

Executive Team:

Dominic D. Brown, CPA, CFE
Chief Executive Officer

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
Chief Legal Officer

Matthew Henry, CFE
Chief Operations Officer



Board of Retirement:

David Couch, Chair
Dustin Contreras, Vice-Chair
Phil Franey
Ajaib Gill
Joseph D. Hughes
Jordan Kaufman
Rick Kratt
John Sanders
Tyler Whitezell
Chase Nunneley, Alternate
Robb Seibly, Alternate
3rd Member (Vacant)

October 10, 2025

Trustees, Board of Retirement
Other Interested Parties

Subject: Special Meeting of the Kern County Employees' Retirement Association
Board of Retirement

Ladies and Gentlemen:

A special meeting of the Kern County Employees' Retirement Association Board of Retirement will be held on Thursday, October 16, 2025, at 1:00 p.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

How to Participate: Listen to or View the Board Meeting

To listen to the live audio of the Board meeting, please dial one of the following numbers and enter ID# 817 1723 1818:

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

To access live audio and video of the Board meeting, please use the following:

- <https://us02web.zoom.us/j/81717231818?pwd=6pjKbBjBZac40a87RS23dIHepZxXR3.1>
- Passcode: 589002

Items of business will be limited to the matters shown on the attached agenda. 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,

A handwritten signature in blue ink that reads 'Dominic D. Brown'.

Dominic D. Brown
Chief Executive Officer

Attachments

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 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.

CALL TO ORDER

ROLL CALL (IN PERSON)

SALUTE TO FLAG / MOMENT OF SILENCE

AB 2449 REMOTE APPEARANCE(S)

Items 1 and/or 2 withdrawn from agenda if no trustee(s) request to appear remotely:

1. JUST CAUSE CIRCUMSTANCE(S):
 - a) The following Trustee(s) have notified the Board of a “Just Cause” to attend this meeting via teleconference. (See Government Code § 54953).
 - NONE
 - b) Call for Trustee(s) who wish to notify the Board of a “Just Cause” to attend this meeting via teleconference. (See Government Code § 54953) – RECEIVE/ HEAR REQUEST(S); NO BOARD ACTION REQUIRED

2. EMERGENCY CIRCUMSTANCE(S):
 - a) The following Trustee(s) have requested the Board approve their attendance of this meeting via teleconference due to an “Emergency Circumstance.” (See Government Code § 54953).
 - NONE
 - b) Call for Trustee(s) requesting the Board approve their attendance of this meeting via teleconference due to an “Emergency Circumstance.” (See Government Code § 54953) – TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE DUE TO EMERGENCY CIRCUMSTANCE

PUBLIC COMMENTS

3. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Board. This portion of the meeting is reserved for persons to address the Board on any matter not on this agenda but under the jurisdiction of the Board. Board 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 Board at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

FINANCE MATTERS

4. [Response to referral regarding Interest Credited to Member Accounts presented](#) by Chief Executive Officer Dominic Brown and Trustee Fiduciary and Actuarial Education on Article 5.5 of the County Employees Retirement Law of 1937 (CERL) presented by Fiduciary Counsel Ashley Dunning, Nossaman, and Actuary Molly Calcagno, Segal – HEAR PRESENTATION; RECEIVE EDUCATIONAL TRAINING (40 MINUTES TRUSTEE EDUCATION CREDIT)

CALL FOR PUBLIC COMMENT ON EXECUTIVE SESSION ITEM(S)

EXECUTIVE SESSION

5. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION
Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of Section 54956.9 based on facts and circumstances that might result in litigation against KCERA and that KCERA believes are not yet known to potential plaintiffs which facts and circumstances need not be disclosed. (Cal. Gov. Code section 54956.9(e)(1)). (Number of potential cases: multiple).

RETURN TO PUBLIC SESSION

ROLL CALL TO CONFIRM QUORUM

REPORT OF EXECUTIVE SESSION ACTIONS, IF APPLICABLE

REFERRALS TO STAFF, ANNOUNCEMENTS, OR REPORTS

6. On their own initiative, Board 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.
7. Adjournment



Legal Framework of KCERA's Supplemental Retiree Benefit Reserve

Special Meeting of the Board of Retirement | Kern County Employees' Retirement Association | October 16, 2025
Presented By: Ashley Dunning, KCERA Fiduciary Counsel, Nossaman Partner and Co-Chair Public Pensions & Investments Group



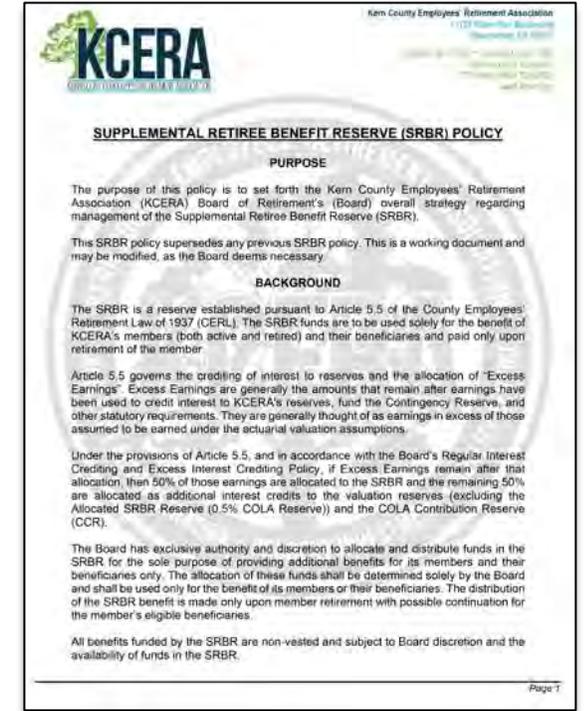
Topics

- What is a Supplemental Retiree Benefit Reserve (SRBR)
- Genesis of KCERA's SRBR
- KCERA Board's fiduciary and related legal duties with respect to the SRBR



What is an SRBR?

- The County Employees Retirement Law of 1937 (CERL) (Gov. Code secs. 31450 et seq.) contains two articles that address the “Financial Provisions” of a CERL retirement system: Article 5, and Article 5.5.
- Article 5 is the “default” Financial Provision article applicable to CERL systems.
- Article 5.5 is an “alternative” article that becomes operative if it is “adopted by resolution of the county board of retirement and the county board of supervisors” (Gov. Code sec. 31610.)
- The SRBR exists only in Article 5.5 systems.
 - Currently, the three Article 5.5 systems are KCERA, ACERA (Alameda) and TCERA (Tulare).



What is an SRBR: Article 5.5 Context

- Upon the adoption of Article 5.5, seven statutes within Article 5 are no longer “operative” in that county, including among others, certain statutes regarding interest crediting and handling of “excess earnings” by the retirement system.
- In lieu of those statutes, Article 5.5 includes a more specific definition of “actuarial rate” and “net earnings” of a retirement system operating under its provisions, and provides an interest crediting methodology derived from such net earnings, as well as requires the establishment and maintenance of a Contingency Reserve Account of no less than 1 percent and no more than 3 percent of system assets.

What is an SRBR: Article 5.5 Context (cont.)

- The interest crediting methodology in Article 5.5 is set forth in Section 31615, in pertinent part, as follows:

“Regular interest at the actuarial rate, or at the highest rate possible if net earnings, as defined in Section 31613 are not sufficient to credit the full actuarial rate, shall be credited semiannually on June 30 and December 31 to all contributions, reserves, and accounts in the retirement fund, except the Contingency Reserve Account, which have been on deposit for six months immediately prior to those dates”

What is an SRBR: Definition

- Section 31618 of Article 5.5 then defines the SRBR as follows.

“The board [of retirement] shall establish a Supplemental Retiree Benefit Reserve [SRBR] in the retirement system consisting of any amount previously in the reserve against deficiencies, which on the date of adoption of this article, exceeds 3 percent of the assets of the retirement fund, or any lesser amount, as determined by the board. In no event, however, shall the balance of the Contingency Reserve Account be reduced below 1 percent of system assets for this purpose. The Supplemental Retiree Benefit Reserve shall be used only for the benefit of retired members and beneficiaries”

What is an SRBR: Definition (cont.)

- Section 31618 (cont.):
 - “Commencing on the date of adoption of this article, there shall be a semiannual transfer into this reserve of 50 percent of the balance of net earnings, as defined in Section 31613, rebuilding the Contingency Reserve Account pursuant to Section 31616 and paying the part of the cost-of-living contributions pursuant to Section 31617, if applicable.
 - The distribution of the Supplemental Retiree Benefit Reserve shall be determined by the Board.”

What is an SRBR: Definition (cont.)

- In sum, the SRBR is a
 - dedicated statutorily-based funding source
 - from a predetermined percentage share of recognized retirement system earnings
 - to feed a special reserve – the SRBR
 - with which to pay supplemental benefits to retired members and their beneficiaries
 - at the discretion of the Retirement Board.



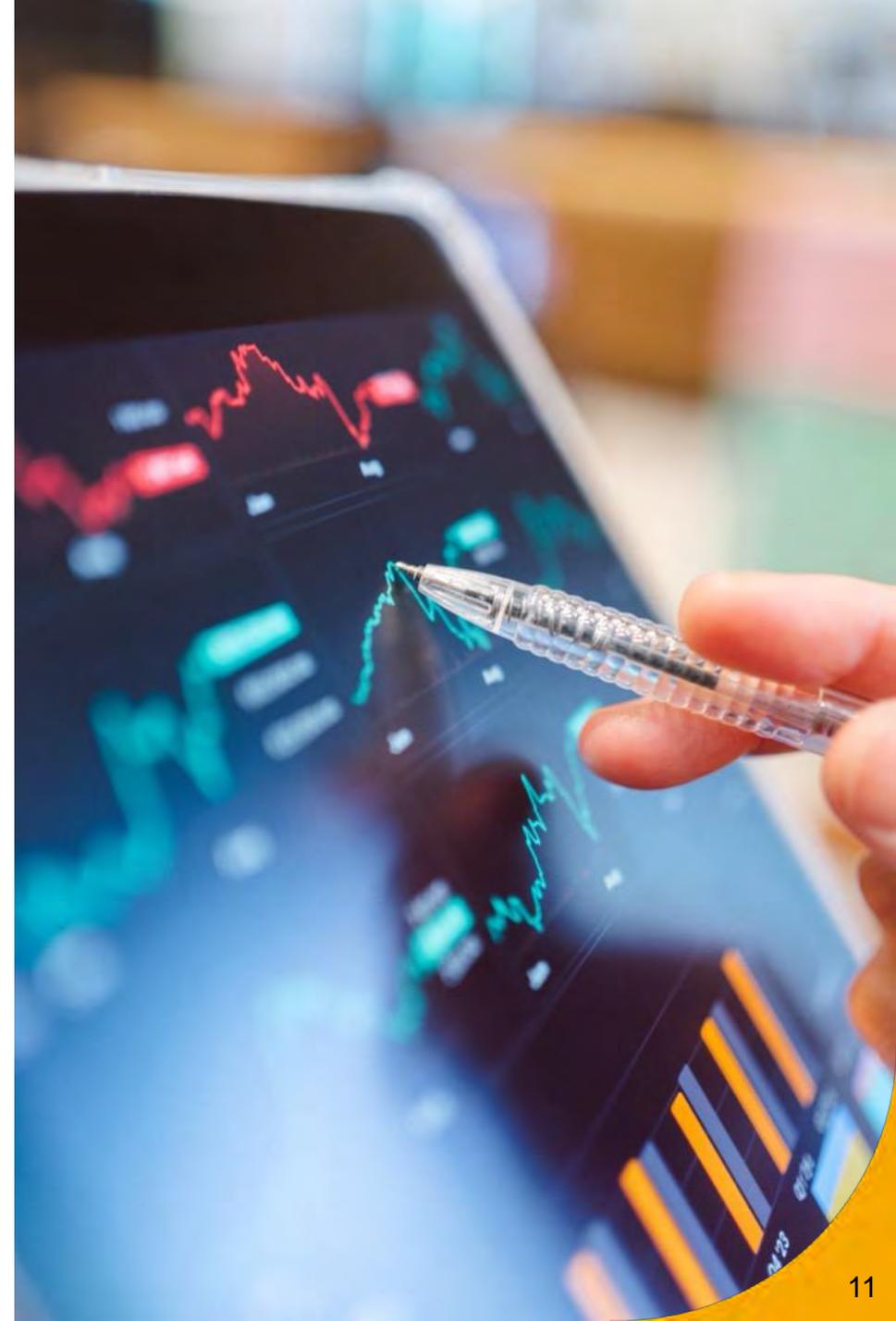
Genesis of KCERA's SRBR

- Article 5.5 was added to CERL by Senate Bill 650, which was chaptered into law as Chapter 886 of 1983 Statutes.
- By resolution dated April 23, 1984, the KCERA Board of Retirement unanimously resolved to adopt Article 5.5, and then recommended and requested that the Board of Supervisors of Kern County do so as well.
- By resolution dated May 8, 1984, the Board of Supervisors unanimously adopted Article 5.5. for KCERA, effective July 1, 1984.

**KCERA BOARD'S
FIDUCIARY AND RELATED LEGAL DUTIES
AS APPLICABLE TO SRBR**

KCERA Board's Fiduciary Duties

- Duty of care:
 - Act as a prudent expert
 - Assure competency of assets to pay contemplated benefits
 - Monitor administration and investments of the fund
 - Consult with experts and prudent delegation as appropriate



KCERA Board's Fiduciary Duties

- Duty of loyalty:
 - Exclusive benefit rule (funds to provide benefits to retirees and their beneficiaries)
 - Prompt delivery of benefits and related services
 - Duty of impartiality, while recognizing that there are conflicting interests among various members and beneficiaries with respect to many of KCERA Board's actions.



KCERA Board's Fiduciary and Other Legal Duties as Applicable to the SRBR

- As discussed, the SRBR provides a:
 - dedicated statutorily-based funding source
 - from a predetermined percentage share of recognized retirement system earnings
 - to feed a special reserve -- the SRBR
 - with which to pay supplemental benefits to retired members and their beneficiaries
 - at the discretion of the Retirement Board.
- Fiduciary duties of care and loyalty require the Board to consider the overall best interest of KCERA members and their beneficiaries when considering proper uses of funds in the SRBR.



What to Do With Conflicting Interests Among Members and Beneficiaries

- Examine SRBR specific provisions: Funds in the SRBR are to be used for current retirees and their beneficiaries, as well as in the future, for future retirees and their beneficiaries.
- Consider equities as between various groups of current and future retirees and their beneficiaries, as well as active and deferred members.

Questions?



Thank You



Ashley Dunning, KCERA Fiduciary Counsel

**Partner, Nossaman LLP and
Co-Chair, Pensions, Benefits & Investments Group**

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Kern County Employees' Retirement Association

Supplemental Retiree Benefits Reserve (SRBR)

Educational Session

October 16, 2025 / Molly Calcagno / Todd Tauzer

Agenda

Funding Policy Review

Interest Crediting Mechanics

Funding Policy for the SRBR

KCERA SRBR Policy Provisions

Current SRBR Benefits

Actuarial Funding Policy

Three core components

Actuarial cost (funding) method allocates present value of member's projected benefits to years of service: past, current, and future

- KCERA uses the entry age cost method

Asset smoothing method assigns a value to assets that manages short term volatility while tracking market value

- KCERA uses 5-year smoothing with a 50% corridor

Amortization policy sets contributions to systematically pay off any UAAL

- Level percent of pay amortization
- Layered for UAAL established after June 30, 2011

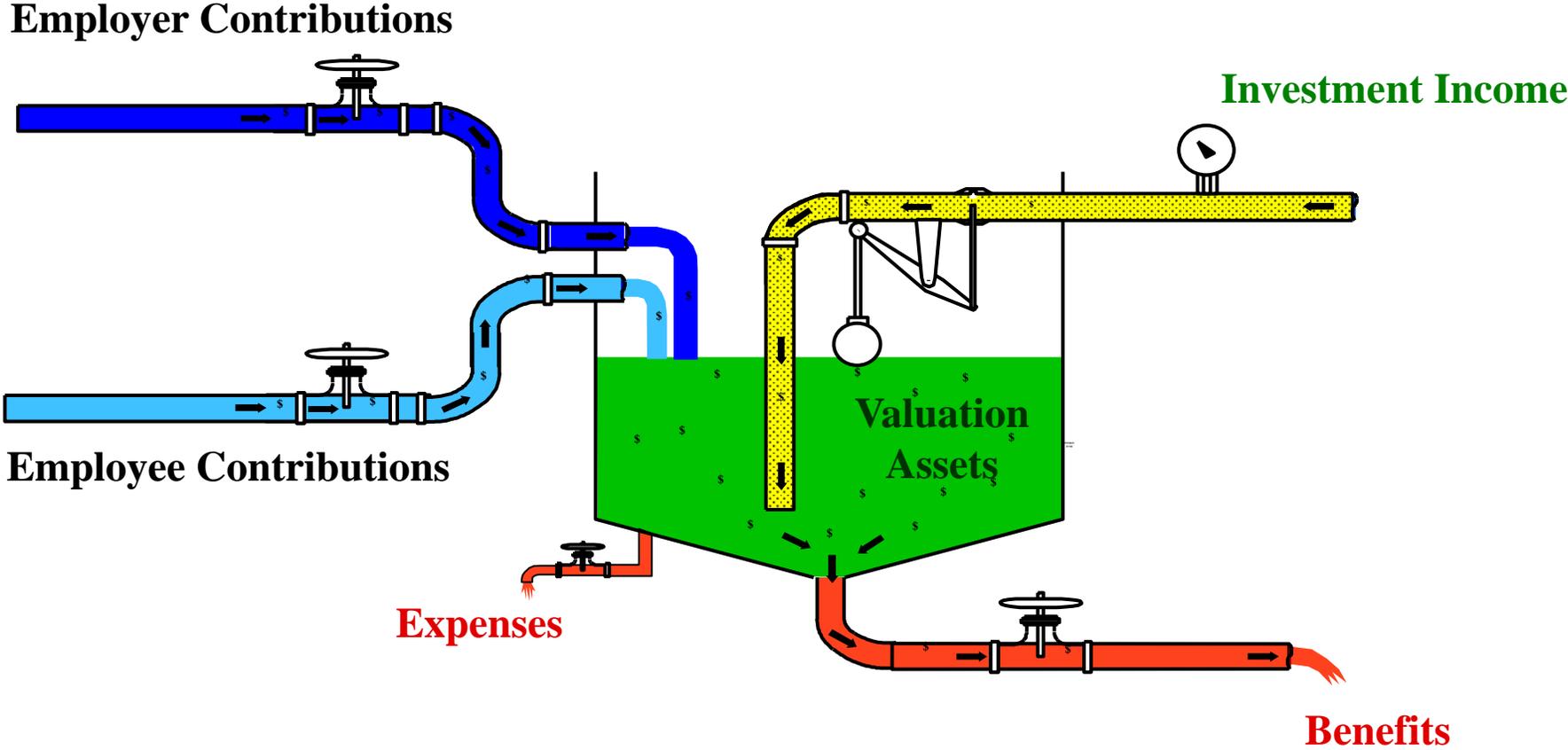
The Fundamental Funding Equation

$$C + I = B + E$$

Contributions + Investment Income
equals
Benefit Payments + Expenses

- Assumptions and funding methods do not directly affect the **payment** of benefits, only the **timing** of contributions (unless benefit amounts are affected!)
 - Actuarial valuation determines the “current” cost, not the ultimate cost

$$C + I = B + E$$



KCERA Interest Crediting Policy

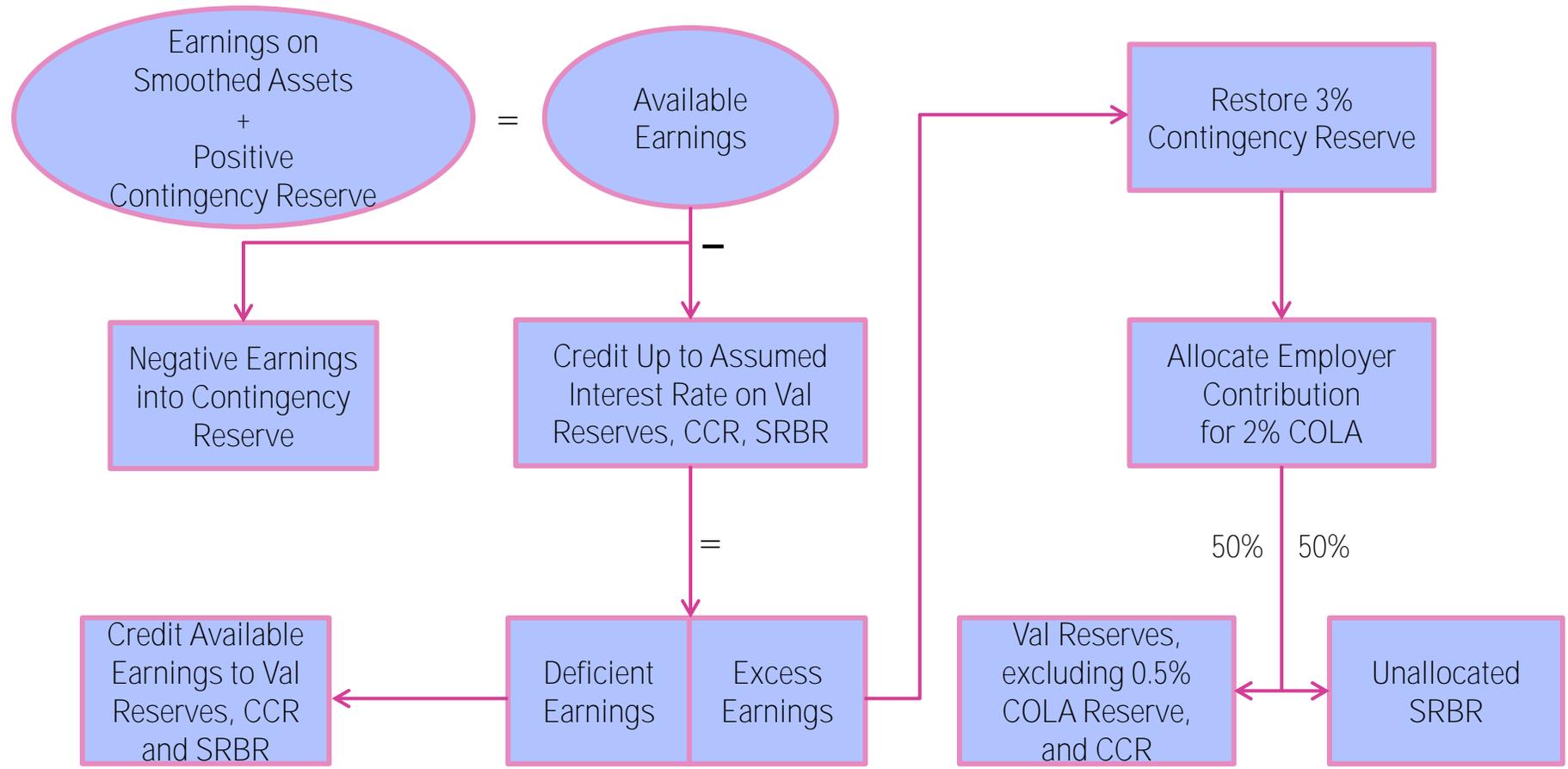
KCERA maintains reserves that have interest credited every six months

- 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 Contribution Reserve (CCR), Unallocated Supplemental Retiree Benefits Reserve (SRBR)
 - Using current investment return assumption as the interest rate

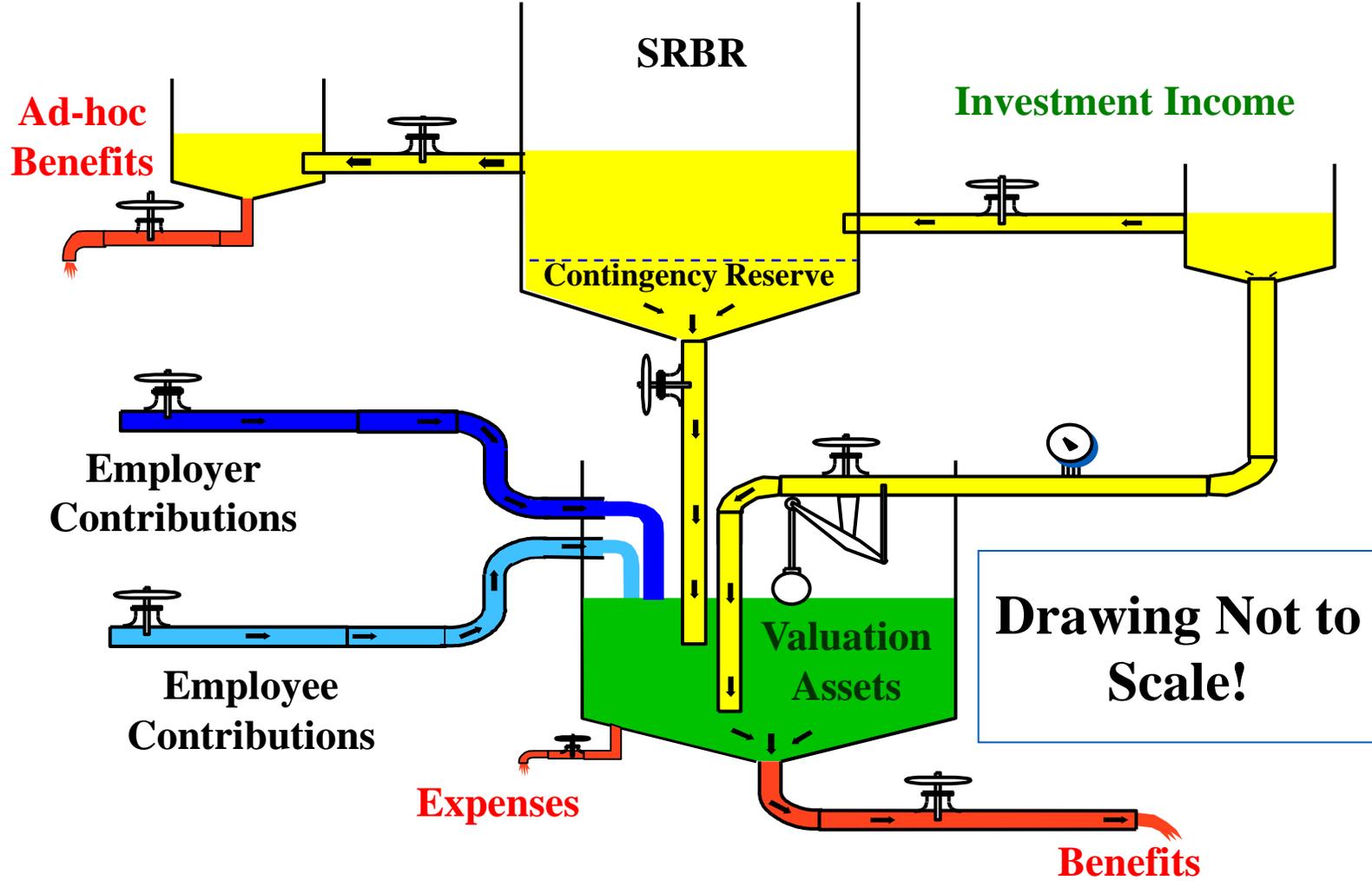
KCERA Interest Crediting Policy (continued)

- 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:
 - Unallocated SRBR
 - Valuation reserves (excluding the 0.5% COLA Reserve) and CCR
- If Available Earnings are insufficient (but not negative), then:
 - Credit valuation reserves, CCR and Unallocated SRBR up to the amount of Available Earnings
- If Available Earnings are negative, then:
 - No interest credits and negative amount goes into Contingency Reserve

KCERA Interest Crediting Policy (continued)



Plumbing for Excess Earnings



How Funding Policy Interacts With 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 volatility

- Affects allocations to SRBR because “Available Earnings” is based on investment return after smoothing

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 115% funded in last two consecutive actuarial valuations, the Board may consider increasing or adding SRBR benefits
- If PVB funded status drops below 95% for the last two consecutive actuarial valuations, the 2.5% COLA on the SRBR benefits may be suspended or reduced
- Other conditions to consider before increasing or adding SRBR benefits, or suspending or reducing the 2.5% COLA on the SRBR benefits include:
 - The potential impact of any deferred investment gains and losses not yet recognized under the asset smoothing method and any recent or potential changes in actuarial assumptions

KCERA SRBR Funded Status

Before reflecting deferred investment gains or losses

Line Description	June 30, 2024	June 30, 2023
1. Available SRBR reserves		
a. Total SRBR	\$114,659,000	\$129,724,000
b. 0.5% COLA reserve	(21,405,000)	(3,949,000)
c. Available SRBR reserve: 1a – 1b	\$136,064,000	\$133,673,000
2. Present value of SRBR benefits (PVB)		
a. Approved benefits	\$97,178,000	\$96,057,000
b. Future benefits	27,673,000	27,490,000
c. Total: 2a + 2b	\$124,851,000	\$123,547,000
3. PVB minus reserves: 2c – 1c	\$(11,213,000)	\$(10,126,000)
4. Funding ratio: 1c ÷ 2c	109.0%	108.2%

KCERA SRBR Funded Status

After reflecting deferred investment gains or losses

Line Description	June 30, 2024	June 30, 2023
1. Available SRBR reserves	\$134,010,000	\$128,568,000
2. Present value of SRBR benefits (PVB)		
a. Approved benefits	\$97,178,000	\$96,057,000
b. Future benefits	27,673,000	27,490,000
c. Total: 2a + 2b	\$124,851,000	\$123,547,000
3. PVB minus reserves: 2c - 1	\$(9,159,000)	\$(5,021,000)
4. Funding ratio: 1 ÷ 2c	107.3%	104.1%

KCERA SRBR

Current benefits

Restructured SRBR

The greater of either the “Floor Benefit” or the “Service SRBR Benefit”, payable monthly to retirees hired before July 1, 2022

- The “Floor Benefit” is equal to the total current Legacy SRBR Benefit (Tier 1, Tier 2, Tier 3, and Tier 4) as of July 1, 2022 or the member’s future retirement date
- The “Service SRBR Benefit” is equal to the member’s years of service at retirement multiplied by \$1.80 and adjusted by a 2.5% fixed rate COLA effective July 1, 2022 (without regard to retirement date) with the first increase applied July 1, 2023

KCERA SRBR

Current benefits (continued)

Restructured SRBR (continued)

The Restructured SRBR benefit will be adjusted annually to receive a 2.5% fixed rate COLA on July 1 each year, with the first increase applied on the later of July 1, 2023 or the July 1st immediately following the date of retirement

Upon the death of the retired member, 60% of the Restructured SRBR benefit continues to the retired member's beneficiary

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

Thank You

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