VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Interest Crediting and Excess Earnings Policy

I. Purpose of Policy

The purpose of this policy is to establish the process to be used by the Ventura County Employees' Retirement Association ("VCERA") to credit semi-annual interest to reserves and to determine the use of excess earnings. This policy shall include, but may not be limited to, the following:

A. defining the reserves maintained by VCERA,

B. determining the rates of interest at which reserves are to be credited,

C. determining the priorities and sequence by which interest will be credited to the reserves, and

D. determining the use of excess earnings.

II. Current Reserves

VCERA maintains the following reserves:

A. Valuation Reserves:

1. Member Deposit Reserves – The reserves to which member contributions are credited, including those contributions made by the employer on behalf of the member pursuant to Government Code section 31581.2. Contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon the retirement of a member a transfer is made to Retiree Member Reserves (Annuity).

2. Employer Advance Reserves – The reserves to which employer contributions are credited, including those contributions made by the employer on behalf of the member pursuant to Government Code section 31581.1. Employer contributions are not refunded to the member at the time of separation. Upon the retirement of a member a transfer is made to the Retiree Member Reserves (Pension).

3. Retiree Member Reserves (Annuity & Pension) – The reserves to which transfers are made from Member Deposit Reserves and Employer Advance Reserves at the time of a member's retirement. The total of these reserves should equal the present value of the total benefit due to all retirees and eligible beneficiaries.

4. Vested Fixed Supplemental Benefit ($108.44 Supplement) Reserve – The reserve for the payment of the vested fixed $108.44 monthly supplemental benefit provided pursuant to Government Code section 31682.

5. Supplemental Death Benefit ($5000 Death) Reserve – This reserve is used for the payment of the $5,000 lump sum death benefit.

6. Contra Reserve – For accounting and valuation purposes, the Contra Reserve shall be maintained as an offset to the Employer Advance Reserves.

7. Undistributed Earnings Reserve – The amount of earnings from current and prior years not previously credited to other Valuation, Non-valuation, and Supplemental Benefit Reserves, in excess of the Statutory 1.0% Contingency Reserve and Additional Contingency Reserve, if any.

B. Non-valuation Reserves:

1. Statutory Contingency Reserve – This reserve is an amount up to 1.0% of the total market value of assets to provide for future deficiencies in interest earnings, losses on investments, and other contingencies.

2. Additional Contingency Reserve – Any additional reserve maintained at the discretion of the Board to further provide for future deficiencies in interest earnings, losses on investments and other contingencies. Current Board policy is not to maintain an Additional Contingency Reserve.

C. Supplemental Benefit Reserve:

1. Fixed Supplemental Benefit ($27.50 Supplement) Reserve – This reserve was established in March 2003 for the payment of the fixed monthly $27.50 monthly payment to those retirees and surviving beneficiaries eligible to receive the vested $108.44 monthly benefit. This reserve was funded by an initial discretionary transfer of $25 million from Undistributed Earnings, which would have been sufficient to continue to pay the benefit in perpetuity only if sufficient Excess Earnings in future years were to exist at a level that would permit future Boards to credit the Reserve with interest at the then-assumed 8.25% per year rate, and even then, only if future Boards decide to continue to make such discretionary interest credits at such assumed rates.

D. Financial Statement Reserves:

   1. Market Stabilization Reserve – The difference between the current market value of assets and the actuarial value of assets used to establish the above reserves.

III. Rates of Interest at which Reserves are Credited

A. Regular Interest Rate – This is the rate to be credited to all Valuation Reserves except the Member Deposit Reserves, Contra Reserve and the Undistributed Earnings Reserve. By statute, this rate means interest at 2 1/2 percent a year until otherwise determined by the Board compounded semiannually on June 30th and December 31st (Government Code section 31472). Regular interest shall be credited semiannually on June 30th and December 31st to all contributions in the retirement fund which have been on deposit for six months immediately prior to that date (Government Code section 31591). With respect to the rates of interest to be credited to members and to the County or District, the Board may, in its sound discretion, recommend a rate that is higher or lower than the actuarial interest assumption rate adopted by the Board. Board policy is to set the semiannual regular interest rate equal to one half of the current actuarial interest assumption rate adopted by the Board.

B. Member Crediting Rate – Member accounts shall be credited each June 30 and December 31 in an amount equal to one-half the rate of return on the United States ten (10) year Treasury note as quoted in the Wall Street Journal. Interest shall be credited to those contributions on deposit six months prior using the rate of the ten year U.S Treasury note on that June 30 or December 31 interest crediting date (or the last business day of the month if earlier). In no event shall the semiannual rate of interest credited exceed one-half of the prevailing actuarial interest assumption rate adopted by the Board.

C. Timing of Rate Determination – The actuarial interest rate used for crediting interest to non-member reserves on December 31 and June 30 shall be the rate that corresponds to the actuarial interest rate used to calculate the current employer and employee contribution rates.

IV. Crediting of Interest

Designated Reserves shall be credited semiannually as follows:

A. Step 1 - Determine "Available Earnings" for accounting period as the sum of:

1. Earnings of the retirement fund based on the actuarial value of assets, expressed in dollars. This could be a negative amount.
2. Balance in the Statutory Contingency Reserve
3. Balance in any Additional Contingency Reserve
4. Balance in Undistributed Earnings Reserve

B. **Step 2 - Credit interest to Member Deposit Reserve (MDR) at the Member Crediting Rate:**

Deduct this MDR Interest amount from Available Earnings. If this amount of MDR Interest is more than Available Earnings, charge the shortfall to the Contra Reserve.

C. **Step 3 - Credit interest on Non-Member Valuation Reserves at Regular Interest Rate:**

If Available Earnings are not sufficient, charge the shortfall to the Contra Reserve.

D. **Step 4 - Additional Credit for Valuation Reserve:**

This Additional Credit is the difference between the amount of interest credited at Step 2 and the amount that would have been credited using the Regular Interest Rate. Transfer this Additional Credit, if any, from Available Earnings to the Employer Advance Reserve. If Available Earnings are not sufficient, charge the shortfall to the Contra Reserve.

Use of Excess Earnings:

These steps only apply to Available Earnings remaining at the end of each measuring year, after the second semi-annual interest crediting.

E. **Step 5 - Reduce the Balance in the Contra Reserve:**

Transfer any remaining Available Earnings into the Contra Reserve up to the amount sufficient to bring the balance to zero, to make up for any cumulative earnings shortfall.

F. **Step 6 - Restore the Statutory and Additional Contingency Reserves to target levels:**

Transfer from remaining Available Earnings into Statutory Contingency Reserve the amount required to maintain the Statutory Contingency Reserve balance at 1% of total market value. Transfer from remaining Available Earnings into any additional Contingency Reserve the amount required to maintain the percentage of market value set by the Board.

G. Step 7 - Credit Interest on Supplemental Benefit Reserve(s):

Remaining Available Earnings, if any, shall be used to credit interest to the Supplemental Benefit Reserves at the regular interest rate, for the full current year. If remaining Available Earnings are not sufficient, prorate among the Supplemental Benefit Reserve(s).

H. Step 8 - Determine use(s) of any remaining Available Earnings in the Undistributed Earnings Reserve:

Remaining Available Earnings, if any, shall be maintained in the Undistributed Earnings Reserve and shall be available for other uses at the Board's discretion, after the Board reasonably and in good faith determines that such uses are in the overall best interests of VCERA's members and beneficiaries. Potential uses may include transfers to other Valuation Reserves, and/or funding of new supplemental benefits subject to CERL. Prior to any transfer to Non-valuation Reserves, the Board shall obtain from its actuary a statement of the impact of the transfer on current and future employer and employee contributions determined in accordance with the Board's current funding policy. The actuary shall also advise the Board of any changes to its current funding policy that should be considered as a result of the proposed transfer.

V. Policy Review & History

Date	Action	Comments
March 17, 2008	Policy Adopted	
April 20, 2015	Reviewed & Amended	Changed policy title to "Interest Crediting <u>and Excess Earnings</u> Policy" Added language to address "Excess Earnings"; Removed STAR COLA from list of Supplemental Benefit Reserves (no longer exists, terminated due to funding);
December 18, 2023	Reviewed & Amended	Minor formatting and language changes; Removed final reference to STAR COLA; Removed final reference to Fixed Supplemental Benefit ($27.50 Supplement) Reserve;

		Added Policy History section
October 27, 2025	Reformatted	Reformatted based on new policy format adopted by the Board on March 24, 2025