

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**  
**INTEREST CREDITING POLICY**  
**ADOPTED: October 13, 2010**  
**AMENDED: February 9, 2011**

**I. BACKGROUND TO THIS POLICY**

The MCERA Board of Retirement (Board) has not previously adopted an interest crediting policy. Government Code section 31592.2 defines "excess" or "surplus" earnings as an amount accumulated by MCERA during any year "in excess of the total interest credited to contributions and reserves during such year," plus at least one percent (1%) of the total assets of the retirement fund (the "Statutory Contingency Reserve"). In order to facilitate the determination of any "excess earnings" as provided by statute, the Board determined that it should develop this Interest Crediting Policy.

Reasonable advance notice of the proposed establishment of this Policy, as well as of any proposed changes to the Policy by the Board once it has been established, will be provided to recognized retired employee organizations in accordance with Government Code section 31592.5.

**II. PURPOSES OF THIS POLICY**

The purposes of this policy are to establish MCERA's methodology:

1. To credit interest to certain MCERA reserves in compliance with CERL;
2. To track and attempt to correct any "deficiencies in interest earnings in other years" that MCERA may experience, as described in Government Code sections 31592 and 31592.2; and
3. To establish a non-valuation Statutory Contingency Reserve in accordance with Government Code section 31592.2.

**III. GOVERNING LAW**

MCERA is governed by article XVI, section 17 of the California Constitution, the applicable provisions of CERL, as well as other state and federal laws that govern public retirement systems.

CERL provides, in pertinent part, that in connection with the Board's adoption of MCERA's actuarial valuation, the Board will identify the rates of interest to be credited to members' and plan sponsors' contributions and reserves, and that such rates may, in the Board's sound discretion, be higher or lower than the interest assumption rate set forth in the actuarial valuation; however, the rates may not be set such that they reduce individual benefits provided under CERL and thus the interest

credited to the Employee and Retiree Reserves may not be less than zero. *See* Gov. Code secs. 31453, 31454, 31472.

In addition, interest crediting rates must be set consistent with the Board's fiduciary duties of prudence and loyalty. The Board's duty of prudence requires it to inform itself of applicable laws and actuarial and funding principals so as to make an informed and reasonable decision regarding the interest crediting rates it sets. The Board's duty of loyalty requires it to balance the interests of the active, deferred, and retired members of MCERA and their survivors and beneficiaries (collectively "Members") and determine, in its sound and reasonable discretion, that the policy it adopts serves the current overall best interests of MCERA's Members.

Further, under CERL, the Statutory Contingency Reserve must be filled before any "surplus" in earnings may be transferred to employer reserves to pay benefits. *See* Gov. Code sec. 31592.2; *see* generally Gov. Code sec. 31616. The Statutory Contingency Reserve thus provides a buffer against "deficiencies in interest earnings in other years, losses on investments and other contingencies," as set forth in Government Code section 31592. In order to provide such a buffer effectively, assets in the Statutory Contingency Reserve should be held as non-valuation assets.

Assets held in Internal Revenue Code section 401(h) accounts for retiree health benefits must by law be accounted for separately from assets held for retirement/pension benefits and are not subject to this policy.

#### **IV. INTEREST CREDITING**

Step 1- Determine "Available Earnings" for the following plan sponsor valuation groups: County of Marin, City of San Rafael and Novato Fire Protection District ("Employer Group") for the current plan year as the sum of:

- A. Earnings of the retirement fund allocated to each Employer Group for the period based on Market Value of Assets, less allocated portions of MCERA administrative budget. This could be a negative amount.
- B. The most recent closing balance remaining in the Undistributed Earnings and Contingency Reserves for each Employer Group.

Step 2 - Credit interest to the valuation reserves:

Credit all valuation reserves (other than the Undistributed Earnings Reserves) with interest at the "Valuation Rate", by Employer Group. Valuation reserves are described in the glossary that is attached to this Policy.

Step 3 – Contra Account:

If Available Earnings are insufficient to credit to reserves of any Employer Group at the assumed Valuation Rate, track all deficiencies in interest crediting for that year in the Contra Account applicable to that Employer Group.

If Available Earnings are sufficient for such interest crediting at the Valuation Rate for any Employer Group, reduce the balance tracked in the Contra Account for the Employer Group sufficient to make up for the historical under-crediting of those valuation reserves below the Valuation Rate, calculated as of December 31, 2009.

Step 4 – Restore the Statutory Contingency Reserve:

Transfer any remaining positive Available Earnings into the non-valuation Statutory Contingency Reserve for each Employer Group up to one percent (1%) of market value of MCERA’s total assets.

**V. EFFECTIVE DATE, LACK OF VESTED RIGHTS, AND PERIODIC REVIEW**

This policy, including its attached Glossary, is effective with the six-month interest crediting period ending December 31, 2010.

This policy remains subject to revision by the Board at any time, does not create any vested rights for any Members, and will be reviewed for potential modification by the Board at least once every three (3) years.

**VI. RETIREMENT ADMINISTRATOR’S CERTIFICATE**

I, Jeff Wickman, the duly appointed Retirement Administrator of the Marin County Employees’ Retirement Association, hereby certify that the adoption of this policy by the Marin County Employees’ Retirement Association, as amended .

Dated: February 9, 2011

---

Retirement Administrator

## GLOSSARY

### Selected Policy Terms and Definitions

The following list defines certain technical terms relevant to this Policy:

**Earnings:**

The earnings of the Plan from its investments, including interest, dividends and capital gain, and loss adjustments, computed on a fair market value basis.

**Valuation Rate:**

This is approximately one-half of the interest rate adopted by the Board from the actuarial valuation that established the employer and employee contribution rates for that fiscal year.

**Employee Reserve:**

This valuation reserve represents that total accumulated contributions of members within an Employer Group plus the semi-annual interest credited to those contributions under this Policy.

**Employer Reserve:**

This valuation reserve includes the total accumulated contributions of the employer within an Employer Group held for the benefit of non-retired Miscellaneous and Safety members on account of service rendered as a member of the retirement system, plus semi-annual interest credited to those contributions under this Policy.

**Retiree Pension Reserve:**

This valuation reserve represents total accumulated contributions of the employer within an Employer Group held for the benefit of retired members on account of service rendered as a member of the retirement system, plus semi-annual interest credited to those contributions under this Policy, less the pension payments made to retired members.

**Retiree Annuity Reserve:**

This valuation reserve includes the total accumulated contributions of retired members within an Employer Group for annuity benefits, plus semi-annual interest credited to those contributions under this Policy, less the annuity payments made to the members.

**Survivor Death Benefit and Continuance Reserves:**

These valuation reserves represent the accumulated contributions of the employer and members within an Employer Group, plus semi-annual interest credited to those contributions under this Policy, to be used to pay death and survivorship benefits.

**Cost of Living Reserve:**

This valuation reserve represents the accumulated contributions of the employer and the members within an Employer Group, plus semi-annual interest credited to those contributions under this Policy, to be used to pay cost of living payments.

**Statutory Contingency Reserve:**

This non-valuation reserve represents earnings in excess of the total interest credited to valuation reserves, up to one percent (1%) of market value of MCERA's total assets maintained by Employer Group. The Contingency Reserve is treated as a Non-Valuation asset and is used as a reserve against deficiencies in Available Earnings in other years, as provided by Government Code sections 31592 and 31592.2.

**Undistributed Earnings Reserve:**

This valuation reserve represents earnings in excess of the total interest credited to all other reserves that have not been allocated by the Board to other reserves, maintained by Employer Group.

**Contra Account:**

The "Contra Account" is an accounting informational mechanism, not a reserve, that is used to track any historical shortfalls of Available Earnings credited to valuation reserves other than the Undistributed Earnings Reserve on or after December 31, 2009 relative to the earnings required to credit interest at the full Valuation Rate to those valuation reserves, maintained by Employer Group.