



## **Interest Crediting Policy**

*Approved by the Board of Retirement 7/29/2014*

*Last Amended 9/24/2019*

*Reaffirmed 8/23/2022*

## I. Overview

The San Mateo County Employees' Retirement Association (SamCERA) Board of Retirement (Board) establishes this policy to govern the crediting of interest to reserves under the County Employees' Retirement Law of 1937 (CERL) subject to the requirements specified in Article 5 of the CERL.

## II. Objectives

In the development and adoption of this policy, the Board has balanced the interests of the active members and the retired members and has determined that the policy set forth below best serves the interests of the membership as a whole. In addition, this policy has been developed with the following objectives:

- To comply with appropriate legal and regulatory requirements
- To assure the prompt delivery of benefits and related services to the participants and their beneficiaries
- To limit, to the extent possible, the volatility of interest crediting from period to period
- To help minimize the volatility of contribution rates
- To limit, to the extent possible, the charging of short-term losses to reserves
- To maintain consistency between the reserve structure and the actuarial funding of SamCERA
- To assure that the aggregate valuation reserve values track the market value of assets over the long term

## III. Definition of Reserves

For the purpose of allocating earnings, all SamCERA reserves will fall into one of two categories: Valuation Reserves or Non-Valuation Reserves.

- A. Valuation Reserves.** Valuation Reserves are used to determine the employers' and employees' statutory contribution rates.

The following reserves are considered Valuation Reserves into which earnings are credited at certain limits:

- 1. Member Reserve.** This is the reserve for all member contributions.
- 2. Employer Advance Reserve.** This is the reserve for statutorily determined contributions from all employers.

3. **Retiree Reserve.** This is the reserve for retirees. Funds from the Member Reserve (aka Annuity Reserve) and the Employer Advance Reserve (aka Pension Reserve) are transferred to the Retiree Reserve when a member retires.
  4. **Cost of Living Adjustment Reserve.** This is the reserve for employer Cost of Living Adjustment contributions.
  5. **The County Supplementary Contributions Account (CSCA) Reserve.** This is a reserve for supplemental contributions from the County of San Mateo (“County”) that exceed the County’s required statutory contribution rates.
  6. **The District Supplementary Contributions Account (DSCA) Reserve.** This is a reserve for supplemental contributions from the San Mateo County Mosquito and Vector Control District (“District”) that exceed the District’s required statutory contribution rates.
  7. **Undistributed Earnings/Losses Reserve.** This reserve is for cumulative undistributed actuarial earnings and losses.
- B. Non-Valuation Reserves.** These reserves are not used to determine employers’ statutory contribution rates.
1. **Contingency Reserve.** This is a statutorily defined reserve against deficiencies in earnings, losses on investments, or other contingencies which, pursuant to Sections 31592 and 31592.2 of the CERL, must not be less than 1% of the actuarial value of assets nor, pursuant to this policy, more than 3%.
  2. **Other Specified Non-Valuation Reserves.** These are other reserves that may be created by the Board or designated by the Board for a specified purpose. Designation of these reserves does not create any vested rights for benefit payments. As of the date of this policy, there are no “Other Specified Non-Valuation Reserves” until such time as this policy may be amended and reserves are added by Board action.

#### **IV. Timing of Interest Crediting**

SamCERA will credit reserves twice each year to all Valuation Reserves that have been on deposit for the prior six months, in accordance with Section 31591 of the CERL. The crediting will take effect as of June 30 and December 31 of each year.

## V. Crediting Process

### A. Crediting the Supplemental Contributions Accounts

#### 1. The County Supplementary Contributions Account (CSCA) Reserve.

- a. Interest will be credited to this reserve in accordance with the “Memorandum of Understanding Between the County of San Mateo and the San Mateo County Employees’ Retirement Association Regarding Retirement System Funding.” The amounts in this reserve will only be recognized for contribution rate-setting purposes for the benefit of the County and will not be recognized for the benefit of any other employers.
- b. Crediting to this account will have no upper or lower limit.
- c. The assets of this account will be valued separately from all other reserves and will be credited separately from all other reserves.

#### 2. The District Supplementary Contributions Account (DSCA) Reserve.

- a. Interest will be credited to this reserve in accordance with the “Memorandum of Understanding Between the San Mateo County Mosquito and Vector Control District and the San Mateo County Employees’ Retirement Association Regarding Retirement System Funding.” The amounts in this reserve will only be recognized for contribution rate-setting purposes for the benefit of the District and will not be recognized for the benefit of any other employers.
- b. Crediting to this account will have no upper or lower limit.
- c. The assets of this account will be valued separately from all other reserves and will be credited separately from all other reserves.

### B. Crediting the Other Valuation Reserves

1. **Definition of Available Earnings.** Available Earnings will be the sum of Net Earnings on Actuarial Value of Assets (after adjustment for amounts credited to the CSCA and DSCA) and Undistributed Earnings/Losses Reserve. If there are insufficient Available Earnings, refer to Section V.B.5. “*Insufficient Available Earnings to Credit the Reserves*” for the process to be used.

2. **Member Reserve.** Member Reserve accounts will be credited in amounts that are equal to the lesser of:
  - a. one-half of the assumed investment earnings rate,<sup>1</sup> or
  - b. the Actuarial Earnings Rate for the prior six-month period immediately preceding the period in which interest is being credited, but the rate credited shall not be less than zero.
  
3. **Balancing Credit to Employer Advance Reserve.** If the actuarial earnings rate for the period is less than one-half the assumed investment earnings rate, the difference between these two rates will be credited to the Employer Advance Reserve. The purpose of this additional allocation is to make the total amount credited to all Valuation Reserves as if all Valuation Reserves (except the CSCA Reserve, DSCA Reserve, and Undistributed Earnings/Losses Reserve) were credited with one-half of the assumed interest rate.
  
4. **Other Valuation Reserves.** The other Valuation Reserves (except the Member Reserve, the CSCA Reserve and the DSCA Reserve, and the Undistributed Earnings/Losses Reserve) will be credited with earnings at a rate of one-half of the assumed investment earnings rate. These reserves include: Employer Advance Reserve, Retiree Reserves, and Cost of Living Reserve.
  
5. **Insufficient Available Earnings to Credit the Reserves.**
  - a. Contingency Reserve: If there are insufficient Available Earnings to credit the Reserves as set forth in Section B, the Contingency Reserve will be debited to the extent needed to complete the crediting and to the extent assets are available from such reserve. By statute, assets in the Contingency Reserve may not be debited if such action causes the reserve to go below 1% of the Fund's actuarial value of assets.
  
  - b. Undistributed Earnings/Losses Reserve: If assets are not sufficiently available from the Contingency Reserve for the crediting requirements, the Undistributed Earnings/Losses Reserve will be debited by the amount required to complete the crediting, even if this causes the Undistributed Earnings/Losses Reserve to hold a negative balance.

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<sup>1</sup> The "assumed investment earnings rate", as used throughout this policy, shall be the rate used to determine employer contribution rates for the Fiscal Year in which the allocation is taking place.

## 6. Left Over Available Earnings

- a. **Contingency Reserve.** If there are still Available Earnings remaining after the crediting of reserves in Section B has been completed, the Contingency Reserve will be allocated earnings until the value of the Contingency Reserve is equal to 3% of the Actuarial Value of Assets, or until all Available Earnings have been exhausted, whichever is less.
  - i. If the Contingency Reserve falls below 3% of assets, earnings in future periods not needed to credit earnings to Valuation Reserves will be used to increase the Contingency Reserve to 3% of assets before amounts are credited to any other reserves.
  - ii. By statute, the Contingency Reserve must not be less than 1% of the actuarial value of assets.
- b. **Undistributed Earnings/Losses Reserve.** If there are still Available Earnings after the crediting of reserves in Section B has been completed, and the value of the Contingency Reserve is equal to 3% of the Actuarial Value of Assets, all remaining Available Earnings will be credited to the Undistributed Earnings/Losses Reserve.