



## **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 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.

## **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. Perform an assessment, review, and analysis to determine the need, if any, to adjust and/or modify, at the exclusive discretion of the Board, the SRBR Benefits based on the conditions and considerations detailed below. These conditions include, but are not limited to the SRBR funding status, 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. 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
4. Provide a post-retirement death benefit that is 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\* to the current actuarial funding target, which is the PVB described above.

The Board will monitor the long-term funding implication of all of the existing SRBR programs, which provide benefits outlined in this Policy. Specifically, SRBR benefits are to be reviewed annually for appropriateness of amount and eligibility, and to ensure, with a reasonable degree of confidence, that they are actuarially funded. Such review will occur upon presentation of the annual SRBR Valuation and Review to the Board. If the funded status of the SRBR Reserve\*, as reported in the annual SRBR Valuation and Review drops below 95% or exceeds 115% for two consecutive actuarial valuations, the Board will consider the options described in Attachment A. 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.

\*excluding the court ordered Allocated SRBR Reserve (i.e. 0.5% COLA Reserve)

## **POLICY REVIEW**

SRBR benefits are subject to modification or elimination, at the exclusive discretion of the Board, at any time with reasonable advance notice in accordance with the provisions of the CERL, the Brown Act, and other applicable law. Any Board changes to the current KCERA SRBR benefit levels will take into consideration the advice of KCERA management, the Board's counsel and its actuarial consultant.

## **POLICY REVIEW AND HISTORY**

- 1) This policy was:
  - a) Adopted by the Board on November 3, 2017.
  - b) Amended March 14, 2018, August 11, 2021, and on September 14, 2022.

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

1. 2022 Restructured SRBR Benefit. The Board of Retirement has approved the following Restructured SRBR Benefit for members whose Membership Date is before July 1, 2022:

A. **Comparison**. All eligible members and beneficiaries will undergo a one-time comparison between the Legacy SRBR Benefit ("Floor Benefit") and \$1.80 per month per year of service benefit ("Service SRBR") (adjusted annually by a fixed rate COLA) and will receive the greater of either the "Floor Benefit" or the "Service SRBR" Benefit.

- 1) For members and beneficiaries currently in pay status:
  - i. the "Floor Benefit" will be based on the total current Legacy SRBR benefit being paid to the member or beneficiary as of July 1, 2022.
  - ii. the "Service SRBR" benefit will be based on the member's years of service at retirement multiplied by \$1.80.
- 2) For members first entering retirement:
  - i. the "Floor Benefit" will be based on the total Legacy SRBR benefit the member would have been eligible for as of their retirement date.
  - ii. the "Service SRBR" benefit will be based on the member's years of service at retirement multiplied by \$1.80 and adjusted annually by a 2.5% fixed rate COLA effective as of July 1, 2022 (without regard to retirement date) with the first increase applied July 1, 2023.
- 3) For all members and beneficiaries, the applicable benefit is paid monthly.

AND

B. **COLA**. The benefit determined in section 1.A above will be adjusted annually to receive a 2.5% fixed rate COLA on July 1 each year, with the first increase applied on the latter of July 1, 2023 or the July 1st immediately following the date of retirement.

- 1) Upon the death of the member, 60% of the member's then- current benefit will continue to the member's beneficiary (or beneficiaries, if more than one under an optional settlement 4, in their respective percentages) who is receiving a survivor's continuance, if any, and will be adjusted annually to receive a 2.5% fixed rate COLA on July 1 each year for the life of the beneficiary.

- 2) If a member's benefit is subject to division pursuant to a court-order, KCERA will automatically include the applicable SRBR Benefit in the division unless specifically ordered not to do so.

AND

C. **Death Benefit.** An additional one-time post-retirement death benefit of \$5,000 is paid to a member's beneficiary upon the death of the retired member. (This benefit was part of the Legacy SRBR benefit and remains unchanged).

2. Modifications to the Restructured SRBR Benefit. The Board has approved modifications under the following circumstances:

A. Should the funded status of the SRBR Reserve\*, as reported in the annual SRBR Valuation and Review, drop below 95% or exceed 115% for two consecutive actuarial valuations, the Board will consider the following options:

- 1) SRBR Funded Status Less than 95%: Suspend the 2.5% fixed rate COLA for all eligible members or beneficiaries until the SRBR funded status reaches 100%, as reported in the subsequent year's annual SRBR Valuation and Review.
- 2) SRBR Funding Status Above 115%: Push forward the eligibility hire date to include additional members, increase the flat rate COLA, and/or increase the lump sum death benefit.

B. Such considerations 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.

\*excluding the court ordered Allocated SRBR Reserve (i.e. 0.5% COLA Reserve)

3. For Reference:

A. The Legacy SRBR Benefit (excluding the Death Benefit) is as follows:

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

For purposes of determining the "Floor Benefit," effective July 1, 2022, SRBR Tier 1 will be based on a retiree's initial hire date.

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 4 SRBR benefit continues to the retired member's beneficiary.

#### B. Additional Terms and Definitions

- 1) **Hire Date.** As used in this Policy, "hire date" refers to a member's initial hire date, so long as the hire date is associated with a position eligible for membership in KCERA. The initial hire date will apply to re-hired members, members who have completed a redeposit of contributions, and/or members reinstated following retirement.
- 2) **Years of Service.** As used in this Policy, years of service includes service performed with a KCERA employer and any service credited after completing a redeposit of contributions. For purposes of the Legacy SRBR Tier 2 benefit, years of service remains limited to 25 years. No such limit exists for purposes of calculating the "Service SRBR".
- 3) **Benefit Adjustments.** If a member or beneficiary's SRBR benefit is modified, reduced, or suspended, person(s) receiving any portion of that benefit will be proportionately adjusted.
- 4) **Taxes.** Taxes will be applied to any SRBR benefit as required by the Internal Revenue Service and/or the California Franchise Tax Board.