

Executive Team

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**KERN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**



Board of Retirement

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Juan Gonzalez, Vice-Chair
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April 23, 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 Wednesday, April 28, 2021 at 8:30 a.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:

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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. [Discussion and appropriate action regarding Supplemental Retiree Benefit Reserve \(SRBR\) Policy](#) presented by Executive Director Dominic Brown, General Counsel Jennifer Zahry, Actuaries Paul Angelo and Molly Calcagno, Segal, and Fiduciary Counsel Ashley Dunning, Nossaman, LLP – PROVIDE DIRECTION TO STAFF ON POTENTIAL CHANGES TO THE PURPOSE AND STRUCTURE OF THE SRBR POLICY; DIRECT STAFF TO REVISE POLICY ACCORDINGLY AND BRING BACK TO THE FINANCE COMMITTEE FOR FURTHER CONSIDERATION; TAKE OTHER ACTION, AS APPROPRIATE

PUBLIC COMMENTS

2. 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


3. 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.

4. Adjournment



KCERA SRBR UPDATE

PRESENTED BY DOMINIC D. BROWN, EXECUTIVE DIRECTOR
AND JENNIFER ZAHRY, GENERAL COUNSEL



BACKGROUND

- The SRBR Policy requires that the Board review whether to approve additional SRBR Benefits no sooner than every three years when SRBR funding is over 120% or curtail existing SRBR Benefit(s) when SRBR funding is less than 120% for at least two fiscal years
- In accordance with the Policy, the Finance Committee met on February 21, 2021 to discuss the possibility of adding new benefits
- The Committee expressed concerns about continuing to add new SRBR Benefit Tiers given the complexity and unwieldy nature of the current structure
- The Committee directed Staff to investigate changes to the Policy that would allow the Committee to consider redesigning the program



POLICY OPPORTUNITIES

- Staff has incorporated references to the Board's fiduciary duties into the proposed policy edits
- The current policy does not authorize changes to the overall structure of the SRBR Benefit Tiers
- Staff has highlighted several sections of the current policy where the Finance Committee would need to provide direction, if the desire is to restructure the current SRBR Benefit Tiers.
 - These issues would need to be addressed before commissioning the study of specific scenarios

POSSIBLE CONCEPTUAL DESIGN PRIORITIES

- Restructure the program to provide more equitable benefit to members across generations
- Consolidate down to one or two benefits, plus the death benefit
 - One based on service credit
 - One based on service credit, and one that mirrors the regular pension (service credit and compensation)
- Make the plan more evergreen so that it provides future retirement benefits for current active employees
- Add COLAs to the benefit(s) so that the benefit grows in proportion to the interest earnings over time
- Ensure current SRBR Benefit Tier recipients are not harmed by any restructuring

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 Supplemental Retiree Benefit 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 of 1937 (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 **and considerations** detailed below, an assessment, review, and analysis is to be performed to determine the **need, if any, ability to adjust and/or modify** provide, at the exclusive discretion of the Board, **additional the 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. **Considerations include the Board's fiduciary duties of loyalty and care, including but not limited to an evaluation of equities among retiree members (current and future), potential hardship associated with curtailing an existing SRBR benefit, and serving members and beneficiaries currently receiving an SRBR benefit.**
3. **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.
4. **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 [ALTERNATIVE] Structure supplemental benefit programs in a manner that is reasonably calculated to permit KCERA to continue to pay the approved SRBR Benefit(s), so long as the Board determines is prudent and appropriate, and so long as funding is available in the SRBR
5. ~~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; provided, however, when setting these goals and guidelines, the Board recognizes that to the extent economic and/or demographic experience is less favorable than anticipated, or in the event of other contingencies that may arise, funding of the SRBR may be less than anticipated and one or more of the SRBR Benefits may be changed or discontinued.

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 and on [month day, year].

DRAFT

**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.