMMITTEE; TAKE OTHER ACTION, AS APPROPRIATE

PUBLIC COMMENTS

3. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

COMMITTEE MEMBER ANNOUNCEMENTS OR REPORTS

4. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.
5. Adjournment



Kern County Employees' Retirement Association

Supplemental Retiree Benefits Reserve (SRBR) Educational Session

February 26, 2021

Paul Angelo, FSA / Molly Calcagno, ASA

| Topics for Today

Funding Policy Review

Interest Crediting Mechanics

Funding Policy for SRBR

KCERA SRBR Policy Provisions

Current SRBR Benefits

Funding Policy Components for Actuarial Valuation

- **Actuarial Cost (Funding) Method** – allocates costs to time periods, past, current and future
 - KCERA uses Entry Age cost method, model practice
- **Asset Smoothing Method** – assigns a value to assets for determining contribution requirements; defines Unfunded Liability (UAAL)
 - Manages short-term volatility while tracking market value
 - KCERA uses 5 year smoothing, must be within 50% to 150% of market value
- **UAAL Amortization Policy** – sets contributions to pay off any UAAL
 - Level percent of pay amortization
 - Layered approach for UAAL amounts emerging after June 30, 2011
 - Generally 18 year periods

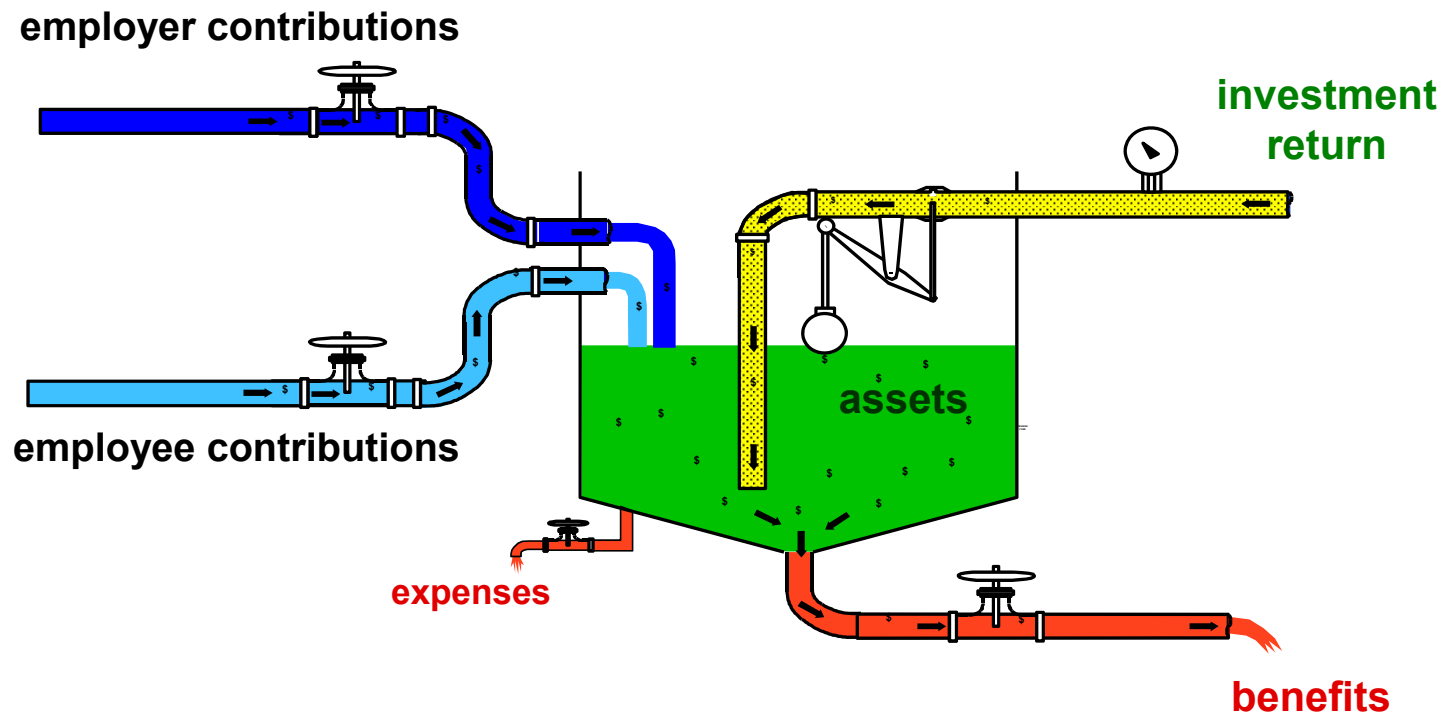
Role of Assumptions and Methods

$$\mathbf{C + I = B + E}$$

Contributions + Interest Income
equals
Benefit Payments + Expenses

- Actuarial valuation determines the current or “measured” cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs (unless benefits are affected!)

$$C + I = B + E$$



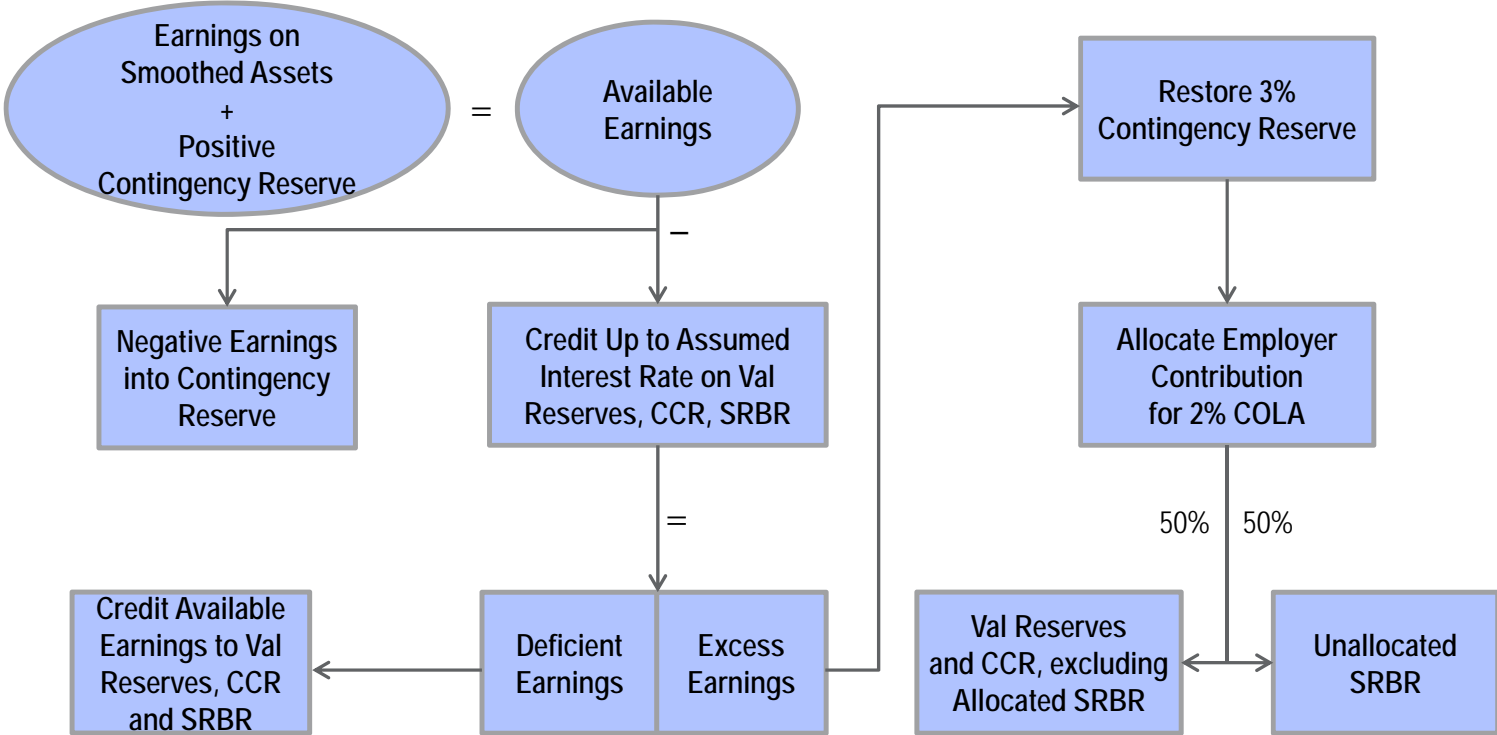
KCERA Interest Crediting Policy

- KCERA maintains reserves that have interest credited every six months
 - Determine “Available Earnings” for the period
 - All current period earnings on Actuarial Value of Assets (smoothed) basis (could be negative)
 - Contingency Reserve (if positive)
 - Determine earnings needed for interest credits
 - Valuation Reserves, COLA Contingency Reserve (CCR), Unallocated Supplemental Retiree Benefits Reserve (SRBR) (excluding 0.5% COLA)
 - Using current investment return assumption as the interest rate

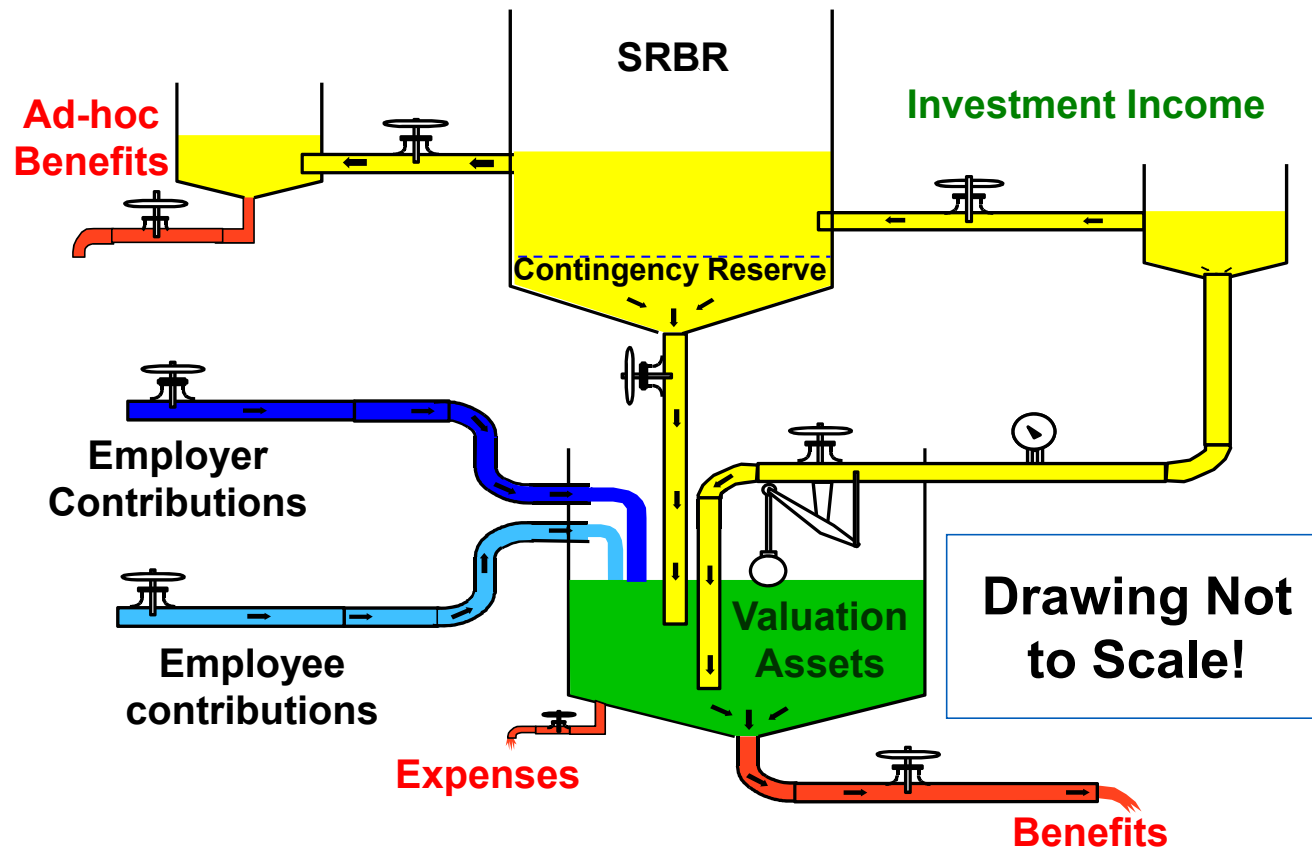
KCERA Interest Crediting Policy (continued)

- If Available Earnings are enough, do those interest credits then:
 - Restore 3% Contingency Reserve
 - Allocate employer contribution for 2% COLA (CCR)
 - Allocate one-half of remaining earnings to each of:
 - SRBR, excluding Allocated SRBR (0.5% COLA)
 - Valuation Reserves (and CCR)
- If Available Earnings are insufficient (but not negative)
 - Credit Valuation Reserves, CCR and Unallocated SRBR up to the amount of Available Earnings
- If Available Earnings are negative
 - No interest credits and negative amount goes into Contingency Reserve

KCERA Interest Crediting Policy (continued)



Plumbing for Excess Earnings



Funding Policy Components for SRBR

- **Actuarial Cost (Funding) Method** – allocates costs to time periods
 - Not applicable, since SRBR funding is based on Present Value of Future Benefits (PVB) for all current members, active and retired
- **Asset Smoothing Method** – manages short term investment volatility
 - Affects allocations to SRBR because “Available Earnings” is based on investment return after smoothing
- **UAAL Amortization Policy** – sets contributions to pay off any UAAL
 - Not applicable as SRBR is funded by excess earnings, not contributions

KCERA SRBR – Recent History

- Because of 2008/2009 market losses, last time excess earnings were added to the SRBR was in 2007
- No contributions are charged to the employer or employees to explicitly prefund the SRBR
 - Excess earnings, and associated interest, are the only source of funding for the SRBR benefits
- Since excess earnings are produced on an inconsistent basis and cannot be relied upon to appear in any single valuation period:
 - SRBR benefits are non-vested
 - Funding of SRBR benefits is set up differently than for vested retirement benefits and must be more than fully funded when considered for approval

KCERA SRBR – Conditions for Reviewing Benefit Levels

- If PVB more than 120% funded in last two consecutive actuarial valuations, the Board may consider increasing or adding SRBR benefits
 - Benefit increases adopted only if they do not reduce funded status below 120%
 - The funded ratio will take into account any deferred investment gains and losses not yet recognized under the asset smoothing method and any recent or potential changes in actuarial assumptions
- If PVB funded status drops below 120% for the last two consecutive actuarial valuations, the Board will considering reducing or eliminating SRBR benefits

KCERA SRBR Funded Status

Funded Status of SRBR Benefits before Reflecting Deferred Investment Losses

	June 30, 2020	June 30, 2019
1 Available SRBR Reserves before Reflecting Deferred Investment Losses		
a) Total SRBR	\$159,691,000	\$168,536,000
b) 0.5% COLA Account	<u>33,210,000</u>	<u>41,991,000</u>
c) Available SRBR Reserve (1a) – (1b)	\$126,481,000	\$126,545,000
2 Present Value of SRBR Benefits (PVB)		
a) Death Benefits	\$16,480,000	\$17,241,000
b) SRBR1	25,992,000	26,125,000
c) SRBR2	2,304,000	2,582,000
d) SRBR3	7,205,000	9,220,000
e) SRBR4	<u>31,703,000</u>	<u>30,985,000</u>
f) Total	\$83,684,000	\$86,153,000
3 PVB minus Reserves (2f) – (1c)	-\$42,797,000	-\$40,392,000
4 Funding Ratio before Reflecting Deferred Investment Losses (1c) ÷ (2f)	151.1%	146.9%

KCERA SRBR Funded Status (continued)

Funded Status of SRBR Benefits after Reflecting Deferred Investment Losses

	June 30, 2020	June 30, 2019
1 a) Available SRBR Reserves before Reflecting Deferred Investment Losses	\$126,481,000	\$126,545,000
b) Deferred Investment Losses	<u>5,590,000</u>	<u>2,101,000</u>
c) Available SRBR Reserves after Reflecting Deferred Investment Losses (1a) – (1b)	\$120,891,000	\$124,444,000
2 Present Value of SRBR Benefits (PVB)		
a) Death Benefits	\$16,480,000	\$17,241,000
b) SRBR1	25,992,000	26,125,000
c) SRBR2	2,304,000	2,582,000
d) SRBR3	7,205,000	9,220,000
e) SRBR4	<u>31,703,000</u>	<u>30,985,000</u>
f) Total	\$83,684,000	\$86,153,000
3 PVB minus Reserves (2f) – (1c)	-\$37,207,000	-\$38,291,000
4 Funding Ratio after Reflecting Deferred Investment Losses (1c) ÷ (2f)	144.5%	144.4%

Current SRBR Benefits

- Tier 1 – Flat dollar benefit
 - \$35.50 per month payable to retirees who were hired on or before July 1, 1994
 - 60% continuance of the Tier 1 SRBR benefit to the retired member's beneficiary
- Tier 2 – Flat dollar benefit per year of service
 - Three additional monthly stipends payable to retirees:
 - \$1.372 per year of service for members who retired prior to 1985
 - \$5.470 per year of service for members who retired prior to 1985
 - \$10.276 per year of service for members who retired prior to 1981
 - 60% continuance of the Tier 2 SRBR benefit to the retired member's beneficiary

Current SRBR Benefits (continued)

- Tier 3 – Purchasing Power COLA
 - Additional benefits to maintain 82% purchasing power protection
 - Same continuance percentage as elected by member's at retirement paid to the retired member's beneficiary
 - Maximum annual inflation used in the calculation of the SRBR Tier 3 benefits is capped at 4%
 - Purchasing power target was increased from 80% to 82% in 2018 along with introduction of the cap on inflation used in calculation

Current SRBR Benefits (continued)

- Tier 4 – Additional flat dollar benefit
 - \$21 per month payable to retirees who were hired prior to July 1, 2018
 - 60% continuance of the Tier 4 SRBR benefit to the retired member's beneficiary
 - Granted in 2018
- Death Benefit
 - Additional one-time post retirement death benefit of \$5,000 paid to the retired member's beneficiary upon the death of the retired member

Questions?



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION



Memorandum from the
Office of the Executive Director
Dominic D. Brown

Date: February 26, 2021

To: Trustees, Finance Committee

From: Dominic D. Brown, Executive Director

Subject: SRBR Policy – Allocation of Funds

This action item is being agendized today in accordance with the Board's Supplemental Retiree Benefit Reserve (SRBR) Policy. It has been three years since the Board last considered and approved a benefit enhancement, and the last two years of Actuarial Valuations show that the SRBR fund is over 120% funded.

Therefore, it is appropriate for the Finance Committee to review the current benefit structure and consider the possibility of adding additional benefits. The SRBR policy is attached for your reference.

Staff recommends that your Committee review the policy and consider directing staff to work with the actuary to study possible benefit enhancements.

SUPPLEMENTAL RETIREE BENEFIT RESERVE (SRBR) POLICY

PURPOSE

The purpose of this policy is to set forth the Kern County Employees' Retirement Association (KCERA) Board of Retirement's (Board) overall strategy regarding management of the it Reserve (SRBR).

This SRBR policy supersedes any previous SRBR policy. This is a working document and may be modified, as the Board deems necessary.

BACKGROUND

The SRBR is a reserve established pursuant to Article 5.5 of the 1937 County Employees' Retirement Law (CERL). The SRBR funds are to be used solely for the benefit of KCERA's members (both active and retired) and their beneficiaries and paid only upon retirement of the member.

Article 5.5 governs the crediting of interest to reserves and the allocation of "Excess Earnings". Excess Earnings are generally the amounts that remain after earnings have been used to credit interest to KCERA's reserves, fund the Contingency Reserve, and other statutory requirements. They are generally thought of as earnings in excess of those assumed to be earned under the actuarial valuation assumptions.

Under the provisions of Article 5.5, and in accordance with the Board's Regular Interest Crediting and Excess Interest Crediting Policy, if Excess Earnings remain after that allocation, then 50% of those earnings are allocated to the SRBR and the remaining 50% are allocated as additional interest credits to the valuation reserves (excluding the Allocated SRBR Reserve (0.5% COLA Reserve)) and the COLA Contribution Reserve (CCR).

The Board has exclusive authority and discretion to allocate and distribute funds in the SRBR for the sole purpose of providing additional benefits for its members and their beneficiaries only. The allocation of these funds shall be determined solely by the Board and shall be used only for the benefit of its members or their beneficiaries. The distribution of the SRBR benefit is made only upon member retirement with possible continuation for the member's eligible beneficiaries.

All benefits funded by the SRBR are non-vested and subject to Board discretion and the availability of funds in the SRBR. They are reviewed on a regular basis for

appropriateness of amount and eligibility, and to ensure, with a responsible confidence, that they are actuarially funded.

See Exhibit A for a summary of currently approved SRBR benefits.

PROGRAM OBJECTIVES

1. Administer the SRBR program in accordance with the provisions of the applicable laws. Net earnings, account crediting, benefit costing and funding adequacy are to be determined according to law, and using the same actuarial assumptions utilized by the Board, for account administration and actuarial purposes or assumptions consistent with those activities.
2. Based on the conditions detailed below, an assessment, review, and analysis is to be performed to determine the ability to provide, at the exclusive discretion of the Board, additional SRBR benefits. These conditions include, but are not limited to the funding ratio, the potential impact of any deferred investment gains or losses not yet recognized in the asset smoothing method, and any recent or potential changes in actuarial assumptions. Except for the condition described later regarding a decrease to below a 120% funding level, in no event will a review of SRBR benefits be performed more frequently than every three years. SRBR benefits are subject to modification or elimination, at the exclusive discretion of the Board, at any time with reasonable advance notice and in accordance with the provisions of the CERL and the Brown Act.
3. Structure supplemental benefit programs so as to benefit eligible members based on their service to KCERA and to those members who have suffered, since their retirement, the greatest erosion of purchasing power.
4. Structure post-retirement death benefit programs that are payable to a retired member's beneficiary upon the death of the retired member.

FUNDING GOALS AND BENEFIT ADJUSTMENT GUIDELINES

Excess Earnings, and associated interest, are the only source of funding for the SRBR benefits. By their nature, Excess Earnings are produced on an inconsistent basis and cannot be relied upon to appear in any single valuation period. Because of this, the funding of non-vested SRBR benefits is set up differently than funding for vested basic retirement benefits. Due to the nature of their funding, all current and future SRBR benefits are intended to be fully funded when considered for approval.

The Present Value of Future Benefits (PVB) is determined based on the Board allocated SRBR benefits and is the present value at the latest actuarial valuation date of all projected future SRBR benefit payments for all KCERA's current plan members. The future benefit payments and the present value of those payments are intended to reflect assumptions for future service and salary increases for current active members of KCERA, and so are determined using actuarial assumptions as to future events.

Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the SRBR has assets equal to the PVB and all actuarial assumptions are met, then no future allocations to the SRBR reserve would be needed to provide all future SRBR benefits for all current KCERA members. The PVB also includes actuarial assumptions for future service and salary increases for current active members of KCERA.

The SRBR funding status is calculated by comparing the SRBR Reserve, excluding the court ordered Allocated SRBR Reserve (i.e., the 0.5% COLA Reserve), to the current actuarial funding target, which is the PVB described above.

If it is determined, based on the last two consecutive actuarial valuations, that the PVB for the allocated SRBR benefits is more than 120% funded in both valuations, then the Board may consider increasing existing, or adding additional, SRBR benefits. Benefit increases will only be adopted if they do not reduce the funding status below 120%. That consideration will take into account the current status of deferred investment gains and losses not yet recognized under the asset smoothing method and any recent or potential changes in actuarial assumptions.

Any Board changes to the current KCERA SRBR benefit levels will take into consideration the advice of KCERA management, the Board's general counsel and its actuarial consultant.

The Board will monitor the long-term funding implication of all of the existing SRBR programs, which provide benefits outlined in this Policy. Should the funding status of the allocated SRBR benefits drop below the 120% funding level for the last two consecutive actuarial valuations, the Board will consider reducing or eliminating the SRBR Benefit that provides the least amount of benefit to those KCERA members who have suffered, since their retirement, the greatest erosion of their purchasing power as determined by KCERA management, the Board's general counsel and its actuarial consultant.

POLICY REVIEW

The Board retains the authority to add or delete programs or modify this Policy or these guidelines at any time.

The Board shall review the SRBR Policy as needed.

POLICY REVIEW AND HISTORY

- 1) This policy was:
 - a) Adopted by the Board on November 3, 2017.
 - b) Amended March 14, 2018.

**Kern County Employees' Retirement Association
Supplemental Retiree Benefit Reserve (SRBR) Policy
Exhibit A**

The Board of Retirement has currently approved the following Benefits:

SRBR Tier 1: \$35.50 per month payable to retirees who were hired on or before July 1, 1994.

Note: Upon the death of the retired member, 60% of the Tier 1 SRBR benefit continues to the retired member's beneficiary.

SRBR Tier 2: Three additional monthly stipends payable to retirees:

- \$1.372 per year of service for members who retired prior to 1985. This was granted July 1, 1994.
- \$5.470 per year of service for members who retired prior to 1985. This was granted July 1, 1996.
- \$10.276 per year of service for members who retired prior to 1981. This was granted July 1, 1997.

Note: Upon death of the retired member, 60% of the Tier 2 SRBR benefits continue to the retired member's beneficiary.

SRBR Tier 3: Additional benefits to maintain 82% purchasing power protection. Upon death, this benefit continues to be paid to the retired member's beneficiary based on the applicable continuation percentage under the member's form of payment elected at retirement. There is a cap on the maximum annual inflation used in the calculation of the SRBR Tier 3 benefits of 4%.

SRBR Tier 4: \$21 per month granted starting July 1, 2018, payable to retirees who were hired prior to July 1, 2018.

Note: Upon the death of the retired member, 60% of the Tier 2 SRBR benefit continues to the retired member's beneficiary.

Death Benefit: An additional one-time post-retirement death benefit of \$5,000 is paid to a retired member's beneficiary upon the death of the retired member.