

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

***BOARD OF RETIREMENT
RETREAT AGENDA***

Wednesday, October 29, 2014

Crowne Plaza Ventura Beach
San Miguel Conference Room B
450 East Harbor Blvd. Ventura, CA 93001

9:00 a.m.	I. Introduction & Approval of Agenda Tracy Towner, Chair	1
9:05 a.m.	II. Appointment of Retirement Administrator	2–4
9:15 a.m.	III. Asset Allocation in a Low Return Environment Phil Nelson, NEPC	5– 55
10:15 a.m.	<i>Break</i>	
10:30 a.m.	IV. Rebalancing & Role of an Investment Officer Amit Thanki, SBCERA	56 – 80
11:30 a.m.	V. Trends in Public Fund Governance Don Stracke, NEPC	81 – 104
12:30 p.m.	<i>Lunch</i>	
1:30 p.m.	VI. Asset/Liability Study & Investment Policy Statement Review Don Stracke, NEPC	105– 192
2:30 p.m.	VII. Disability Hearing Procedures: Goals of Committee's Review Disability Review Committee	193 – 223
3:00 p.m.	VIII. State Street Contract Update VCERA Staff	224 – 225
3:15 p.m.	<i>Break</i>	
3:30 p.m.	IX. Introduction to Strategic Planning VCERA Staff	226– 237
4:00 p.m.	X. IRS Model Regulations/Tax Determination Review VCERA Staff	238– 336
	XI. Public Comment	
	XII. Staff Comment	
	XIII. Board Member Comment	
	XIV. Adjournment	

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 29, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: APPOINTMENT OF RETIREMENT ADMINISTRATOR

Dear Board Members:

Pursuant to the authority conferred upon me by this Board, I am pleased to report that Ms. Linda Webb has accepted the position of Retirement Administrator, subject to confirmation by this Board and subject to final negotiation of salary and benefits. Accordingly, I hereby present and recommend to the Board the actions set forth below, including a recommendation to approve enhanced annual leave accrual pursuant to Section 616 of the Management Resolution, and to approve a request to the Board of Supervisors that the employment offer include reimbursement for moving expenses, up to \$10,000.

Recommended Actions

1. Confirm the appointment of Linda Webb to the position of Retirement Administrator for the Ventura County Employees' Retirement Association, and;
2. Approve a base salary at a bi-weekly rate of \$6,923.08 (\$180,000 annually);
3. Approve the scheduling of an employee performance evaluation on Ms. Webb's 6th, 12th and 24th month anniversary dates, at which time the Board will consider granting merit based increases.
4. Grant Ms. Webb credit for over 15 years of prior public service for the purpose of setting her biweekly annual leave accrual rate at 14.16 hours, pursuant to the provisions of section 616 of the Management Resolution, and recommend approval by CEO.
5. Approve a request to the Board of Supervisors that it approve reimbursement to Ms. Webb of her moving expenses, up to \$10,000.

Discussion

At the October 6, 2014, Disability Meeting, this Board met in closed session to interview candidates for the position of Retirement Administrator and conferred upon me the authority to offer the position to Ms. Linda Webb and to engage in negotiations concerning salary. The recommended annual salary of \$180,000 is within the range contained in the Board's direction, and has been accepted by Ms. Webb. As the position of Retirement Administrator is governed by the County of Ventura's Management Resolution, Ms. Webb will also be entitled to the following additional benefits:

Educational Incentive for BA: Incentive pay of 3.5% of the proposed base salary for possessing a Bachelor of Arts Degree (Section 612B of the Management Resolution);

Premium Pay for CEBS Certification: Premium pay of 3.5% of base salary upon attainment of a certification as a Certified Employee Benefits Specialist (CEBS) (Section 406 of the Management Resolution);

Automobile Allowance: Automobile allowance of approximately three hundred and seventy-five dollars (\$375) per month;

Cafeteria Plan: A bi-weekly flexible credit, currently two hundred eighty-five dollars (\$285) per bi-weekly pay period (26 pay periods per year), and increasing to two hundred ninety-seven dollars (\$297) per pay period in 2015, under the County's Flexible Benefit Program which includes health, dental, vision and flexible spending accounts for both health and dependent care. All plans are composite rated, so no additional costs for employee and family members;

Deferred Compensation Program: Ability to participate in the County of Ventura 401(k) Shared Savings Plan, with an employer match of up to 3%, and ability to contribute to the Ventura County section 457 Plan;

Holidays: Nine paid holidays and one floating holiday per year;

Annual Leave Accrual: The annual leave accrual rate for a new employee in the position of Retirement Administrator, which is in management category number 1 ("MB 1"), is initially set at a bi-weekly rate of 9.54 hours, or 248.04 hours per year. However, pursuant to Section 616 of the Management Resolution, the County Executive Officer may grant credit for prior public service on a pro rata basis for the purpose of determining the annual leave accrual rate in order to assist and facilitate the recruitment of employees in management categories 1 and 2. Granting Ms. Webb credit for 15 years of prior public service under this provision would entitle her to accrue annual leave at a rate of 14.16 hours per bi-week. The County Executive Officer has indicated his willingness to grant this benefit if approved and recommended by the Board of Retirement. Accordingly, if the Board is willing to grant this request, the Board's action should include the approval of annual leave accrual at a rate of 14.16 hours per bi-week, and a recommendation for approval by the CEO;

Annual Leave Redemption: 100 hours per year, at base pay;

Long Term Disability (LTD): 66 2/3 of pay with Max \$8,000 monthly benefit up to 5 years for illness or accident (30 day waiting period);

Life Insurance: County paid Life Insurance \$50,000; Optional Life at 1, 2 or 3 times salary available at employee's expense;

Textbook and Tuition Reimbursement: Up to \$2,000 per fiscal year, and;

Executive Membership: \$200 per year.

Reimbursement for moving expenses is not authorized by the Management Resolution, but may be paid by VCERA if approved by the Board of Supervisors. I recommend that the Board of Retirement authorize the Chair to take the necessary steps to seek approval by the Board of Supervisors to enable VCERA to provide Ms. Webb reimbursement for moving expenses, up to \$10,000.

I would be pleased to respond to any questions you may have on this matter at the October 29, 2014, special meeting.

Sincerely,

TRACY TOWNER
Chairman of the Board



NEPC, LLC

YOU DEMAND MORE. *So do we.*SM



Strategic Asset Allocation

Approaches in a Low Return World

October 2014

Phillip Nelson, CFA, Director of Asset Allocation

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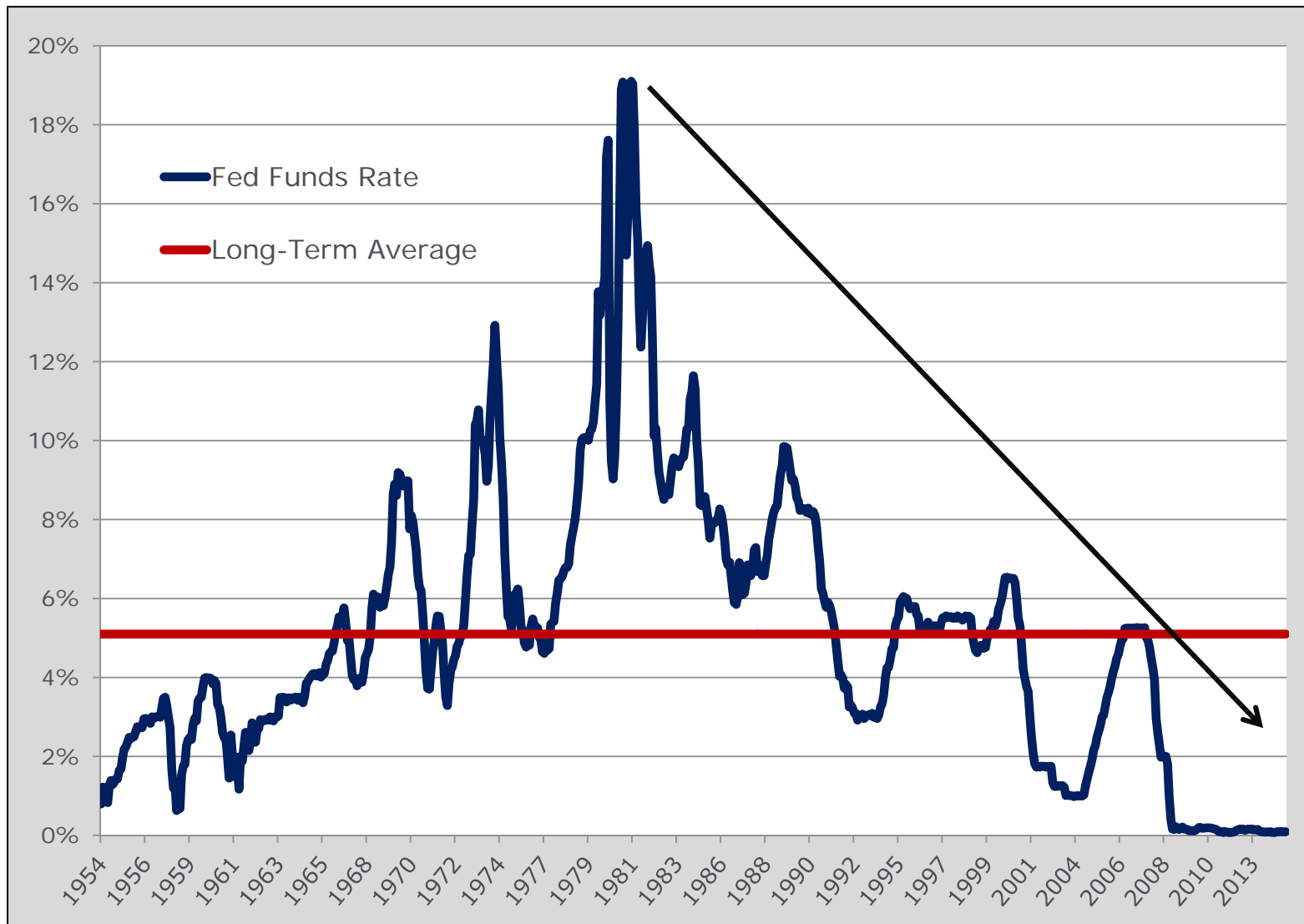
How Did We Get Here?



Where Did All the High Returns Go?

- **Despite episodes of volatility and market corrections, investors have experienced an incredible multi-decade run of robust returns across capital markets**
- **There were many tailwinds providing support for these gains**
 - Falling interest rates/Central bank stimulation
 - Expanding debt levels
 - Globalization of markets
 - Technology/Productivity
- **These tailwinds are unlikely to provide similar support in the future**
- **Lower returns create many challenges for all investors that must be addressed over time**

Fed Funds Rate



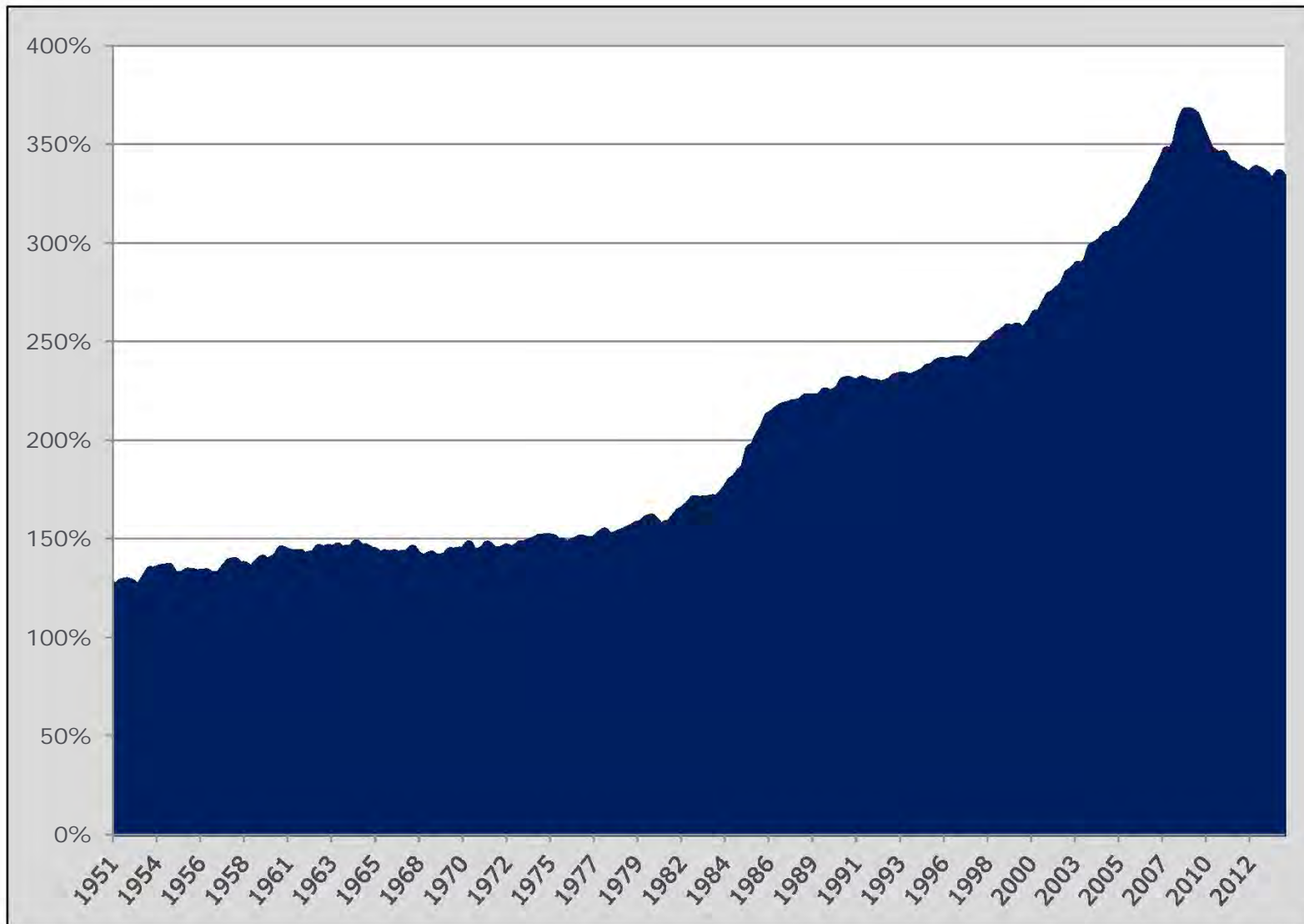
Source: Federal Reserve Bank of St. Louis, September 2014

10 Year Treasury Yield



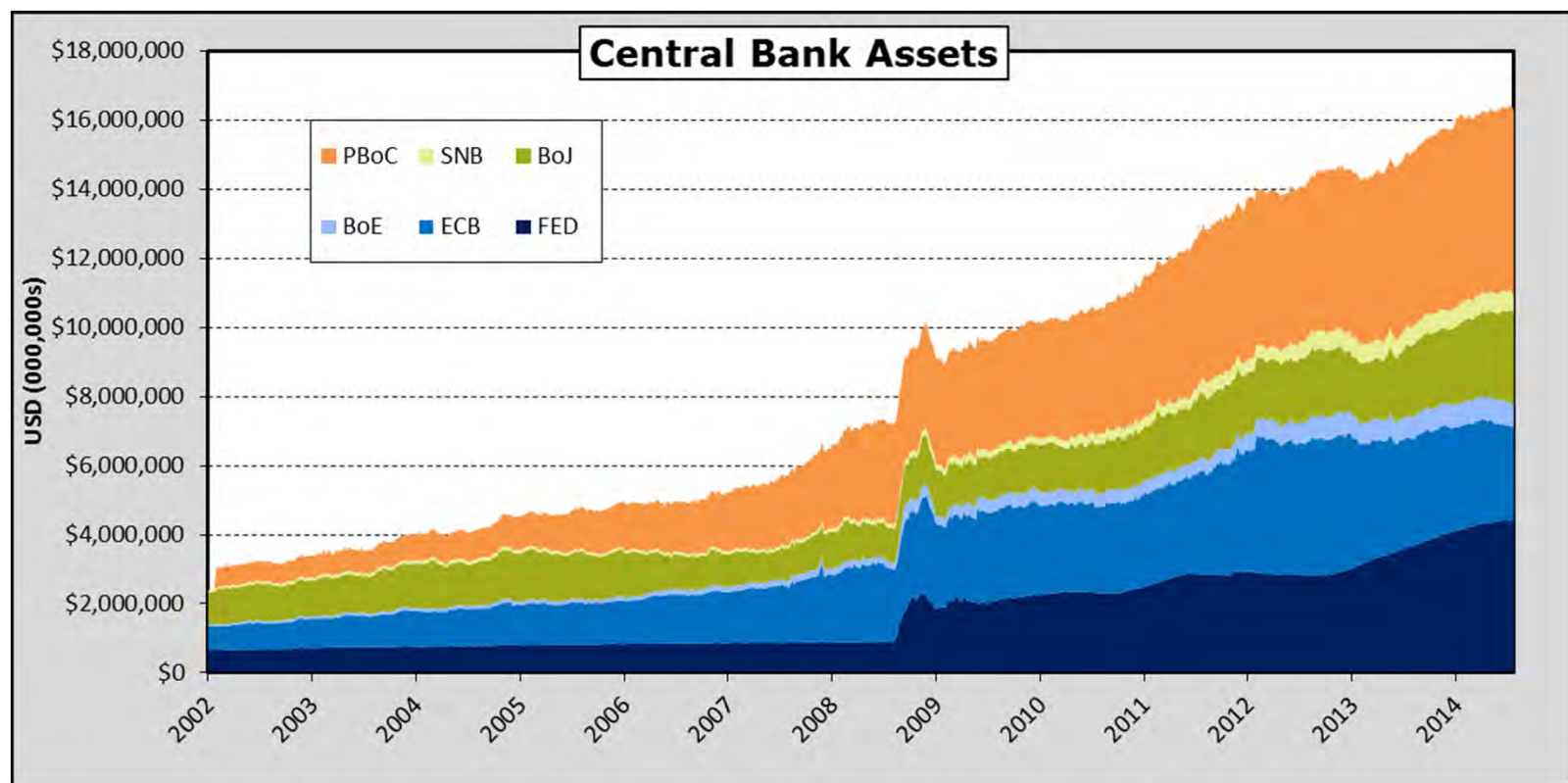
Source: Federal Reserve, Robert Shiller "Market Volatility", Sidney Homer "A History of Interest Rates"

All U.S. Credit (% of GDP)



Source: Federal Reserve Bank of St. Louis, August 2014

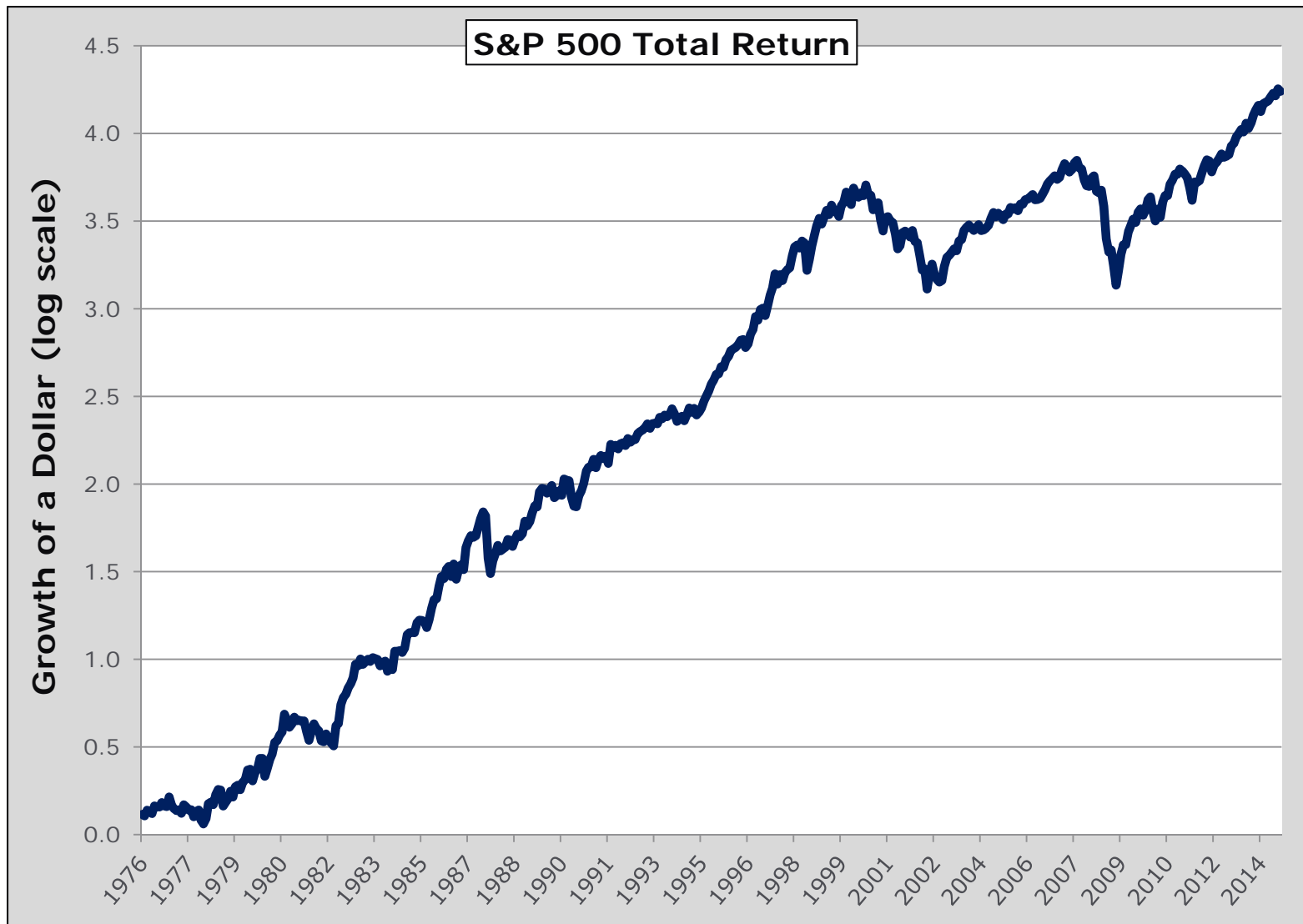
When Rates Hit Zero, Central Banks Still Stimulated Aggressively



Source: Bloomberg

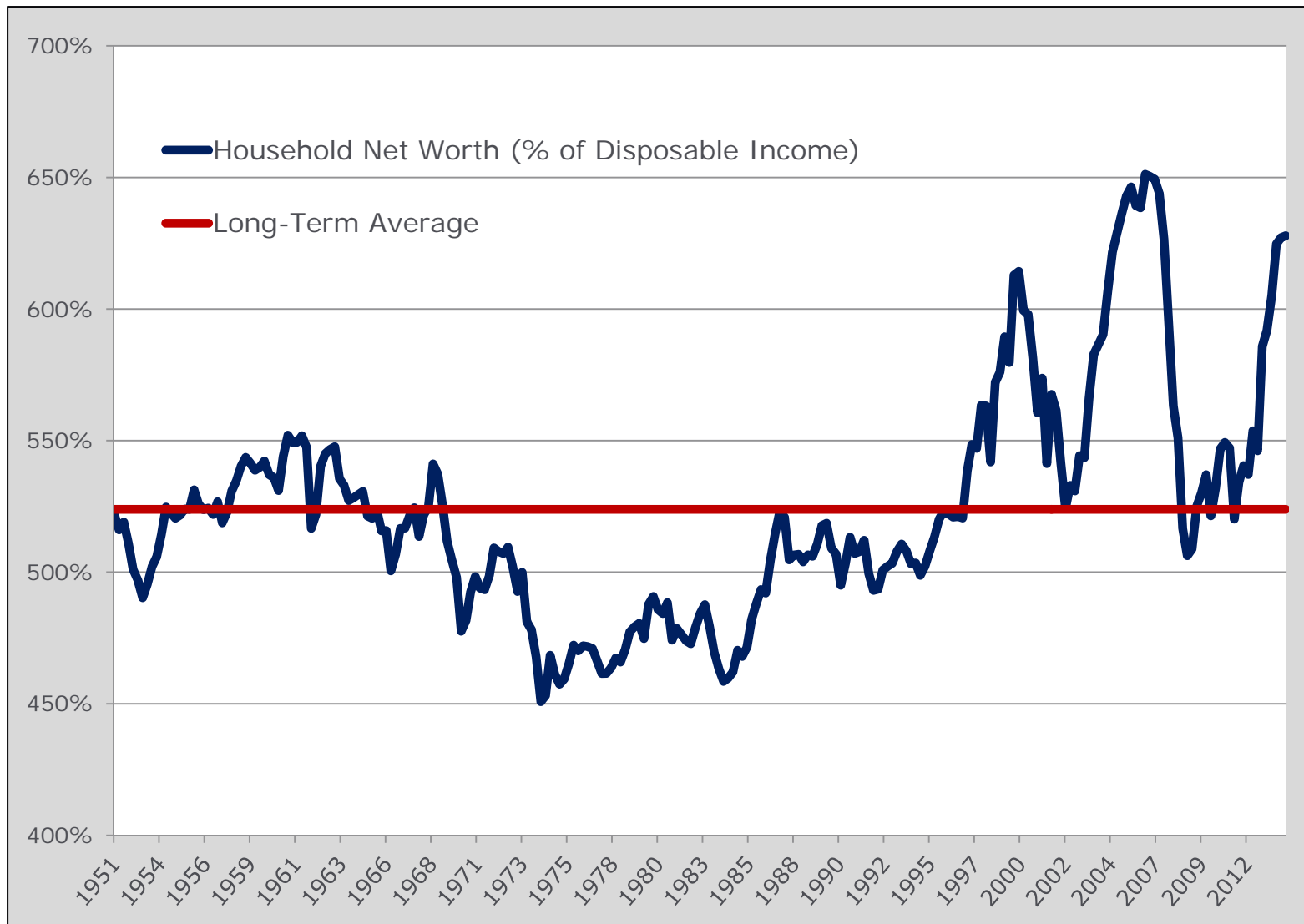
- Major central bank balance sheets have grown by a 5x factor since February 2002 (when PBoC data begins)
- Much of the increases come from the end of 2007 to the present, with very little inflation pressures
 - ECB and BoJ balance sheets are likely to continue their expansion in 2015

Equities Have Rebounded Strongly from 2009 Lows



Source: Bloomberg

Wealth Effect from Quantitative Easing Having Positive Impact...



Source: Federal Reserve Bank of St. Louis, August 2014

Outlook

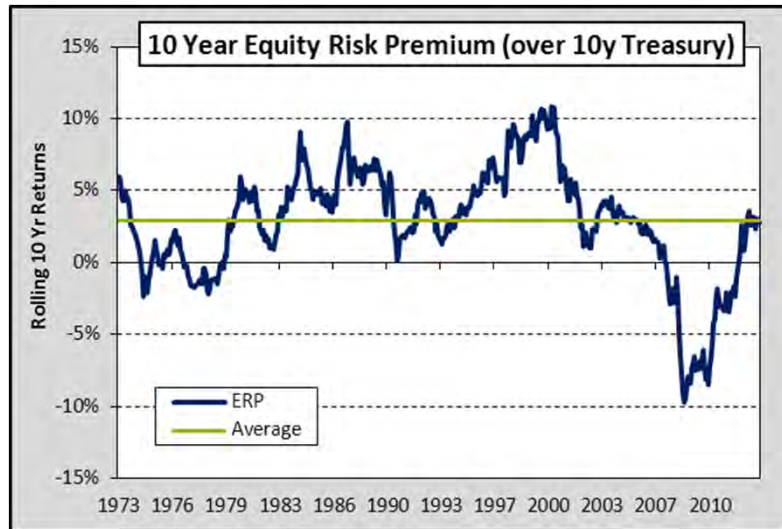


2014 NEPC Assumption Development – US Large Cap Equity

- **Sources of Return**

- Valuation
- Earnings growth
 - Adjusted for changes in margin
- Dividend yield
- Inflation

Return Source	Starting Value	Expected Forecast Values	Return Contribution
Real Earnings Growth	2.5%	2.5%	--
<i>Profit Margin Adjustment</i>		-1.0%	1.5%
Dividend Yield	2.0%	2.0%	2.0%
Inflation	3.0%	3.0%	3.0%
Valuation & Other*	16.3	16	-0.25%
		Total Expected Return	6.25%



Source: Ibbotson as of 11/30

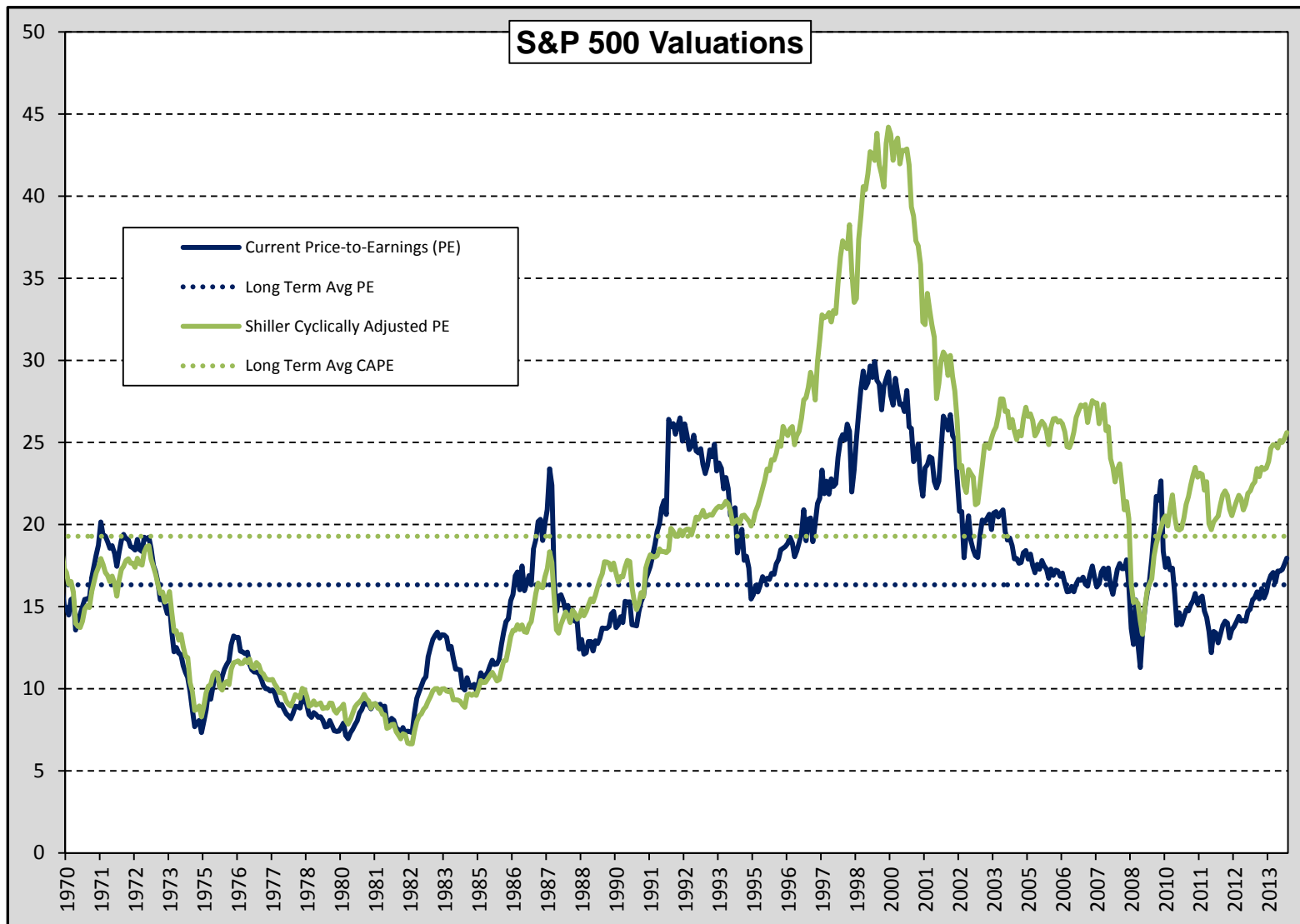
* - Valuation & Other incorporates adjustment for P-E ratios as well as other factors such as rounding, geometric compounding, etc.

- **Equity Risk Premium over 10 year Treasury is volatile**

- Long-term average of 2.9%
- Stock and bond forecasts imply an Equity Risk Premium of 4.25%
- While high relative to the long-term average, almost 40% of observations exceed this level over the last 50 years

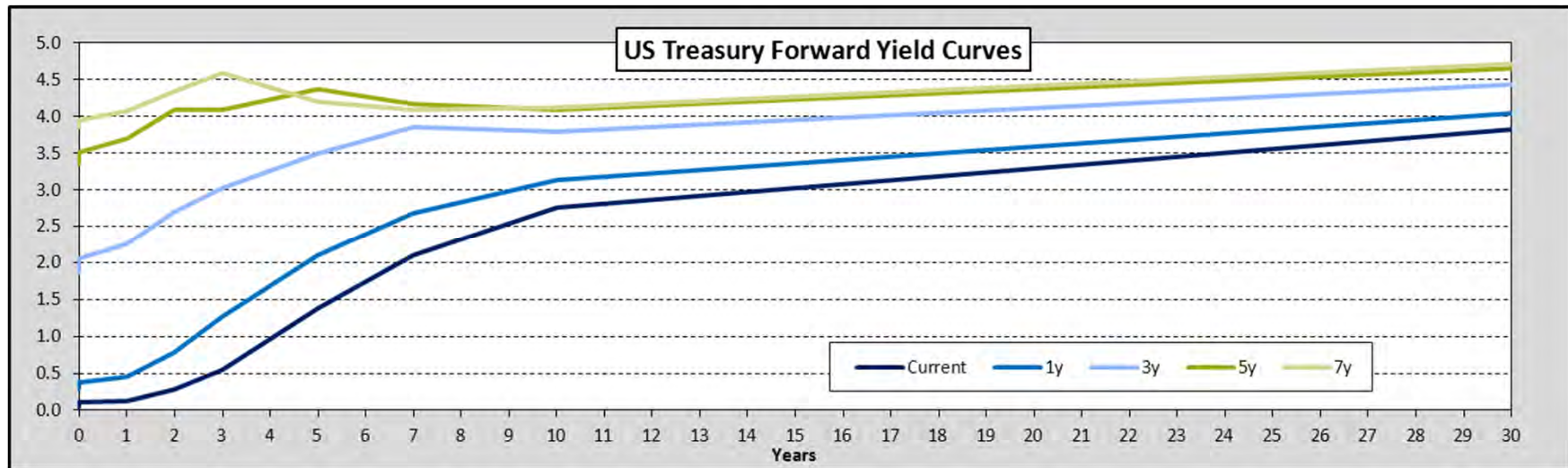
- **Downward adjustment reflects higher but still low interest rates supportive of an elevated equity risk premium**

Equity Valuations are Trending above Long-Term Averages

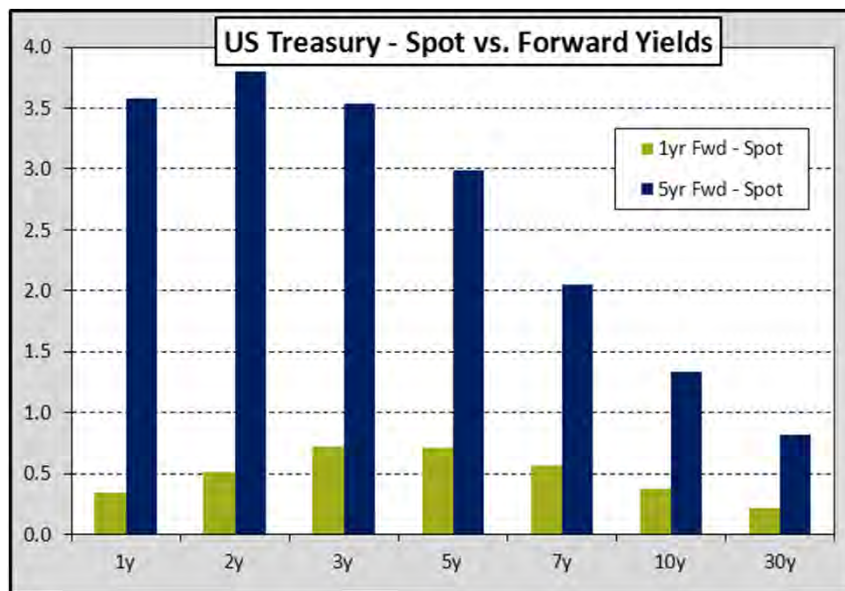


Source: Bloomberg, Long-term averages since 1954

2014 NEPC Assumption Development – US Spot and Forward Rates – Current



Source: Bloomberg as of 11/30

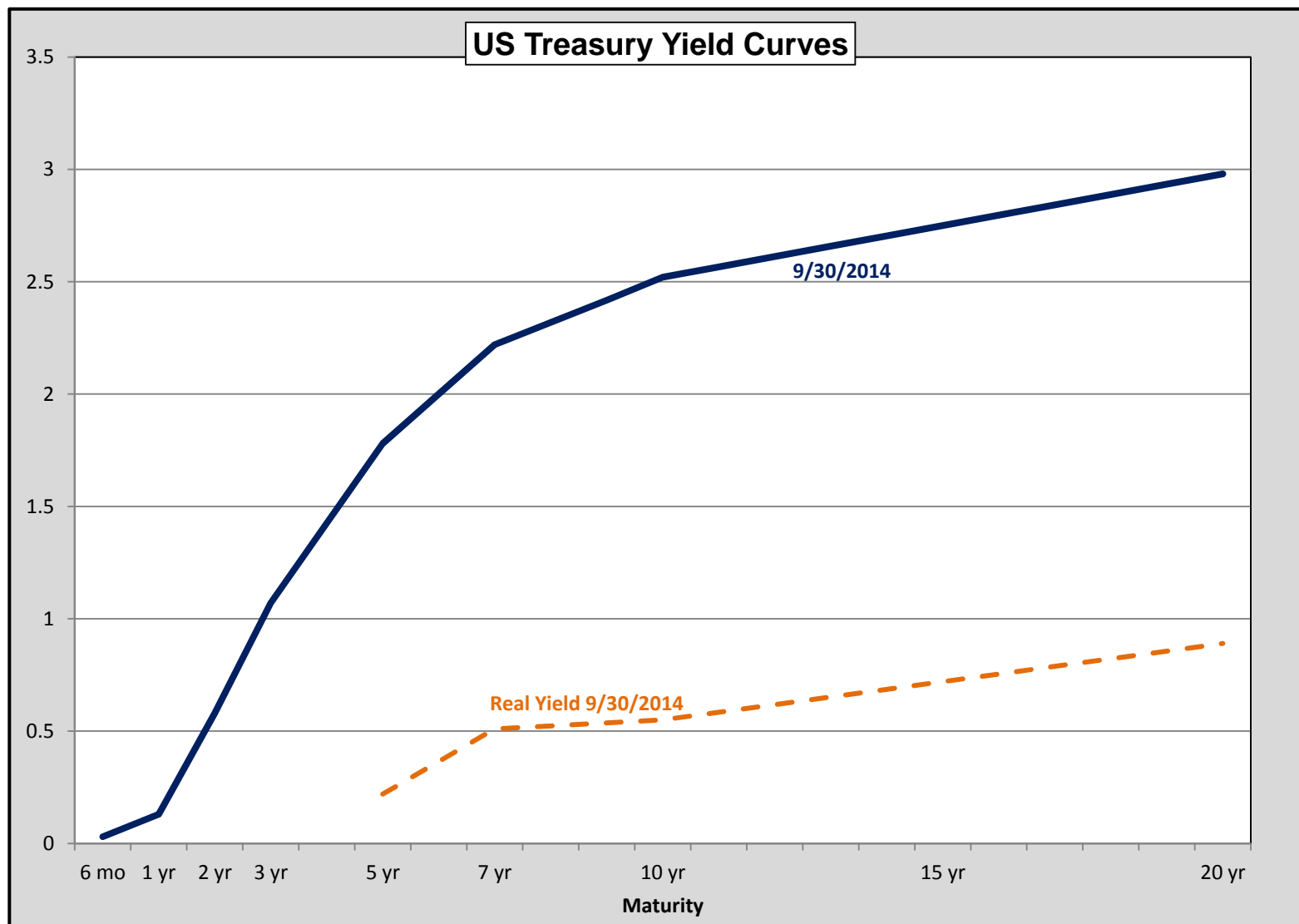


Source: Bloomberg as of 11/30

- **US Treasury expectations reflect higher spot and forward rates relative to prior year**
- **Yields in US Treasury market are expected to move higher based on forward curve**
 - Principal losses but higher reinvestment rates results in a return in line with current yields
- **Long-term history of rates show periods of very high realized volatility when rates rise unexpectedly**

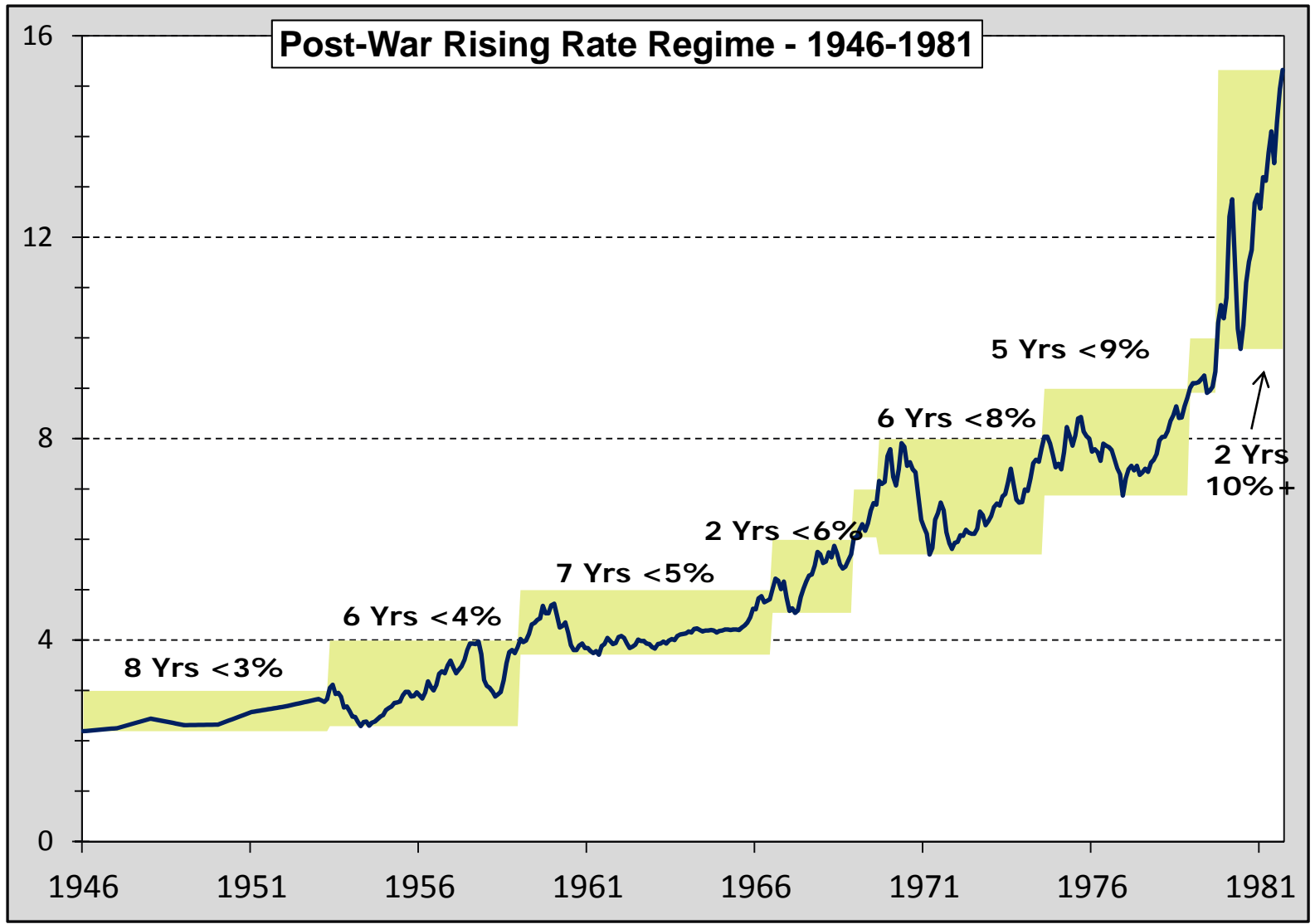


Current Yields Reflect Future Returns



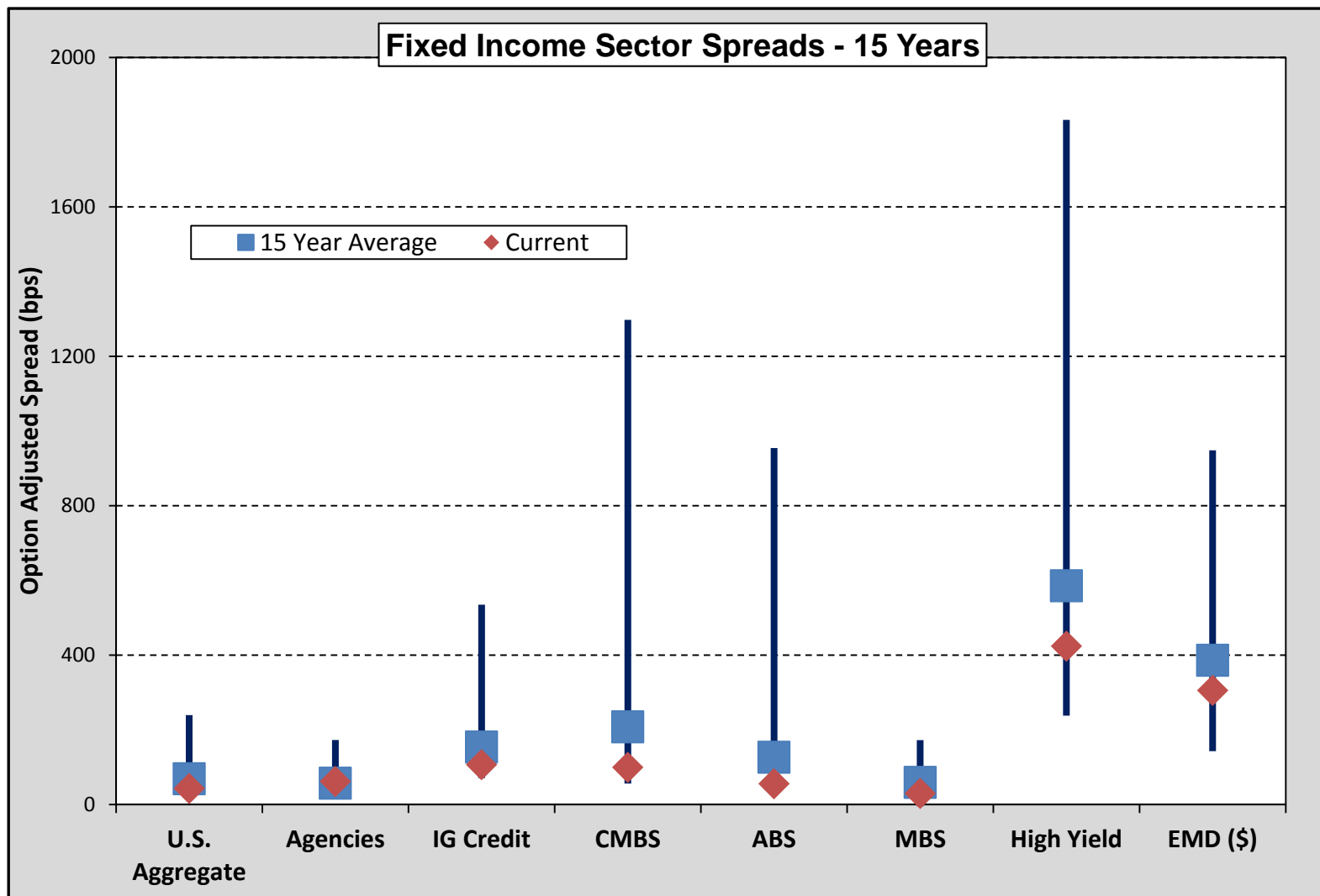
Source: Bloomberg

Economic Conditions Determine How Far Rates Can Increase – It Can Take A While!



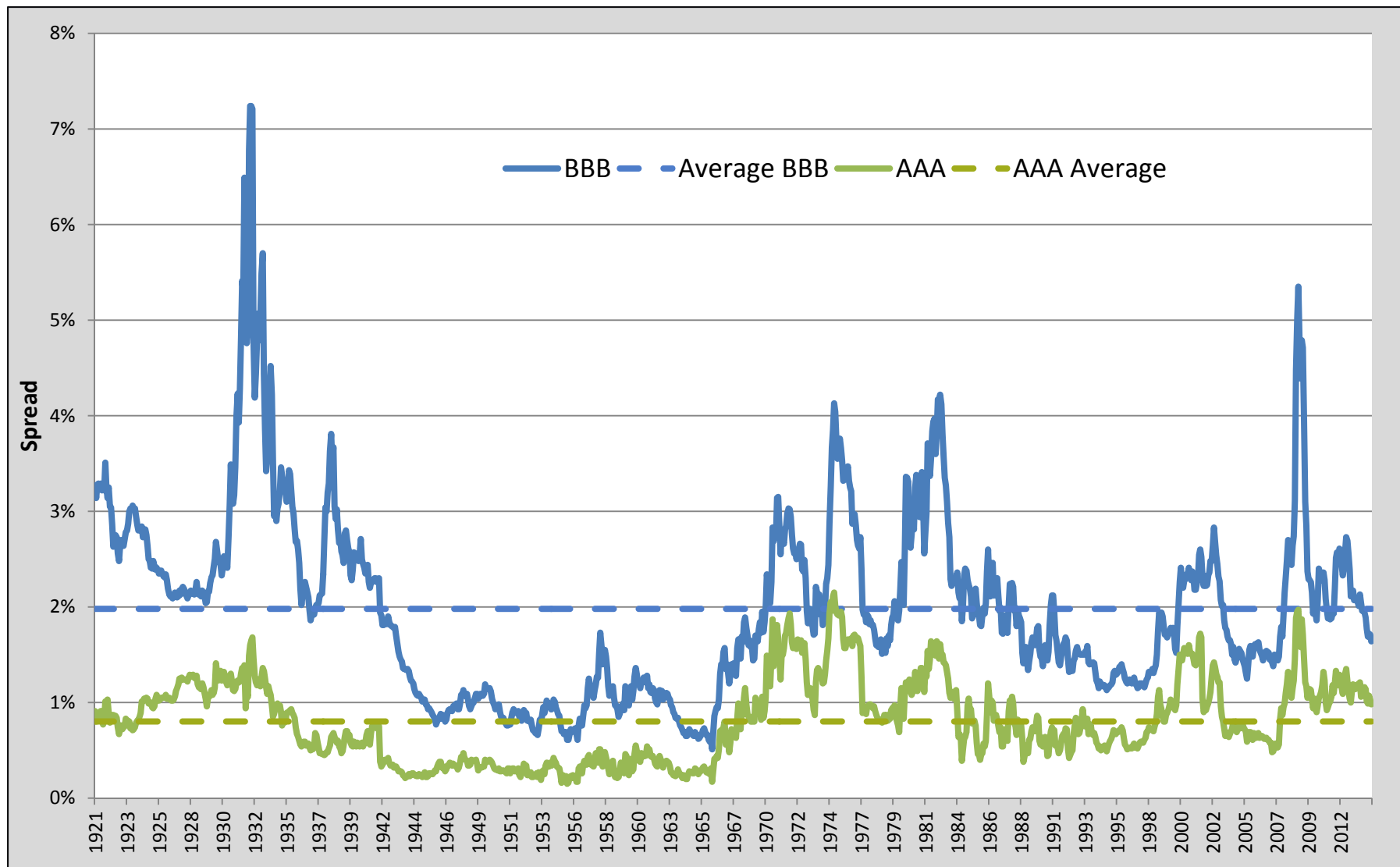
Source: St. Louis Fed

Fixed Income Sector Spreads Reflect Demand for Yield



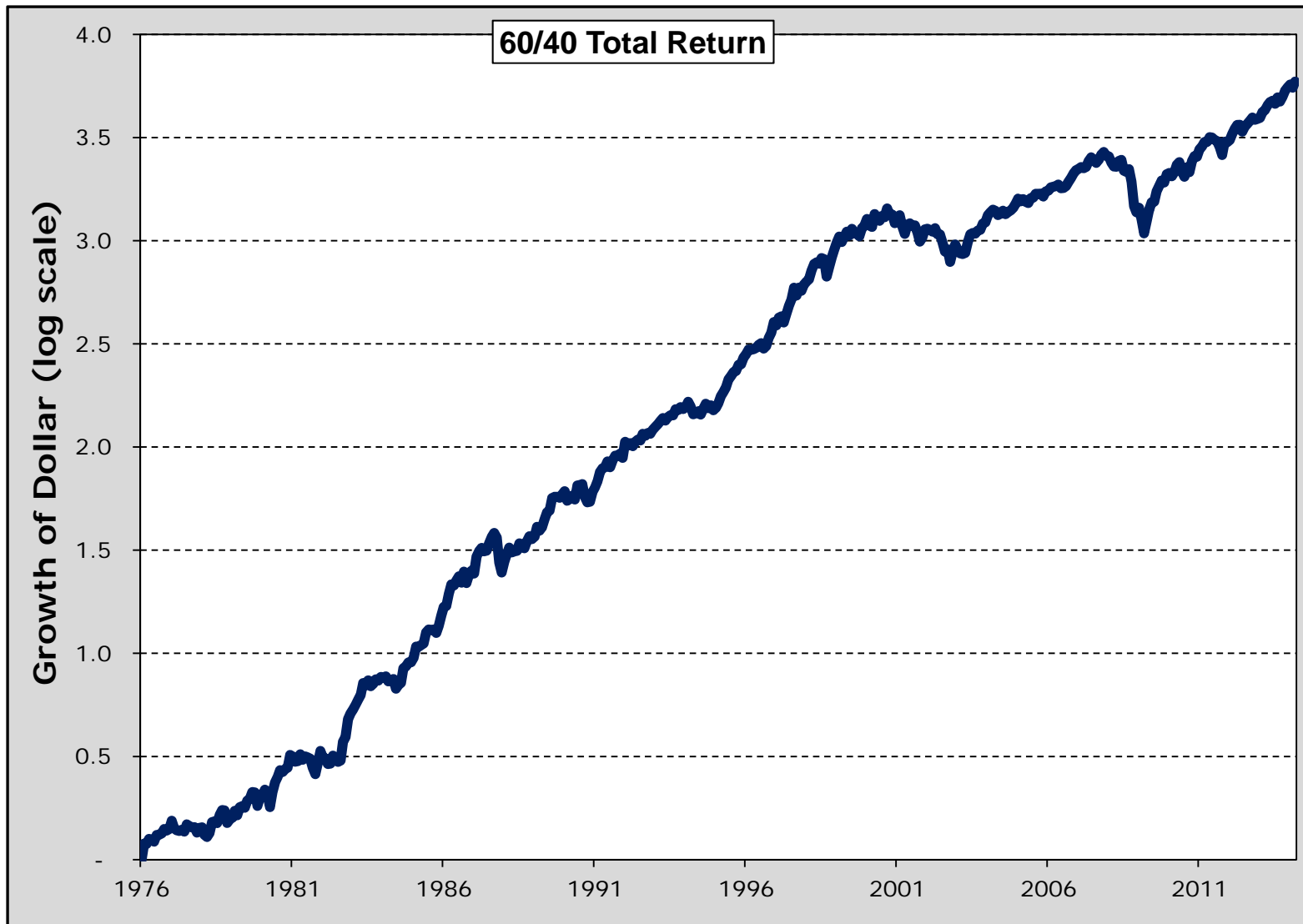
Source: Barclays, as of 9/30/2014

Credit Spreads can remain low for extended periods of time



Source: Moody's

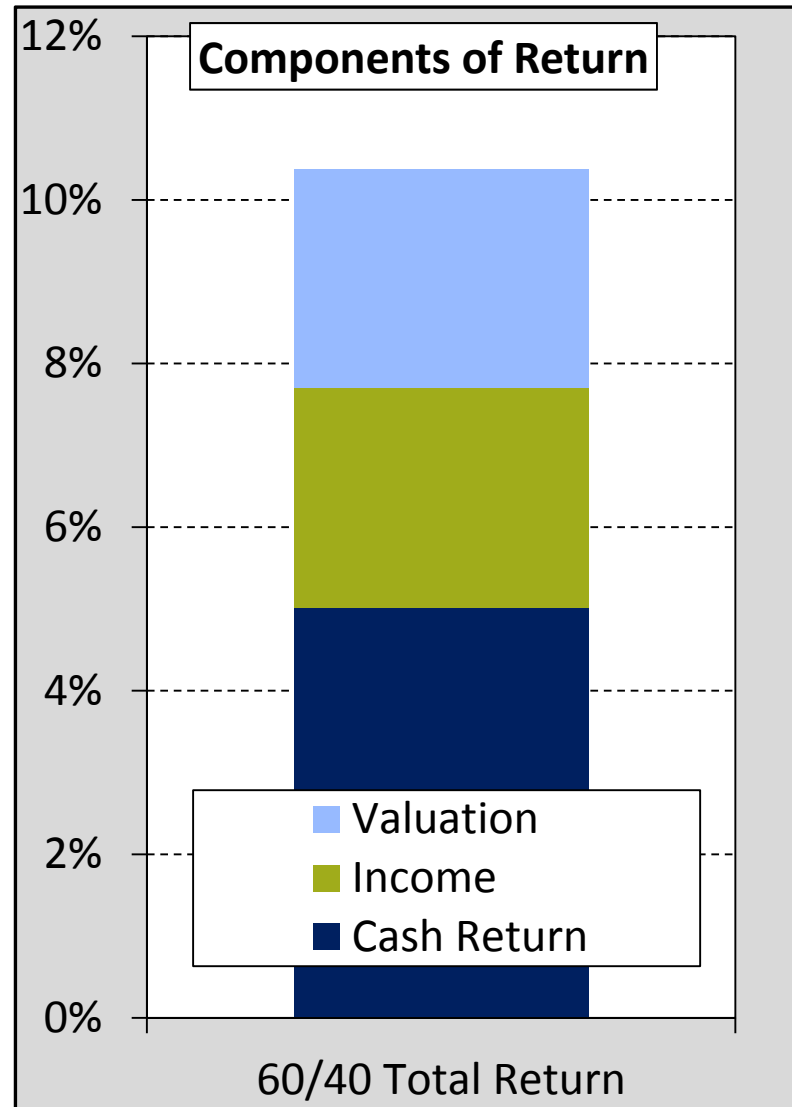
What Worked in the Past is Unlikely to Work in the Future



Sources: Bloomberg

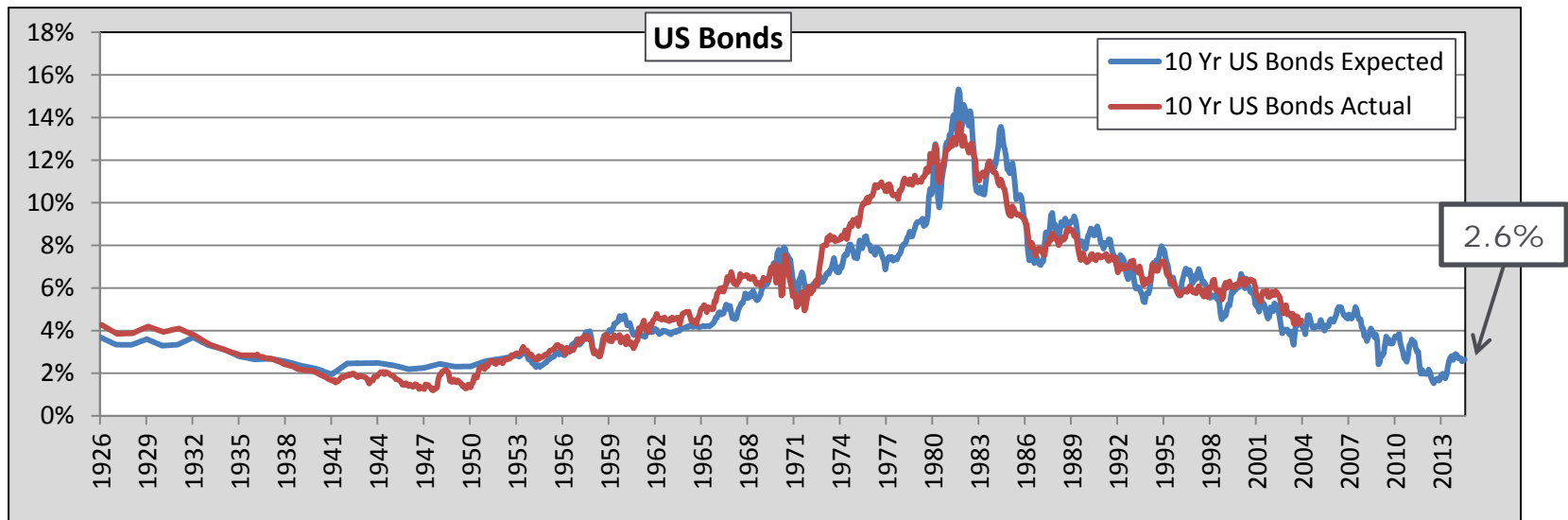
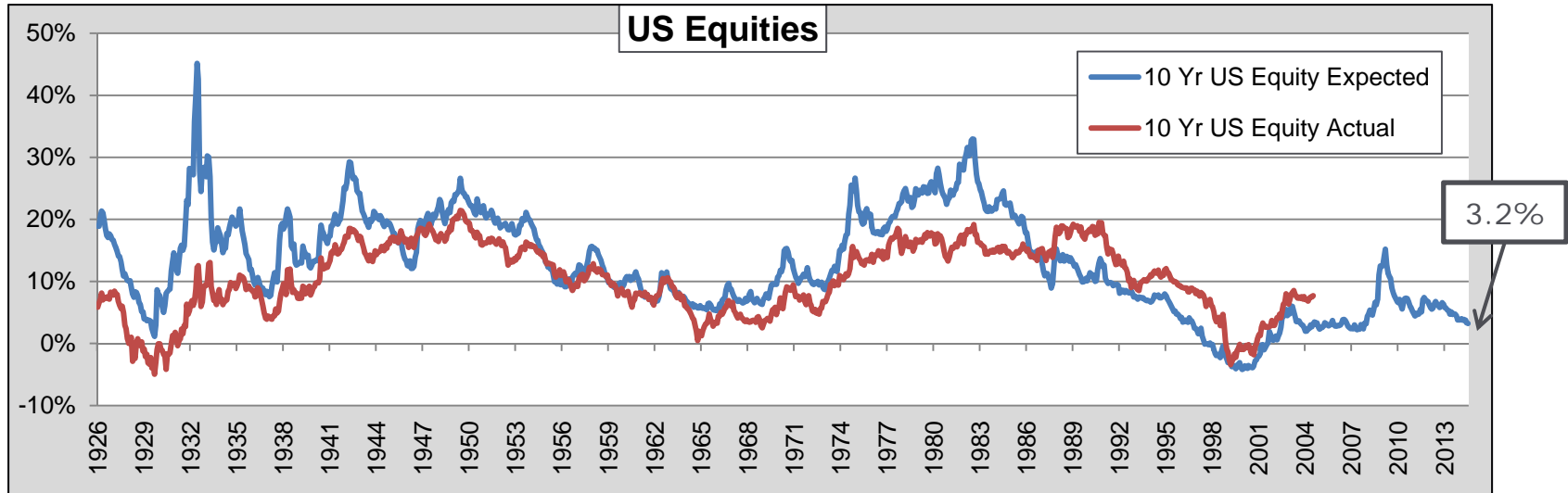
What Worked in the Past is Unlikely to Work in the Future

60/40 Portfolio (1976-2014)	
Return	10.4%
Volatility	9.8%
Sharpe Ratio	0.55



Sources: Bloomberg, Morningstar, NEPC

Yield and Valuation Drive Returns Over the Long Term



A Survey of Portfolio Approaches



- **Each plan sponsor's asset allocation is unique**
- **For simplicity, we can think of a few broad frameworks for investing**
 - Most plan sponsors can be easily identified as fitting into one of the buckets or some blend of the two
 - An additional framework not considered here is a bond-centric LDI approach
 - Heavily utilized by Corporate Defined Benefit plans
- **60/40**
 - Heavily invested in public equities and core bonds
 - Very liquid
 - Little or no alternatives exposure
 - US-centric in both stocks and bonds
- **Risk Parity**
 - Leverage at portfolio level to generate reasonable return
 - Balance risk across different asset classes
 - No alternatives, limited access to alpha
 - Global and liquid
- **VCERA**
 - Heavily invested in public equities
 - Strong participation in economic growth
 - Limited exposure to other economic environments (low growth, inflationary)
 - Modest allocation to an illiquidity premium

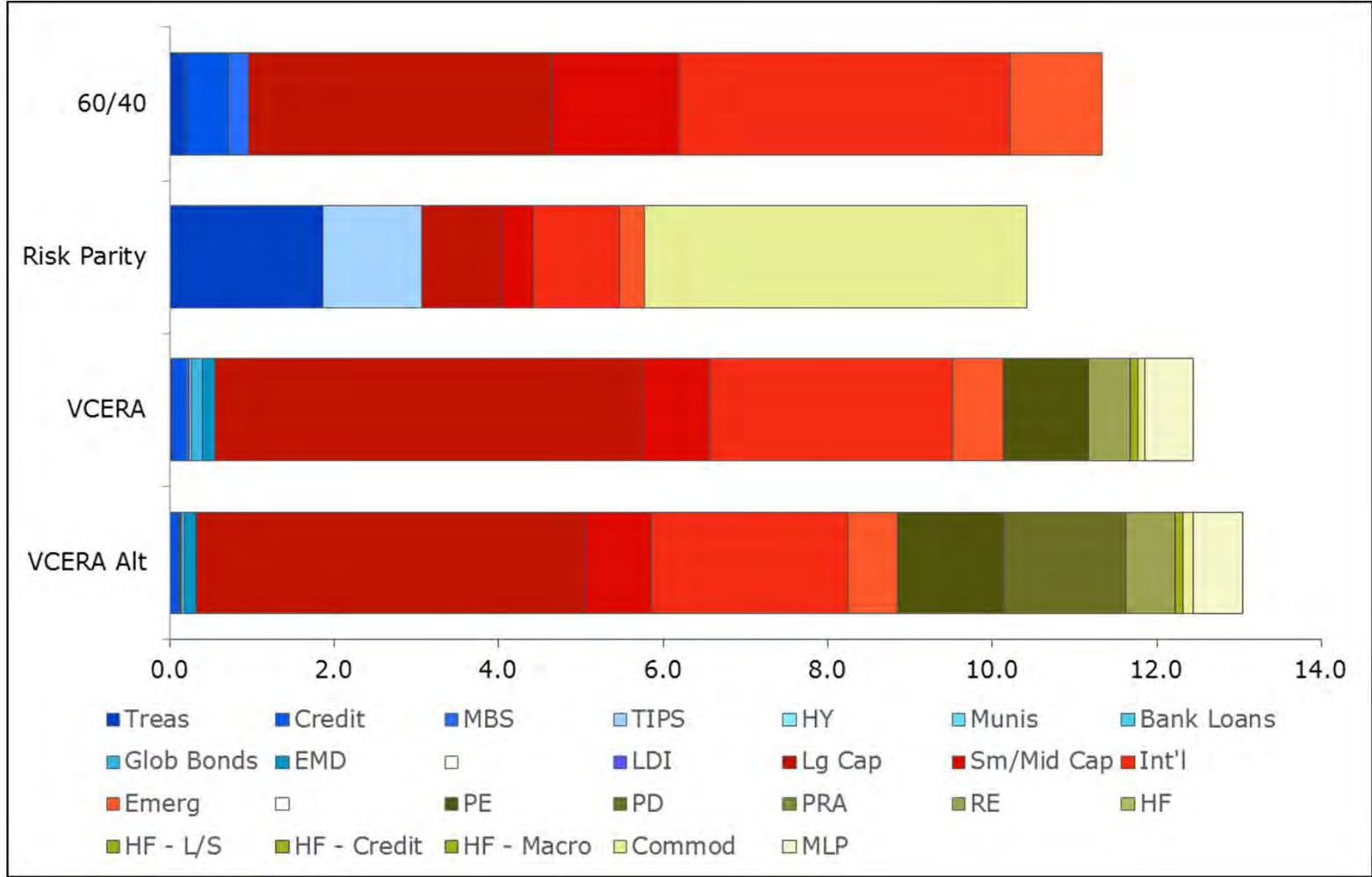
Comparison of Asset Allocations

	60/40	Risk Parity	VCERA	VCERA Alt.
Total Equity	60%	25%	54%	48%
Total Fixed Income	35%	85%	24%	18%
Total Alternatives	0%	0%	5%	16%
Total Multi-Asset	0%	0%	6%	4%
Total Real Assets	5%	34%	11%	14%

Cash/Leverage Financing	0%	-44%	0%	0%
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<i>Expected Return (5-7 Yr)</i>	<i>5.9%</i>	<i>5.2%</i>	<i>6.3%</i>	<i>6.8%</i>
<i>Expected Volatility</i>	<i>11.9%</i>	<i>10.0%</i>	<i>7.6%</i>	<i>7.9%</i>
<i>Sharpe Ratio</i>	<i>0.37</i>	<i>0.37</i>	<i>0.39</i>	<i>0.41</i>
<i>Expected Return (30 Yr)</i>			<i>7.6%</i>	<i>7.9%</i>

Comparison of Risk Allocations



Outcomes for Various Investment Approaches

- **Traditional approaches like 60/40 have worked historically but forward-looking returns prospects are muted**
- **With low yields, return expectations for all asset classes, and subsequently, all portfolios built up from asset classes, are lower**
- **All of these approaches can earn positive returns for investors over the long-term**
- **Variations occur for many reasons**
 - Concentration versus diversification/balance
 - Liquidity
 - Risk tolerance/volatility levels
 - Portfolio efficiency
 - Implementation (active vs. passive, tilts relative to market exposure within asset classes)
 - Luck

Managing Through This Environment



Successful Investing Traits To Navigate A Low Return Environment

- **Be forward-looking**
 - Be realistic about lower return prospects
 - Look for opportunities to be dynamic
- **Maintain vigilance and risk-awareness**
 - Define risk broadly
 - Risk balance
 - Diversification, discipline and rebalancing
 - Assess tail risks
- **Take smart risks**
 - Contrarian opportunities
 - Emerging markets
 - Europe

- **All investors face the same fundamental challenge**
 - Capital + Investment Earnings must equal to all total Obligations in the end
 - For Pensions, this is the classic equation:

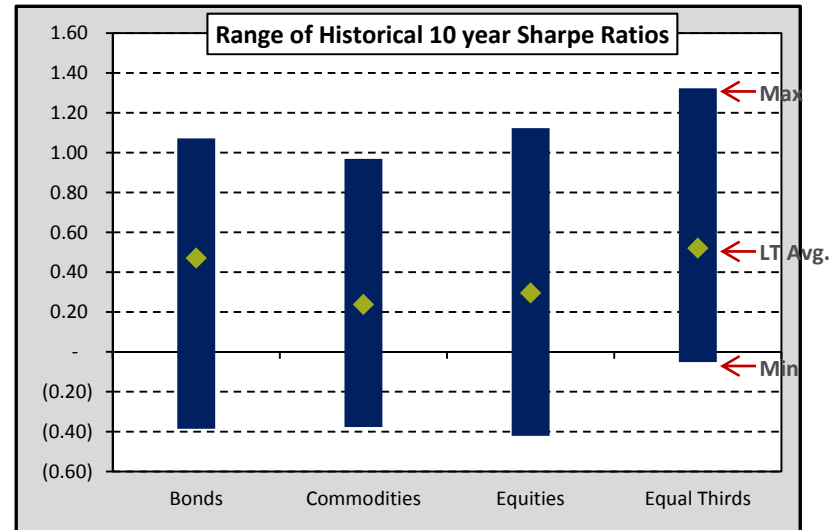
$$C + I = B + E$$

- **If Investment Return is lower than expected, adjustments are required to balance the equation**
 - Contributions must be higher
 - Benefits + expenses must be lower, or
 - More risk must be taken in an effort to earn a similar return
- **Adjusting investment return and risk is the most fluid of these three levers**
 - Staying unchanged and accepting lower returns puts more pressure on contributions and payouts
 - How does one increase risk efficiently while staying within an appropriate risk tolerance?

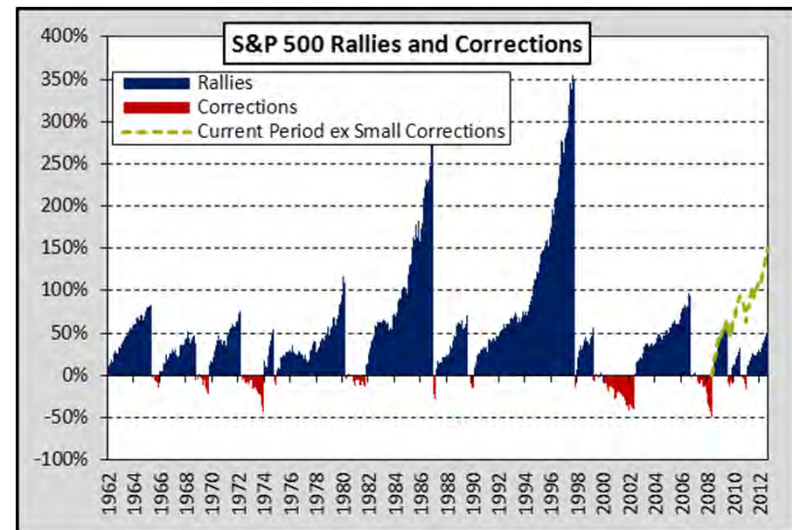
- **Portfolio construction tools available when assessing strategic allocations**
 - Mean-variance optimization
 - Risk Budgeting
 - Scenario Analysis
 - Liquidity Analysis
 - Factor Analysis
 - Active Risk Budgeting
- **Each of these approaches offers insight into the risk and return characteristics of current and potential allocations**
- **Each approach also has limitations**
- **Building a mosaic through the useful insights of each perspective produces a more robust and resilient long-term strategy**
- **Recognizing pluses/minuses of each approach creates a framework for regular scrutiny**
 - Can lead to further evolution and additional perspectives
 - Each model we utilize was built to address gaps of existing tools

Diversification Wins In The Long Run

- **Historically strong performance for one asset class does not signal the ruin of diversification**
 - In fact, periods following these runs are often when diversification is most rewarded
- **Discipline of diversification requires a long-term focus to withstand concentrated results**
 - Both good (US Equities in 2013)...
 - And bad (2008)
- **Over the long term, diversified portfolios will likely produce better risk-adjusted returns than concentrated ones**
- **Concentrated portfolios will correct after long bull runs**

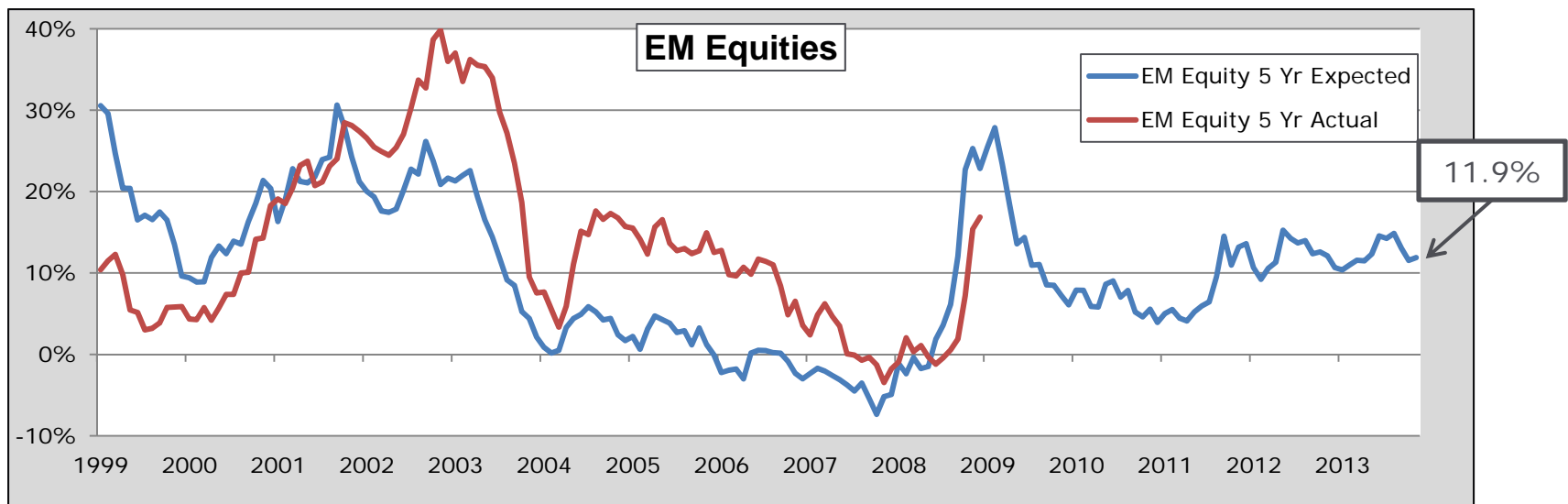
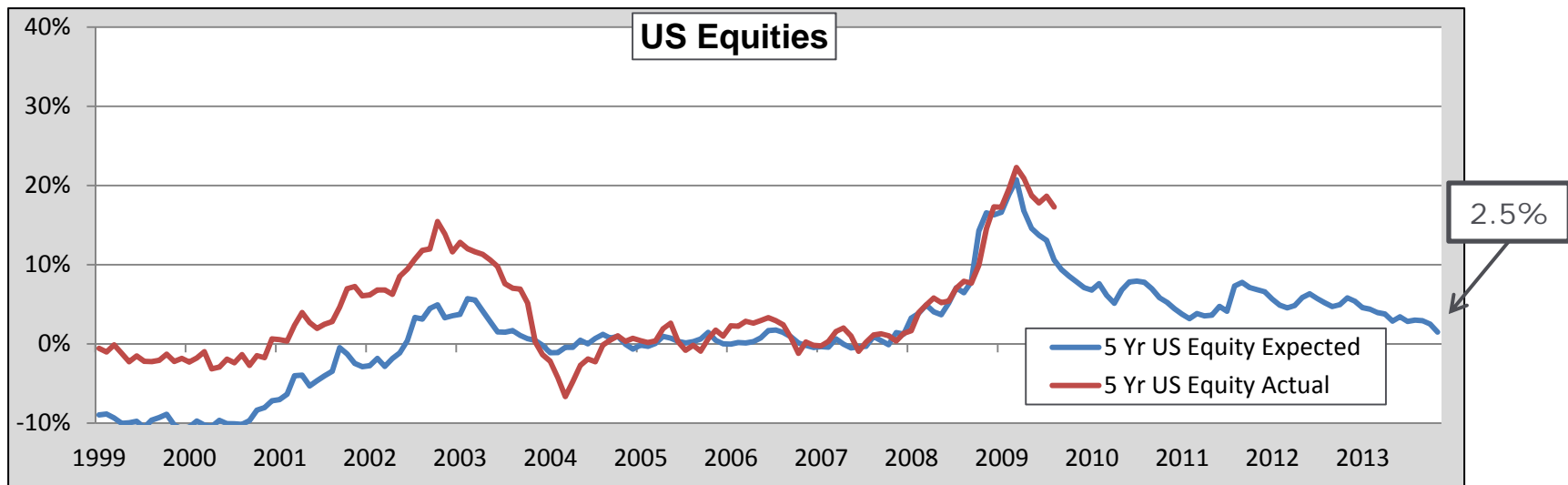


Source: Bloomberg, NEPC

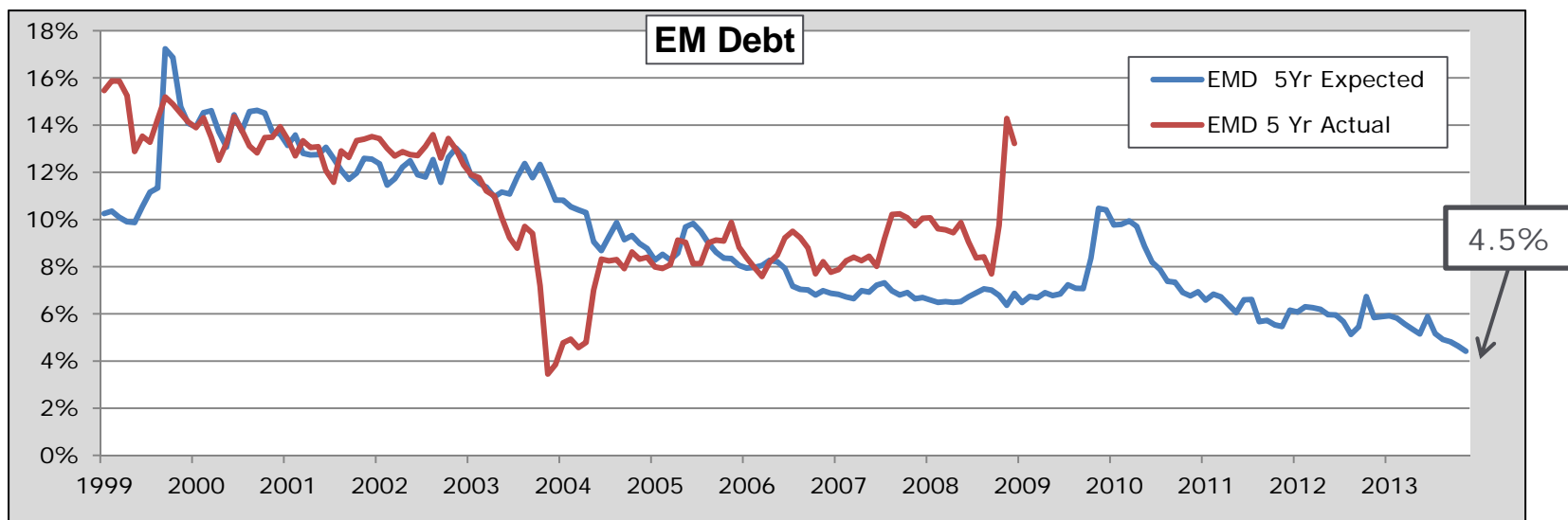
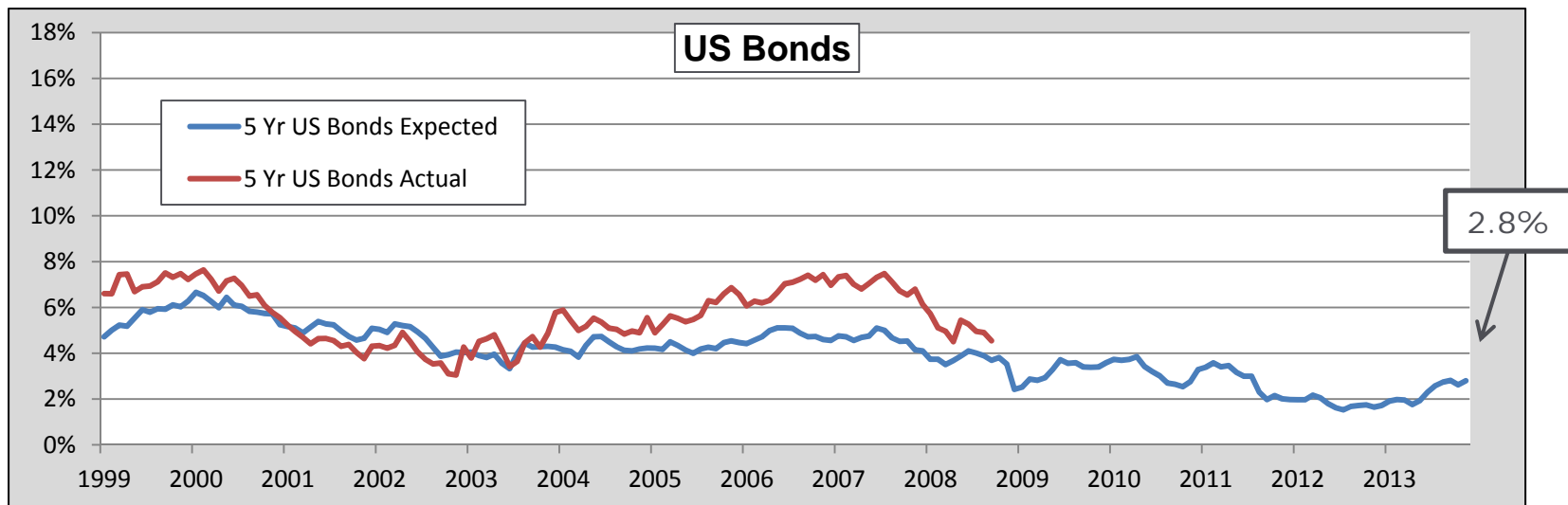


Source: Morningstar

Setting Five Year Expectations with Yield and Valuation – US vs. EM Equities



Setting Five Year Expectations with Yield – US vs. EM Debt



Opportunities



Multi-Asset Philosophy

- **Multi-Asset strategies are a core allocation providing risk balance for the portfolio**
 - Serves as a core liquid asset allocation approach
 - Provides meaningful allocations to risk exposures under-represented in traditional allocations
 - Mitigates exposure to one dominant risk factor and limits potential drawdown risk
- **Multi-Asset solutions consist of both Risk Parity and dynamic asset allocation strategies**
 - Allocation varies based on investor objective; seeks to combine risk balanced beta exposures and tactical alpha exposures
 - Risk Parity provides balanced risk allocation to asset classes with sensitivity to different market environments
 - Diversifying alpha strategies include both GAA and GTAA strategies
 - Looks to decouple overall portfolio return from equity risk and economic growth
- **A broad multi-asset solution differs significantly from traditional portfolio allocations (i.e. 60% stocks, 40% bonds)**
 - Moderates the outsized risk allocation to equities found in many investors portfolios
 - Provides sizable exposure to diversifying tactical alpha strategies
 - Higher allocations to inflation sensitive assets (e.g. TIPS, commodities)
 - Designed to provide a more consistent return profile across different market environments

Risk Parity is a Core Multi-Asset Solution

- **Risk Parity serves as a humble starting point with an agnostic view of the current attractiveness of global asset classes**
 - Designed to perform reasonably well in most economic environments, including rising inflation and stable-to-declining growth environments
- **Risk Parity is an efficient implementation tool to diversify portfolio risk allocations**
 - The approach relies on an understanding of risk contribution from each asset class
 - Provides a balanced risk allocation to asset classes with sensitivity to different market environments
 - Inflation (commodities, inflation-linked bonds)
 - Real Interest Rates (sovereign bonds, inflation-linked bonds)
 - Risky Assets (equities, credit)
- **Risk Parity strategies can maintain return expectations while providing diversified exposure to assets that perform well in adverse economic environments**
- **Not only about bonds – Risk Parity’s balanced exposure to diverse markets and factors enables better performance across different market environments**
 - Market pricing of rising interest rates offers cushion to nominal bond returns

Global Asset Allocation Strategies are a Diversifying Return Source

- **Risk Parity strategies are a foundation for a diversified allocation to dynamic asset allocation strategies**
 - Risk Parity provides core beta exposures in a capital efficient manner
 - Allows for greater percentage of assets to be devoted to tactical alpha strategies
 - Diversification benefits produce a more efficient portfolio, especially in highly volatile markets
 - Includes both liquid GAA/GTAA strategies
- **GAA strategies seek to provide an asymmetric return profile**
 - Designed to provide similar return expectations as a traditional portfolio but limit drawdowns and underperformance in adverse market environments
 - Depart from traditional benchmark constraints and express “best ideas” across a global opportunity set
 - Provide a more timely exploitation of market opportunities with both top-down asset class selection and security selection
- **GAA strategies add value by taking advantage of asset class mispricing and exploiting relationships across global markets**
 - Strategy returns are highly reliant upon manager’s skill and less constraints
 - Manager skill at its simplest is the ability to identify asset classes with high expected risk-adjusted returns
 - GAA Strategies have the freedom to quickly implement opportunistic trades

Global Asset Allocation Strategies are a Diversifying Return Source

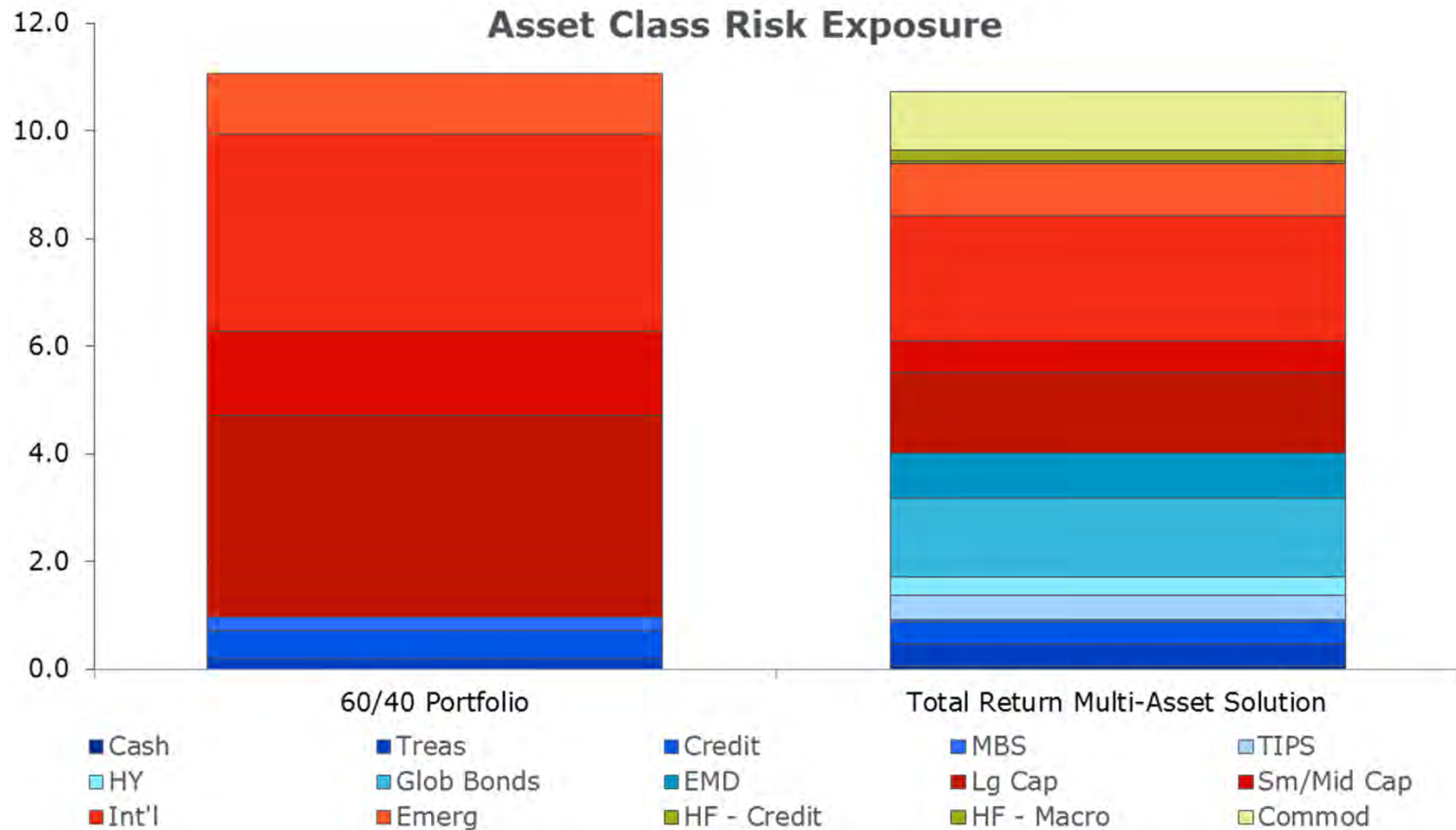
- **GAA Strategies can be designed around different benchmarks**
 - Traditional 60% global stocks/40% global bonds
 - Achieving an absolute/real return target (e.g., CPI + 5%)
 - Allocation to a team of GAA managers has less exposure to prolonged equity market drawdowns
- **Allocation to a GAA program provides the total portfolio with broader diversification**
 - Higher exposure to less risky and under-utilized asset classes
 - Less liquid markets or niche strategies
 - Under-exposed risks (inflation protection)
 - Under-valued asset classes
- **Not only about equities – GAA's exposure to diverse markets and factors enables better performance across different market environments**
 - Return expectations are subdued across risky asset classes. Tactical asset allocation strategies can be used to identify pockets of value and asset mispricing
 - Strategies have the ability to be opportunistic and rotate away from risky asset classes when risk premia are unattractive

NEPC has a Long History of Recommending Multi-Asset Strategies

- **NEPC continues to believe Multi-Asset Strategies are an important input to meet return expectations while diversifying equity risk**
 - NEPC has long supported a focus on risk based implementation to create a balanced mix of risk and factor exposures
 - Diversification still matters, most especially after a period of rising equity markets
- **Compressed return expectations across asset classes flow through to Multi-Asset strategies**
 - A tactical multi-asset approach is not a panacea, but an implementation tool to efficiently take market risk
 - Discipline of tactical based strategies allows for participation in rising markets, while maintaining a defensive position when markets correct
 - The decoupling of portfolio returns from equity risk and economic growth will differentiate returns from equity focused peers
- **Over the last 10 years NEPC has been at the forefront of the industry when discussing the benefits of a multi-asset investment program**
 - Think outside the “benchmark box” when constructing a portfolio
 - Implementation begins with a balanced mix of risk premiums paired with tactical asset allocation strategies
 - Dedicated internal resources focused exclusively on identifying and evaluating multi-asset strategies

"Total Return" Multi-Asset Solution

- **Diversified allocation of multiple multi-asset strategies with a volatility target similar to a "traditional" portfolio allocation**
 - Consists of Risk Parity strategies paired with unconstrained GAA strategies to provide a broad multi-asset solution
 - Provides exposure to multiple risk premia while mitigating equity drawdowns



NEPC Assessment

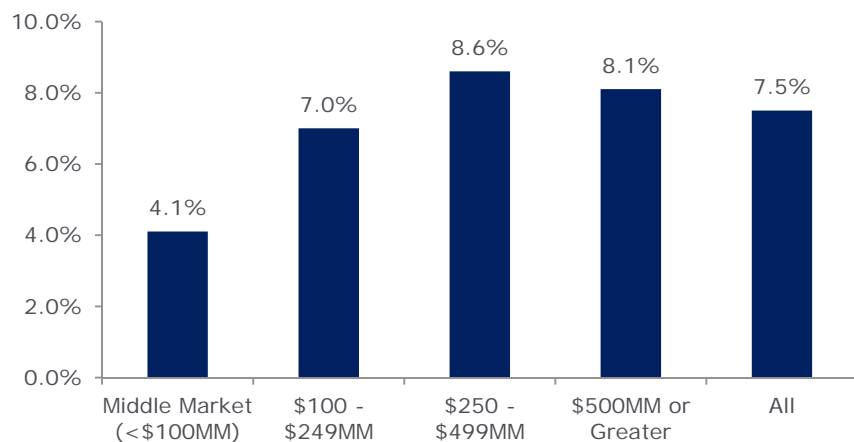
- **US Opportunity**
 - Middle market spreads remain attractive but average credit quality is starting to decline
 - Opportunities tougher to come by, but discerning managers are finding interesting deals
 - Expected returns: 7-8% net unlevered IRRs (10-12% with moderate leverage)
- **European Opportunity**
 - Less efficient market for non-bank lending makes for attractive investment landscape
 - CLO capital starting to lend again, but lending opportunity still quite large
 - Expected returns: 7-10% net unlevered IRRs (11-13% with moderate leverage)

U.S. Defaults and Recoveries: Middle Market versus Broadly Syndicated Loans

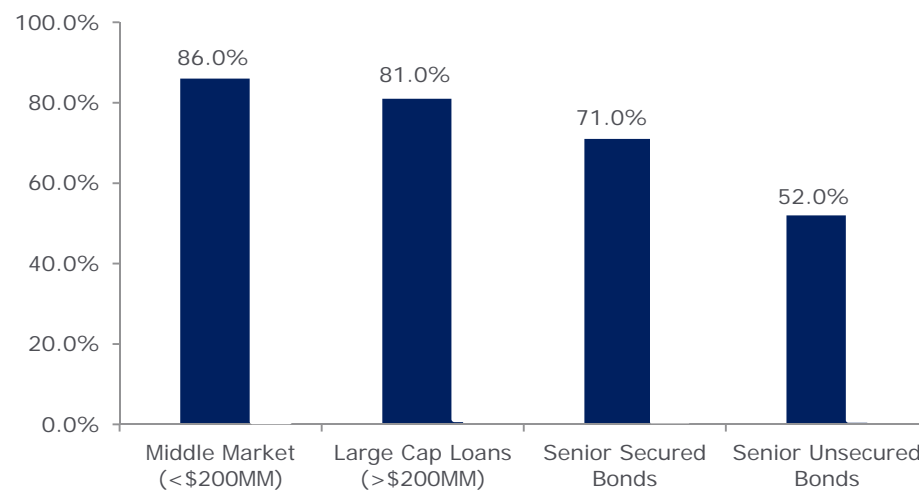
- **Private Debt Markets: Better Principal Protection**

- Lower-middle and middle market loans have historically demonstrated default rates that have been lower while recovery rates have been higher.

Senior Loan Default Rates by Loan Size¹



Recovery Rate by Loan Class²



Source: S&P LCD

1. Cumulative institutional loan default rates by deal size from 1995 to 2009.
2. Reflects ultimate recovery rates for period 1989 to 2009.



- **Fundamental supply/demand imbalance exists for European middle market leveraged loans**
- **Banks remain Europe's largest credit investors, but are under increasing regulatory pressure to shrink their balance sheets.**
- **CLOs, Europe's largest institutional source of credit, are reemerging**
- **Growing importance of non-bank arrangers (e.g., private debt funds, CLOs, etc.)**

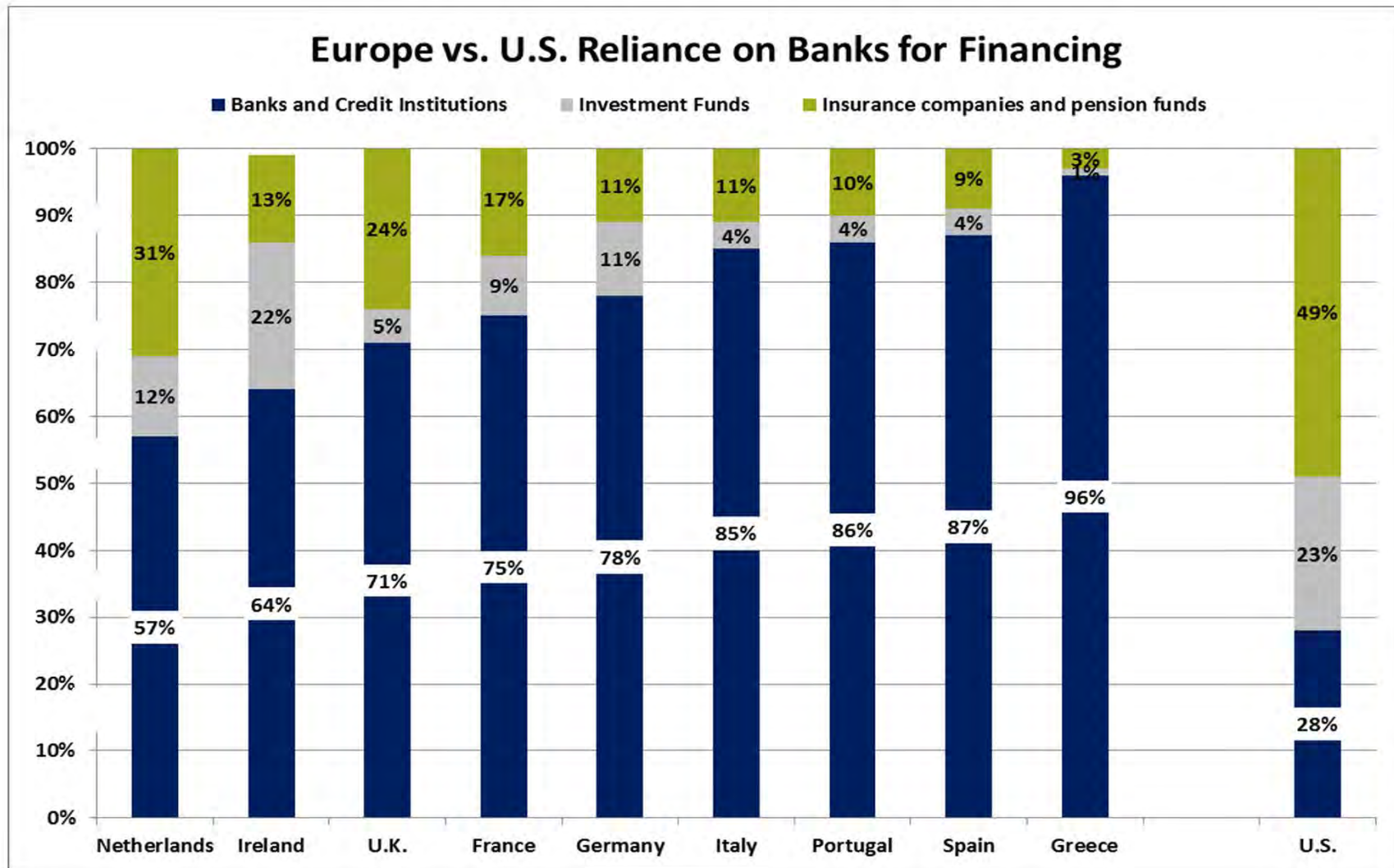
Source: NEPC, LLC.



NEPC, LLC

European Sources of Financing

- Europe has a less developed shadow banking system than the U.S.



Source: European House-Ambrosetti, WSJ.



NEPC, LLC

- **Building out a larger non-bank credit market in Europe will take time**
- **Lower debt multiples in European middle market loans relative to the U.S. middle market**
 - Total Debt/EBITDA averages 3.9x this year for European loans below \$350 million in size (source: S&P Capital IQ LCD)
- **European middle market is more inefficient than the U.S.**
 - Relationships more important to build trust for non-bank lenders
 - Not homogenous
 - Middle market pricing data less available
- **In the process of evaluating new managers**

Source: S&P Capital IQ LCD

- **Similar to the US real estate market, the European real estate market weakened after the Global Financial Crisis (“GFC”)**
- **However, unlike in the US, the subsequent recovery in the European real estate market was muted due to a number of factors such as ongoing macroeconomic instability and a slower distress workout process**
- **Despite this volatility, the European real estate market has shown signs recently of recovery, although this has been uneven**
 - Similar to the US, real estate investors have pursued a flight to quality (i.e. core/stabilized trophy assets in gateway cities)
 - Global markets like London and Paris have seen an influx of capital
 - Values in these markets have returned to pre-crisis levels and yields on stabilized trophy assets have compressed significantly
- **Non-core/secondary locations and assets have been slow to rebound**
 - Spreads between prime and secondary property yields remain high
 - Assets with operating/capital structure distress are less able to refinance loans
 - Opportunity to reposition distressed assets and sell into demand for core
 - Focus on experienced managers who can source distressed assets from banks and other non-economic sellers and provide required asset management improvements
 - Avoid strategies that rely on any meaningful economic growth

- **Look ahead, not in the rearview mirror**
 - Face reality and understand implications of lower returns
- **With returns likely to be muted, the margin for error is thin – holistic risk management is critical**
- **Taking risks efficiently can potentially improve returns and long-term outcomes**
 - Seek opportunities
 - Preserve dry powder when opportunities are limited

Appendix



NEPC 2014 Assumptions

5-7 Year Returns			
Asset Class	2013	2014	Change
Cash	0.75%	1.50%	0.75%
Treasuries	1.00%	2.00%	1.00%
IG Corp Credit	3.00%	3.50%	0.50%
MBS	2.50%	2.25%	-0.25%
<i>Core Bonds*</i>	<i>2.04%</i>	<i>2.53%</i>	<i>0.49%</i>
TIPS	1.50%	2.50%	1.00%
High-Yield Bonds	5.00%	4.50%	-0.50%
Bank Loans	5.00%	5.00%	
Global Bonds (Unhedged)	0.75%	1.25%	0.50%
Global Bonds (Hedged)	0.93%	1.38%	0.45%
EMD External	4.00%	5.00%	1.00%
EMD Local Currency	5.00%	5.75%	0.75%
Large Cap Equities	6.75%	6.25%	-0.50%
Small/Mid Cap Equities	7.00%	6.25%	-0.75%
Int'l Equities (Unhedged)	7.75%	7.25%	-0.50%
Int'l Equities (Hedged)	8.00%	7.50%	-0.50%
Emerging Int'l Equities	9.75%	9.50%	-0.25%
Private Equity	9.00%	8.75%	-0.25%
Private Debt	8.50%	8.00%	-0.50%
Private Real Assets	8.00%	7.75%	-0.25%
Real Estate (Core)	6.00%	6.25%	0.25%
Commodities	5.00%	5.00%	
Hedge Funds	n/a	5.50%	

30 Year Returns			
Asset Class	2013	2014	Change
Cash	3.00%	3.75%	0.75%
Treasuries	3.00%	4.00%	1.00%
Credit	4.25%	5.25%	1.00%
MBS	4.50%	4.25%	-0.25%
<i>Core Bonds*</i>	<i>3.84%</i>	<i>4.46%</i>	<i>0.62%</i>
TIPS	3.25%	4.50%	1.25%
High-Yield Bonds	5.25%	6.00%	0.75%
Bank Loans	5.50%	6.25%	0.75%
Global Bonds (Unhedged)	2.50%	3.00%	0.50%
Global Bonds (Hedged)	2.67%	3.13%	0.46%
EMD External	6.00%	7.00%	1.00%
EMD Local Currency	6.25%	7.25%	1.00%
Large Cap Equities	8.00%	7.75%	-0.25%
Small/Mid Cap Equities	8.25%	8.00%	-0.25%
Int'l Equities (Unhedged)	8.25%	8.25%	
Int'l Equities (Hedged)	8.50%	8.48%	-0.02%
Emerging Int'l Equities	9.50%	9.50%	
Private Equity	10.00%	9.75%	-0.25%
Private Debt	8.00%	8.25%	0.25%
Private Real Assets	8.00%	7.75%	-0.25%
Real Estate (Core)	6.00%	6.50%	0.50%
Commodities	5.50%	6.00%	0.50%
Hedge Funds	n/a	7.00%	

Return assumptions are geometric.

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and MBS).

Volatility			
Asset Class	2013	2014	Change
Cash	1.00%	1.00%	
Treasuries	6.00%	6.00%	
IG Corp Credit	7.50%	7.50%	
MBS	7.00%	7.00%	
Core Bonds*	6.31%	6.32%	0.01%
TIPS	7.50%	7.50%	
High-Yield Bonds	13.00%	13.00%	
Bank Loans	6.50%	8.00%	1.50%
Global Bonds (Unhedged)	9.00%	8.50%	-0.50%
Global Bonds (Hedged)	5.00%	5.00%	
EMD External	12.00%	12.00%	
EMD Local Currency	14.00%	15.00%	1.00%
Large Cap Equities	18.00%	17.50%	-0.50%
Small/Mid Cap Equities	21.00%	21.00%	
Int'l Equities (Unhedged)	21.00%	20.50%	-0.50%
Int'l Equities (Hedged)	19.00%	18.50%	-0.50%
Emerging Int'l Equities	26.00%	26.00%	
Private Equity	27.00%	27.00%	
Private Debt	19.00%	19.00%	
Private Real Assets	24.00%	23.00%	-1.00%
Real Estate (Core)	17.00%	17.00%	
Commodities	18.00%	18.00%	
Hedge Funds	n/a	9.00%	

Volatility defined as standard deviation of investment returns.

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and MBS).

NEPC 2014 Assumptions

Correlations

Asset Class	Cash	Treasuries	IG Corp Credit	MBS	TIPS	High-Yield Bonds	Global Bonds (Unhedged)	Global Bonds (Hedged)	EMD (External)	EMD (Local Currency)	Large Cap Equities	Small/Mid Cap Equities	Int'l Equities (Unhedged)	Int'l Equities (Hedged)	Emerging Int'l Equities	Private Equity	Private Debt	Private Real Assets	Real Estate (Core)	Commodities	Hedge Funds	
Cash	1.00																					
Treasuries	0.20	1.00																				
IG Corp Credit	0.10	0.75	1.00																			
MBS	0.25	0.90	0.80	1.00																		
TIPS	0.00	0.75	0.60	0.70	1.00																	
High-Yield Bonds	-0.05	0.30	0.55	0.30	0.20	1.00																
Global Bonds (Unhedged)	0.10	0.50	0.50	0.45	0.40	0.10	1.00															
Global Bonds (Hedged)	0.10	0.80	0.65	0.70	0.65	0.20	0.60	1.00														
EMD (External)	0.05	0.40	0.65	0.35	0.30	0.65	0.25	0.35	1.00													
EMD (Local Currency)	0.05	0.30	0.60	0.25	0.25	0.60	0.30	0.25	0.80	1.00												
Large Cap Equities	0.05	0.05	0.55	0.15	0.00	0.70	0.10	0.05	0.60	0.65	1.00											
Small/Mid Cap Equities	-0.05	-0.05	0.35	0.05	-0.10	0.70	0.00	-0.05	0.55	0.60	0.90	1.00										
Int'l Equities (Unhedged)	-0.10	0.00	0.30	0.05	-0.05	0.50	0.40	0.25	0.60	0.65	0.70	0.60	1.00									
Int'l Equities (Hedged)	-0.10	0.00	0.30	0.05	-0.05	0.50	0.30	0.40	0.60	0.65	0.75	0.65	0.90	1.00								
Emerging Int'l Equities	-0.10	-0.10	0.25	-0.10	-0.10	0.55	0.05	0.05	0.75	0.80	0.60	0.65	0.70	0.70	1.00							
Private Equity	-0.10	-0.05	0.20	0.00	-0.10	0.60	-0.10	-0.10	0.35	0.40	0.70	0.80	0.60	0.65	0.45	1.00						
Private Debt	0.00	-0.25	0.15	-0.15	-0.10	0.65	-0.10	-0.10	0.55	0.60	0.65	0.75	0.60	0.60	0.65	0.65	1.00					
Private Real Assets	0.15	-0.20	0.05	-0.15	0.00	0.40	-0.05	-0.05	0.40	0.40	0.55	0.60	0.50	0.50	0.50	0.65	0.60	1.00				
Real Estate (Core)	0.25	-0.05	0.05	-0.05	0.00	0.10	0.00	-0.05	0.10	0.10	0.35	0.25	0.30	0.30	0.15	0.35	0.25	0.40	1.00			
Commodities	0.10	-0.10	0.10	-0.10	0.30	0.20	0.10	0.10	0.35	0.45	0.30	0.30	0.35	0.35	0.40	0.25	0.30	0.45	0.30	1.00		
Hedge Funds	0.00	-0.20	0.35	-0.15	0.20	0.60	0.05	-0.30	0.55	0.60	0.60	0.65	0.70	0.65	0.70	0.75	0.80	0.65	0.25	0.50	1.00	

Portfolio Rebalancing and Role of an Investment Officer

Amit Thanki, CAIA
SBCERA, Investment Officer

Agenda

1. SBCERA Overview
2. Portfolio Performance and Risk History
3. SBCERA's Informed Rebalancing Results
4. Key's to Success
5. SBCERA's Informed Rebalancing Program



SBCERA Overview

SBCERA Overview

- San Bernardino County Employees' Retirement Association (SBCERA) is a \$8.06 billion public pension fund (*as of 6/30/2014*)
- 79.3% funded (*as of 6/30/2013*)
- 33,495 members
- Governed by a nine member Board (two alternates)
- Investment Staff: 4
- Investment Consultant: NEPC

SBCERA Asset Allocation History

Asset Class	2002	2003	2005	2007	2008	2009	2010	2012	2013	2014
Domestic Equity	43%	33%	32%	29%	20%	10%	11%	13%	13%	13%
International Equity	18%	13%	13%	14%	11%	7%	7%	8%	9%	9%
Emerging Market Equity		3%	3%	4%	4%	3%	4%	5%	6%	6%
Total Equity	61%	49%	48%	47%	35%	20%	22%	26%	28%	28%
Domestic Fixed Income	28%	17%	14%	10%	8%	8%	6%	3%	2%	2%
International Core/Credit	5%	5%	5%	3%	8%	9%	10%	10%	11%	12%
Domestic Credit		8%	8%	4%	8%	13%	13%	14%	13%	13%
Emerging Market Debt		2%	2%	4%	4%	4%	6%	6%	6%	6%
Cash					2%	2%	2%	2%	2%	2%
Total Debt	33%	32%	29%	21%	30%	36%	37%	35%	34%	35%
Real Estate	6%	8%	8%	8%	8%	10%	9%	9%	9%	9%
Timber			2%	4%	3%	3%	3.5%	3%	3%	2%
Infrastructure & Energy				2%	2%	2%	2%	1%	1%	1%
Commodities				2%	3%	3%	3.5%	3%	2%	2%
Total Real Assets	6%	8%	10%	16%	16%	18%	18%	16%	15%	14%
Absolute Return		5%	7%	7%	7%	10%	7%	7%	7%	7%
Private Equity		6%	6%	9%	12%	16%	16%	16%	16%	16%
Total Alternative Assets		11%	13%	16%	19%	26%	23%	23%	23%	23%

Portfolio Performance and Risk History

SBCERA – Informed Rebalancing Results

- The informed rebalancing program has resulted in an annualized total fund gain \$71 million or 1.22%.
- Cumulative performance since inception in August 2006 is 10.49%.

Time Period (08/2006 – 09/2014)	Gain/Loss (in USD)	Portfolio Return	Perfect Implementation ¹
September 2014	-12,794,949.16	-0.16%	-0.37%
Year-to-Date	72,715,777.05	0.55%	0.24%
3 rd Quarter 2014	-3,622,077.81	-0.05%	-0.18%
Two Years	383,137,027.48	2.77%	2.80%
Three Years	544,358,147.13	2.77%	2.84%
Annualized Since Inception	71,080,384.55	1.22%	1.11%
Cumulative Since Inception	585,780,264.98	10.89%	9.56%

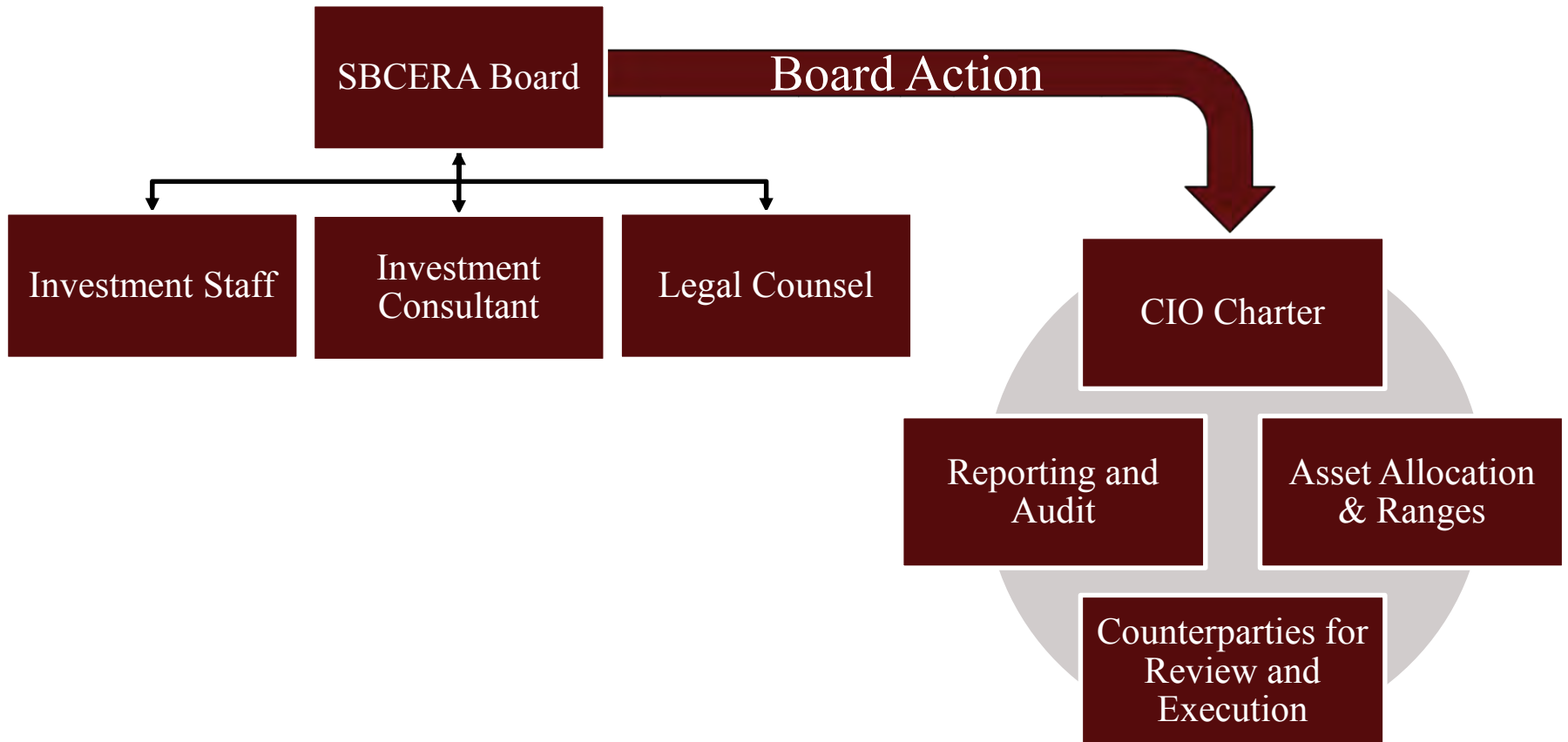
¹ Perfect Implementation assumes all trades at the close, no transaction costs, and returns equal to physical benchmark.

Keys to Success

Five Key Ingredients

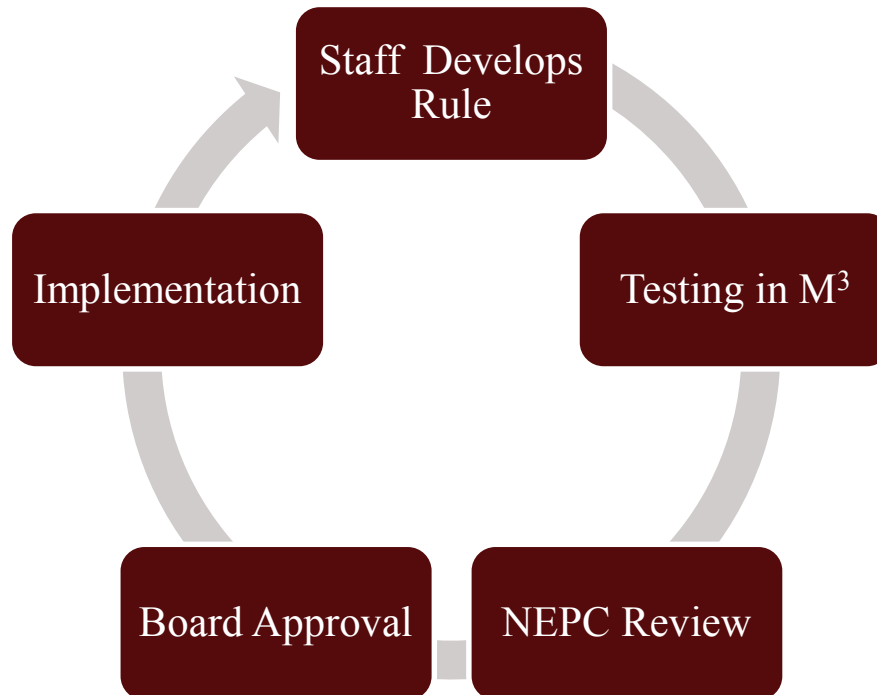
- Governance – Structuring of the investment policy to allow proper implementation of a rebalancing program is key.
- Investment Team – Rebalancing programs can be simple or complex, it is critical to have investment professionals at the helm.
- Infrastructure – Rebalancing program rules, asset allocation structure, implementation process, reporting, and oversight are all equally important to the success of the program.
- Patience – The objective is to generate uncorrelated returns over time leading to better risk adjusted performance.
- Luck!

Governance

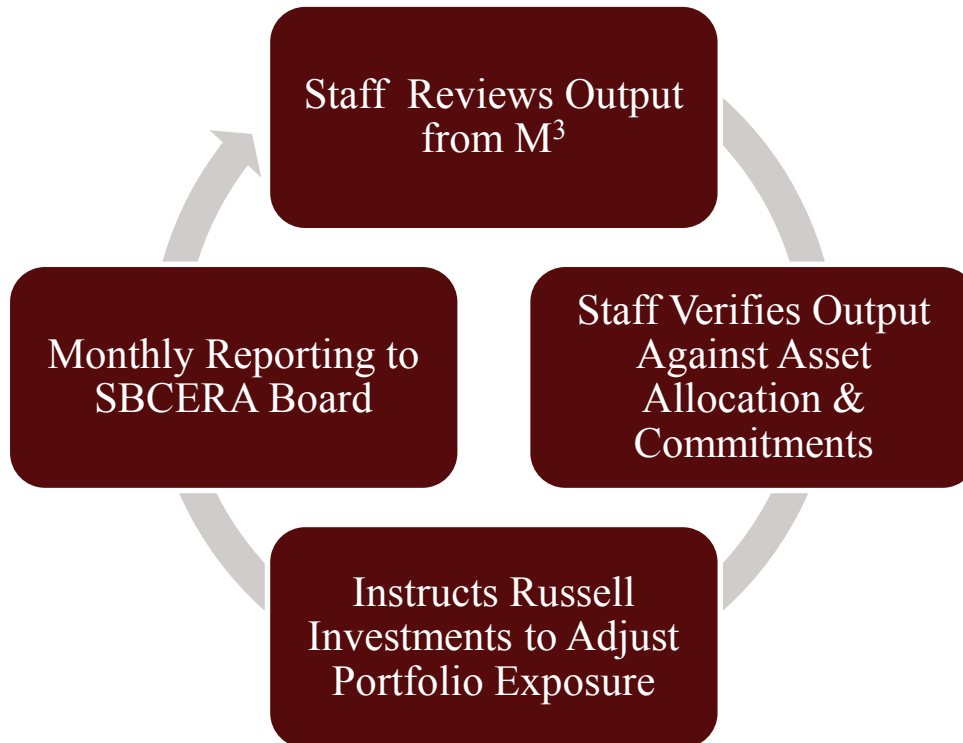


Investment Team

- All rules implemented in the rebalancing program are thoroughly vetted by investment staff, Alpha Engine (M³), and NEPC followed by Board Approval prior to implementation.



Infrastructure





SBCERA's Informed Rebalancing Program

Rationale For Informed Rebalancing...

- We wanted to ensure that we built the flexibility to explicitly manage the asset allocation, sub-allocations, and periodic cash flows.
- Managing beta in an informed manner could produce meaningful alpha, at a very low cost, in a transparent manner.
- Our previous range based rebalancing method was implicitly making active decisions. Informed Rebalancing made active rebalancing decisions explicit.

The Approval Process

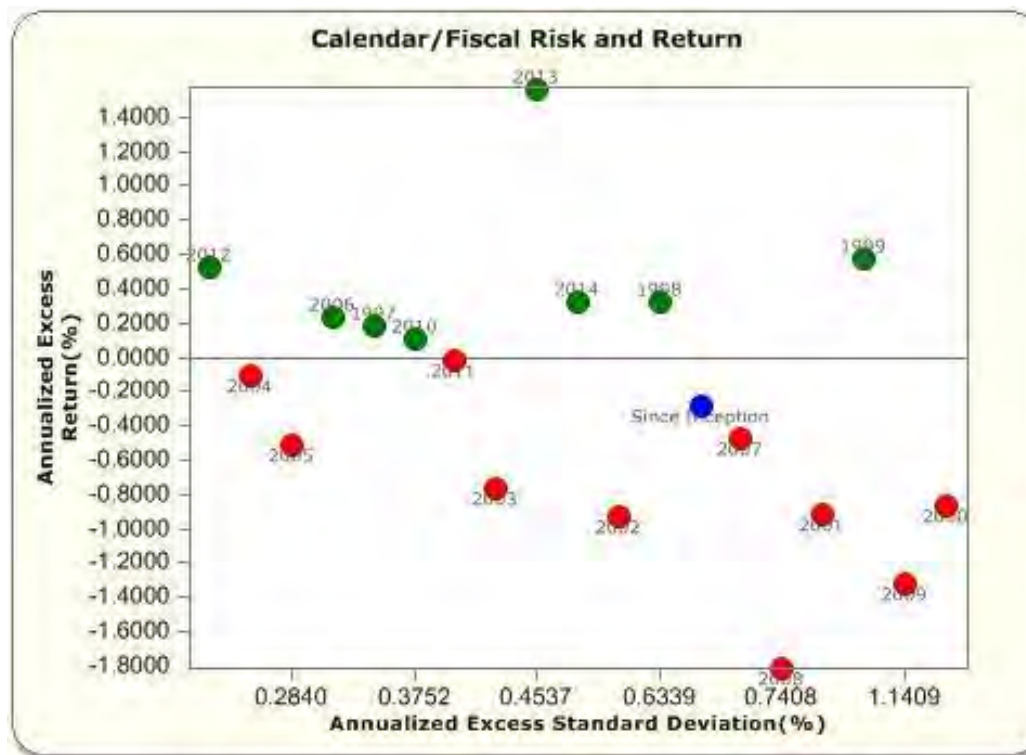
1. We back tested the informed rebalancing program.
 - Compared results to other rebalancing methodologies.
 - Consultant requested specific time period testing to assess how informed rebalancing would fair in a "flat" market (1962-1982)
2. We ran the program on a paper-only basis
3. Presented recommendation to Board.
4. Implemented on July 1, 2005.
5. Monthly Reporting to Board

Other Rebalancing Strategies Considered

- Buy and Hold Approach
 - Rejected as less effective than asset ranged based rebalancing
- Ranged Based Approach
 - Common rebalancing method +/-3% ranges
- Calendar Based Approach
 - Rejected as less effective than asset ranged based rebalancing
- Volatility Adjusted Asset Range Based Approach
 - Variation on asset ranged based rebalancing
 - Normalizes ranges based on annualized volatility
 - Higher volatility assets are given wider ranges
 - Lower volatility assets are given tighter ranges
 - Base line used was Lehman Aggregate volatility

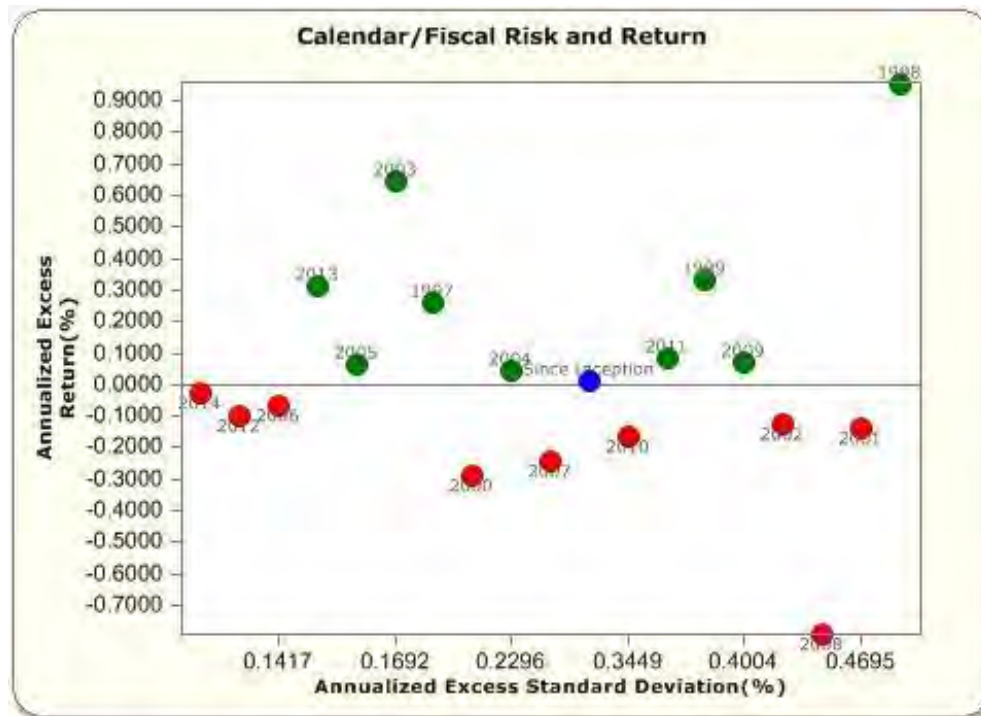
Buy and Hold

- For the last 16 years this strategy has been disappointing.



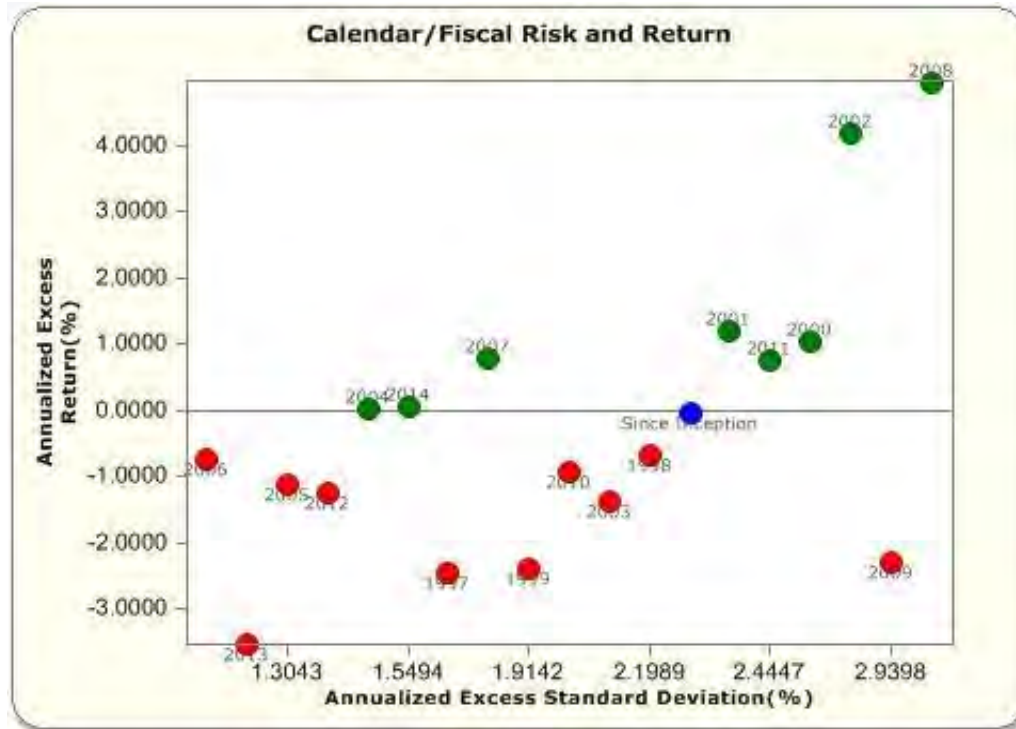
Asset Range Based Rebalancing (+/- 3%)

- The asset range based rebalancing has helped reduce risk but did not provide any upside.
- Significant improvement over Buy and Hold strategy.



Volatility Adjusted Asset Range Based Rebalancing

- For the last 16 years this strategy has slightly reduced value.
- Slightly less risk than the Range Based Rebalancing approach.



Summary Statistics

Data 1/2/1997 – 3/5/2014	Annualized Excess Return	Information Ratio	Success Rate	Annual Turnover
Buy and Hold	-28 basis points	-0.42	49%	0.0%
Asset Range +/- 3%	1.5 basis points	0.04	44%	2.2%
Volatility Adjusted	-3 basis points	-0.01	48%	0.6%
Informed Rebalancing	102 basis points	0.74	53%	3.3%

Informed Rebalancing (GTAA)

New Model

- A relative value rules-based model, triggered when model output is at extremes based on z-scores – i.e. relative valuation with a mean reversion component.
- Ranges expanded to +/- 5%, and positions within that range is based on “viewpoint” of the model.
- All rules sourced from peer reviewed professional journals.

Forward Return Expectations

+/- 5% TAA Model: 30bp – 35bp

Rebalancing Rules – Major Asset Class Level

Major Asset Class Rules

*US Equity to Fixed Rule
(Fed Fund Model)*

*International Equity to US Equity Rule
(Cash Rate Model)*

*International Equity to International Fixed Rule
(Euro Based Fed Fund Model)*

Rebalancing Rules: Sub-asset Class Level

- In addition to major asset class level rules, the rebalancing model provides tilts between sub-asset classes through low turn-over rules based on market cap, credit quality, and investment style.

Market Cap Based Rules

*US Large Cap Equity vs Small Cap Equity Rule
 (Volatility Based Model)*

*US Large Cap Equity vs Small Cap Equity Rule
 (Mean Reversion Based Model)*

Credit Based Rules

*US High Yield Bonds vs Core Bonds Rule
 (Treasury Spread Based Model)*

*US High Yield Bonds vs Core Bonds Rule
 (Investment Grade Spread Based Model)*

Style Based Rules

*US Value Equity vs US Growth Equity Rule
 (PE Estimate Based Model)*

- Investment staff periodically reviews the model to optimize risk adjusted returns.

Conclusion

Conclusion

- A carefully developed rebalancing program has the ability to lower risk at the portfolio level and the potential to generate positive returns over time.



NEPC, LLC

YOU DEMAND MORE. *So do we.*SM



Ventura County Employees' Retirement Association

Governance Discussion

October 29, 2014

Don Stracke, CFA, CAIA, Senior Consultant

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BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

- ❖ **Provide a framework for discussion of key governance topics:**
 - Best Practices
 - Roles and Responsibilities
 - Risk Authority Levels
 - Communication/Reporting
 - Due Diligence Practices

- ❖ **Goal is not to advocate an approach, but to provide perspective and review what other successful plans are doing**

- ❖ **Presentation represents a combination of perspective from NEPC and Cortex - a recognized governance expert**

The Importance of Good Governance

- Governance is increasingly considered central to a pension fund's success, as it supports enhanced performance and risk management.
 - Enhanced accountability.
 - Greater rigour and discipline.
 - Stronger checks and balances.
 - Faster decision-making when necessary.
- Studies suggest added value associated with good governance of up to 200-300 bps.

Cortex's View of Governance & Pension Management

- It's an A/L management business, not an asset management business.
 - Board's role is risk oversight, not performance maximization.
- Pension plans must be managed for the long-term
- The quality of the board is crucial
- Public plans are monopolies that must compete fiercely for talent and investment opportunities (Top talent is scarce)
- Accountability for performance requires authority/resources
- Can't be the "doer" and also "oversee the doer"
- Incentive compensation impacts performance
- One should be able to employ a "build vs. buy" mindset
- Scarcity of resources/time

Organizational Alignment

- Most boards focus solely on goals and investment strategy.
- Success requires:
 - Goals, objectives, and strategy/alignment
 - Clear role delineation, accountability
 - Staff resources, continuity
 - Appropriate use of external resources (Generalist Consultant, speciality consultant, custodian, risk system etc.)

Roles of Board & Staff: An Overview

- Role of the Board is risk oversight:
 - Define risks and risk tolerance
 - Set policies to manage material risks
 - Establish organizational infrastructure

- Role of staff is performance maximization:
 - Support the Board through policy analysis
 - Implement policy
 - Maximize performance subject to Board constraints

Organizational Alignment

- Most boards focus solely on goals and investment strategy.
- Success requires:
 - Goals, objectives, and strategy/alignment
 - Clear role delineation, accountability
 - Staff resources, continuity
 - Appropriate use of external resources (Generalist Consultant, speciality consultant, custodian, risk system etc.)

- **Duty to delegate stems from the duty of prudence**
 - **Delegation is allowed and even encouraged**
 - Board members cannot be held to learn and understand all matters under their control
 - Thus, board members have the duty to delegate those tasks they cannot properly do themselves, unless the law prohibits that delegation
 - Delegation is necessary to allow board members to focus on matters of policy that require their attention
 - **Abdication is not allowed**
 - Prudent delegation requires ongoing oversight
 - **Diligence and oversight does not require micro-management of the staff**
-
- Source: Hewittennisknupp

- **Degree to which a board delegates is a governance decision**
- **Different boards “draw the line” at different places**
- **To be prudent, when delegating the following applies:**
 - Duty of care in selecting qualified personnel
 - Duty to specify the scope of the delegation
 - Duty to monitor the agent to ensure the delegated duty is carried out in the best interest of beneficiaries
 - Duty of loyalty to select an agent on the basis of the interests of the beneficiaries

- Source: Hewittennisknupp

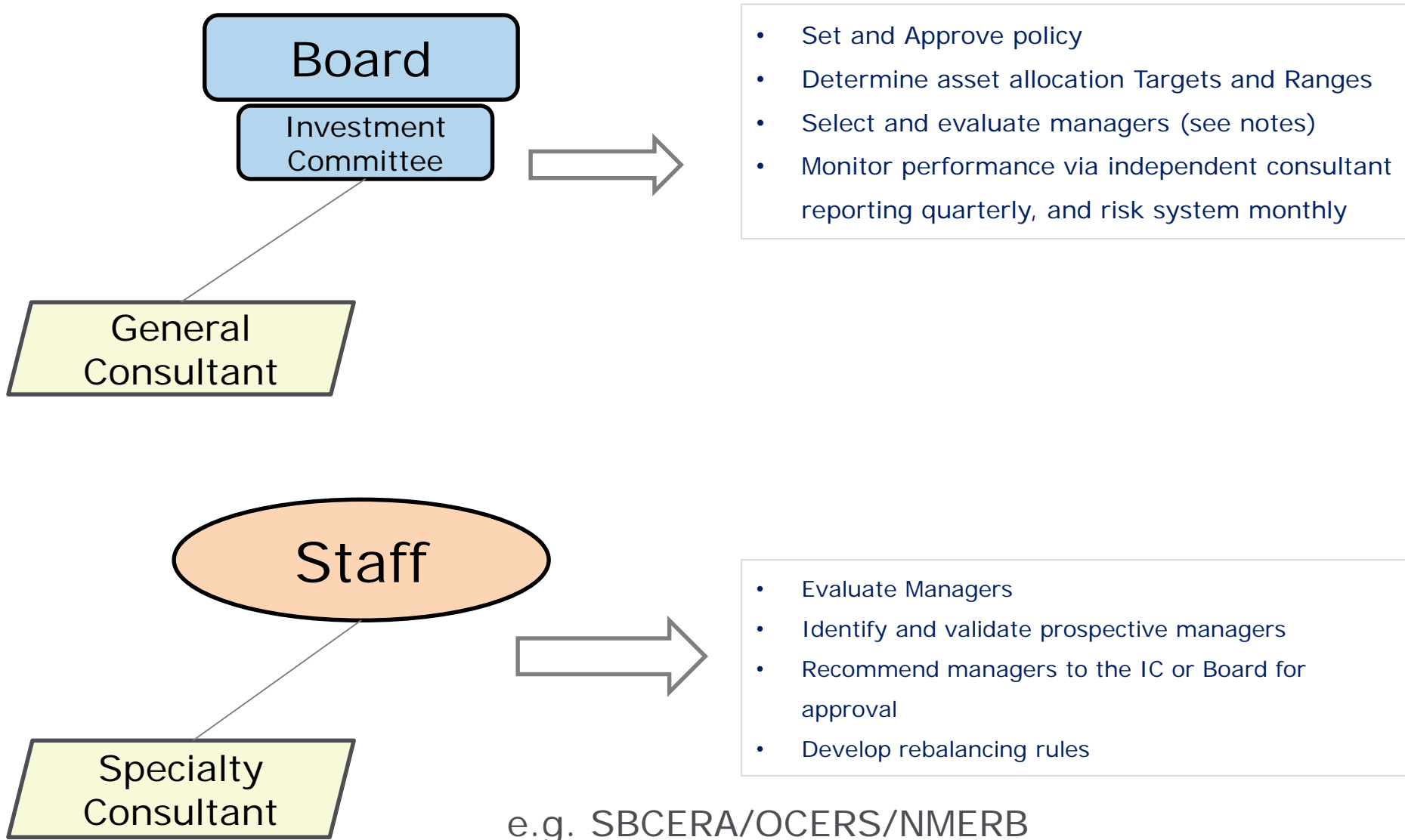
Best Practice Examples

Best Practices Criteria

Best practice criteria are more performance focused:

- An autonomous & independent organization.
- A professional and knowledgeable board.
- A high-calibre board & staff that is expected to provide leadership for the investment program.
- Competitive staff compensation.
- Robust organizational infrastructure capable of managing an effective/low-cost inv. program.
- A focus on strategic planning & risk management.
- A recognition of the importance of a sound investment philosophy or set of beliefs.

Traditional Board Directed Approach



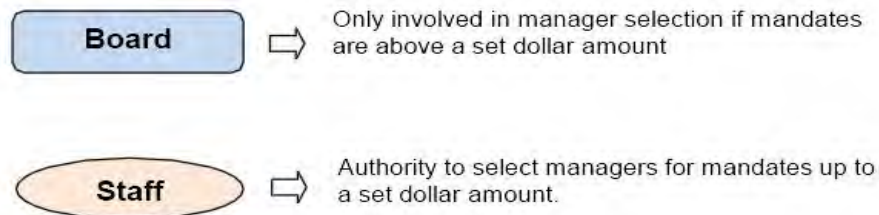
SBCERA Notes:

- IC (Subset of Board) reviews independent and documented recommendation of consultant and staff for manager hires/terminations. If staff and consultant agree, only one manager is interviewed, after thorough briefing by consultant and staff.
- IC presents recommendation to full Board for approval.
- Fund employs overlay manager to rebalance based on rule set reviewed by consultant and approved by Board.
- Third-party engaged for operational Due Diligence of new managers and managers found to have deficiencies in prior review.
- Extensive use of strategic manager relationships.

OCERS Notes:

- Board used to insist on three candidates for every search, now in certain asset classes (hedge funds, opportunistic credit), staff brings one candidate to the board.
- That candidate has been hired every time in the last two years.

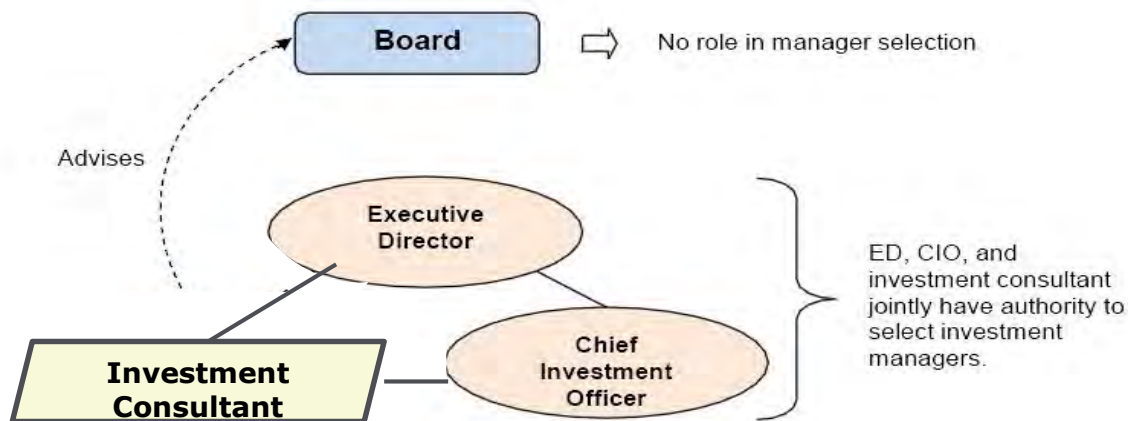
Best Practices – Approach A



**General
Consultant**

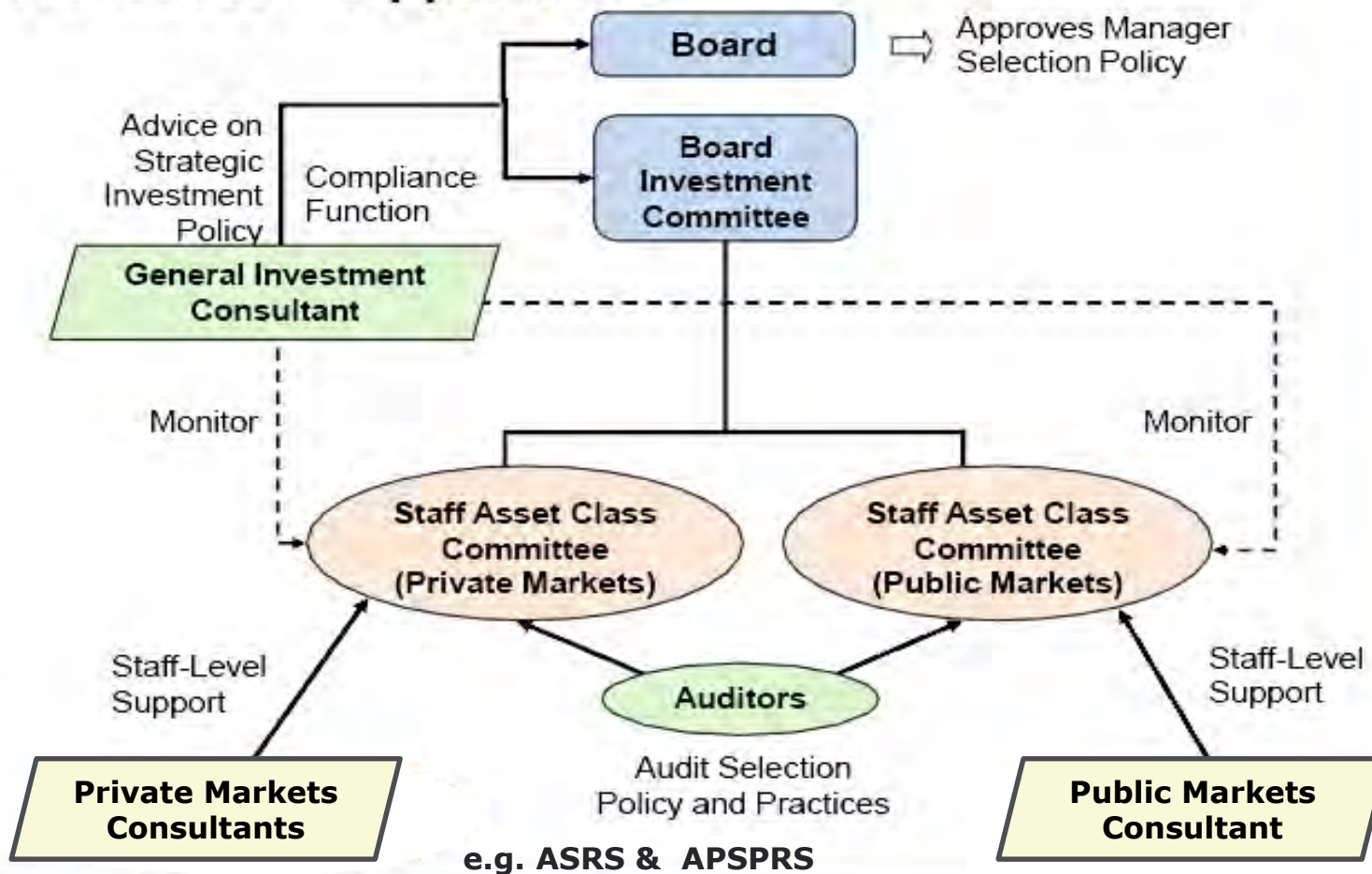
e.g. Ontario Teachers' Pension Plan

Best Practices – Approach B



e.g. Missouri State Employees' Retirement System

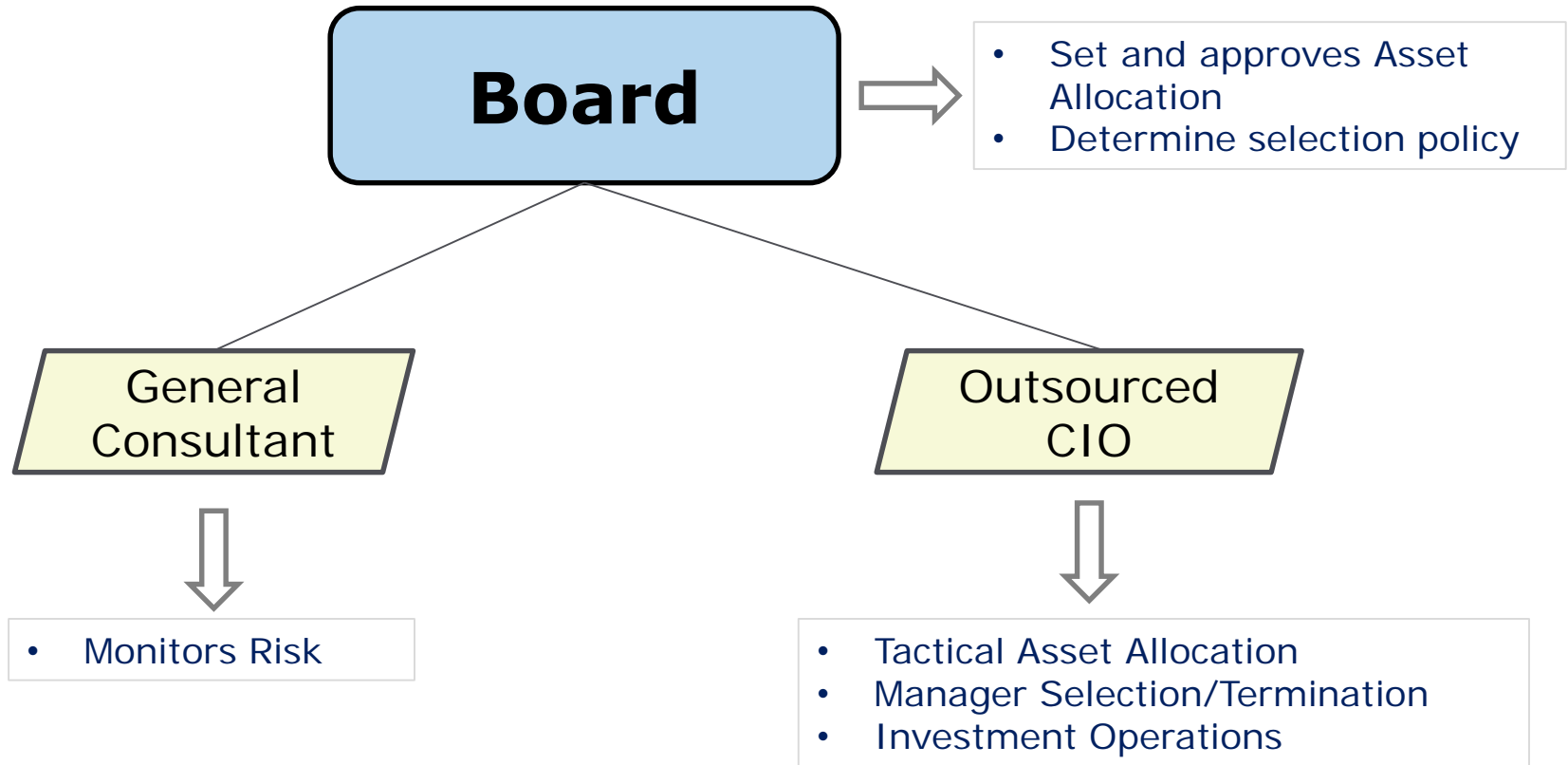
Best Practices – Approach C



AZ Public Safety Notes:

- Board used to interview one finalist manager. They were always hired by board vote.
- Board specifically felt they were being asked to make a judgment on manager, but didn't have the background.
- Now staff, specialty consultant, and NEPC conduct due diligence, sign-off on manager, and inform the board of the action

Approach D - OCIO



e.g. SDCERA

Notes-Examples

Full: SDCERA Cost = 13bp (On \$10 Billion = \$13 Million)
Partial: SJ P&F Cost = 5bp (On \$3 Billion = \$1.5 Million)
Competitive Pricing 5 - 16 ½ bp depending on size

• **Due Diligence Examples**

- Orange County
 - Existing managers meet with manager monitoring sub-committee every other year
 - New managers meet with staff onsite – no trustees or consultants
- San Bernardino
 - Trustees do onsite meetings with existing managers every three years
 - New managers meet with staff onsite – consultants as well and employ a third party operational DD

• **Due Diligence Examples**

- City of Seattle
 - Existing managers only invited to a meeting if there are issues
 - New managers meet with staff onsite – consultants but no trustees
- NMERB
 - Staff do onsite meetings with existing domestic managers– No board members
 - New managers meet with staff onsite – no trustees but consultants and third party DD managers

• **Due Diligence Examples**

- Arizona Public Safety
 - Existing managers only invited to a meeting if there are issues
 - New managers meet with staff onsite – no trustees
- City of Fresno
 - Existing managers invited to a meeting once a year, no onsite meetings
 - New managers meet with staff onsite and two trustees and consultant

• Fund Comparison

	Assets:	Managed Internally	# of Staff	# Mgrs	# Products
Anne Arundel County	\$ 1,481,413,318	\$ -	0	28	38
Arizona Public Safety Retirement Trust	\$ 7,246,805,885	\$ 8,958,417,885	6	86	143
Arizona State Retirement System	\$ 30,410,995,529	\$ 805,910,343	10	104	159
Fairfax County Uniformed Retirement System	\$ 1,318,815,555	\$ -	5	30	39
City of Fresno Retirement Systems	\$ 2,215,416,098	\$ -	2	15	22
Firefighters' Retirement System of Louisiana	\$ 1,259,203,121	\$ 103,166,496	1	33	39
Missouri Department of Transportation Patrol Employees	\$ 1,674,921,460	\$ 334,159,765	4	49	78
New Hampshire Retirement System	\$ 6,351,118,268	\$ -	4	70	86
New Mexico Educational Retirement Board	\$ 10,126,933,745	\$ 2,333,571,892	5	81	82
New York City Fire Pension	\$ 9,127,192,000	\$ 963,019,843	0	59	82
Orange County Employees Retirement System	\$ 10,394,157,792	\$ 234,041,920	4	67	93
San Bernardino County Employees' Retirement Association	\$ 7,061,381,248	\$ 1,184,688,396	4	74	135
City of San Jose Police and Fire Department Retirement	\$ 2,862,887,676	\$ -	4	52	67
Ventura County Employees' Retirement Association	\$ 3,944,512,427	\$ -	0	18	26
Vermont State Employees' Retirement System	\$ 3,594,637,932	\$ 101	2	23	39
State of Wyoming Retirement System	\$ 6,902,907,559	\$ -	4	35	52
AVERAGE FOR THE GROUP	\$ 105,973,299,613	\$ 932,311,040	3	52	74

• **Summary**

- There are many approaches to Public Fund Governance
- It is one of the most important issue for funds to review
- One size does not fit all plans
- However there are clear trends
 - More delegation to staff
 - More focus on risk management and strategic issues by Board



NEPC, LLC

To: Ventura County Employees' Retirement Association ("VCERA") Board
From: Don Stracke, CFA, CAIA, Allan Martin, Partner
Date: October 29, 2014
Subject: AA Update

Recommendation

NEPC recommends that the board evaluate and choose one of the potential options regarding the proposed asset allocation mixes:

1. Select either Mix A or B
2. Direct NEPC to generate additional mixes, including the selection and general ranges of asset classes
3. Continue with the current target

	Current Target	Mix A	Mix B
Large Cap Equities	27%	25%	23%
Small/Mid Cap Equities	3%	3%	2%
Int'l Equities (Unhedged)	12%	10%	8%
Emerging Int'l Equities	2%	2%	2%
Global Equity	10%	8%	7%
Total Equity	54%	48%	42%
Core Bonds	12%	9%	7%
Global Bonds (Unhedged)	5%	2%	2%
Absolute Return Fixed Income	7%	7%	7%
Total Fixed Income	24%	18%	16%
Private Equity	5%	6%	7%
US Credit/Non-US Credit	0%	10%	10%
Real Estate	7%	8%	8%
Real Assets (Liquid)	0%	2%	4%
Hedge Fund - L/S	0%	0%	2%
Hedge Funds - Credit	0%	0%	2%
Total Alternatives	12%	26%	33%
Risk Parity	6%	4%	4%
MLPs	4%	4%	5%
Total Liquid Alternatives	10%	8%	9%
Expected Return 5-7 Years	6.3%	6.8%	6.8%
Expected Return 30 Year	7.6%	7.9%	7.9%



Standard Dev of Asset Return	12.4%	13.0%	12.8%
Probability of 5-7 Yr over 7.75%	39.8%	43.3%	43.5%
Sortino Ratio MAR @ 0%	0.71	0.66	0.72
Sharpe Ratio	0.39	0.41	0.42

Summary

Mix A achieves a number of important goals:

- Lowering of overall equity exposure
- Lowering of US and non-US core bond exposure
- Maintenance of absolute return fixed income exposure
- Increase in private equity
- Creation of US/non-US credit allocation
- Move of 2% into liquid real assets

There are some attractive characteristics of Mix B, however the amount of time and deliberation that would be needed for the board to get comfortable with initiating a hedge fund program would be significant. NEPC believes that adopting Mix A would materially improve the risk/return positioning of the fund. Mix B essentially represents an incremental improvement over Mix A.



2014 Proposed Board Meeting Agenda Items

Board Meeting	Agenda Item
January 27, 2014	<ul style="list-style-type: none"> ✓ December monthly performance ✓ 2014 NEPC Outlook – high level VCERA plan observations ✓ Investment Policy Statement and manager guideline review ✓ Tactical rebalancing review ✓ Recommendation for benchmark change
February 24, 2014	<ul style="list-style-type: none"> ✓ Quarterly performance report ✓ Update on real estate markets ✓ January monthly performance ✓ Fixed income structure review
March 24, 2014	<ul style="list-style-type: none"> ✓ Private equity market update ✓ Potential approaches to reach PE target ✓ February monthly performance
April 21, 2014	<ul style="list-style-type: none"> ✓ March monthly performance ✓ Non-US equity structure review ✓ Review asset/liability study ✓ Prioritize search activity
May 19, 2014	<ul style="list-style-type: none"> ✓ April monthly performance ✓ Education on fixed income alternatives ✓ Quarterly performance report
June 16, 2014	<ul style="list-style-type: none"> • May monthly performance • Retreat agenda discussion • Asset Allocation Discussion • Educational presentation direct lending
July 21, 2014	<ul style="list-style-type: none"> • June monthly performance • Educational presentation multi-strat FI • Review asset allocation target • Discuss search process • Approve and finalize retreat agenda
September 22, 2014	<ul style="list-style-type: none"> • Quarterly performance report • August monthly performance • Initiate direct lending search
October 20, 2014	<ul style="list-style-type: none"> • September performance report
November 17, 2013	<ul style="list-style-type: none"> • October performance report • Review direct lending managers • Quarterly Investment Report
December 15, 2014	<ul style="list-style-type: none"> • November performance report • Review 2015 agenda

Investment Policy Manual

*Ventura County Employees' Retirement Association
October 2014*

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**INVESTMENT POLICY, PROCEDURES, OBJECTIVES AND GUIDELINES
FOR
VENTURA COUNTY EMPLOYEES' RETIREMENT
ASSOCIATION COUNTY OF VENTURA**

**December 2002
(Revised October 2014)**

I. INTRODUCTION

This document sets forth the framework for the management and oversight of the investment assets of the Ventura County Employees' Retirement Association (VCERA). The purpose of the Investment Policy is to assist the Board of Retirement (the "Board") in effectively supervising and monitoring the investments of VCERA. Specifically, it will address the following issues:

- The general goals of the investment activity
- The policies and procedures for the management of the investments
- Specific asset allocations, rebalancing procedures and investment guidelines
- Performance objectives
- Responsible parties

The Board establishes this investment policy in accordance with the provisions of the County Employees' Retirement Law of 1937 (Government code Sections 31450 et. seq.). VCERA is considered a separate entity and is administered by a Board consisting of nine members, plus two alternates. VCERA's Board and its officers and employees shall discharge their duties as provided for in Government Code Section 31595:

- Solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims.
- Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

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This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care are exercised in the execution of the investment program.

With respect to investments, asset allocation target and ranges, the role of the Board is to ensure VCERA's fiduciary responsibilities are fulfilled, that the investment structure, operation and results of the individual portfolios are consistent with investment objectives established for them, and to ensure competence, integrity and continuity in the management of the assets.

II. INVESTMENT POLICY

The following policies, consistent with the above described purpose and state government citations, are adopted:

- The overall goal of VCERA's investment assets is to provide plan participants with retirement, disability, and death and survivor benefits as provided for under the County Employees' Retirement Law of 1937.
- VCERA's assets will be managed on a total return basis. While VCERA recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.
- VCERA's Investment Policy has been designed to produce a total portfolio, long-term (as defined by rolling 10-year periods) real (above inflation) return of 4%. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal. Investment strategies are considered primarily in light of their impact on total plan assets subject to any restrictions set forth in the County Employees' Retirement Law of 1937, and shall at all times comply with applicable state and federal regulations.
- All transactions undertaken will be for the sole benefit of VCERA's participants and their beneficiaries and for the exclusive purpose of providing benefits to them, minimizing employer contributions to the System, and defraying reasonable administrative expenses of the System.
- VCERA has a long-term investment horizon generally described as a time period greater than 10 years, and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Association's investment performance.
- Investment actions are expected to comply with "prudent person" standards.
- Invest funds in accordance with asset allocation targets established by the Board.

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III. INVESTMENT OBJECTIVES OF THE TOTAL FUND

- Produce a total portfolio, long-term (as defined by rolling 10-year periods) real (above inflation) return of 4%;
- Exceed a weighted index of its asset allocation policy and component benchmarks over rolling five year periods.

IV. ASSET ALLOCATION

This policy is adopted to provide for diversification of assets in an effort to maximize the investment return of the Association consistent with market conditions. Asset allocation modeling identifies asset classes the Association will utilize and the percentage each class represents in the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. VCERA staff will monitor and assess the actual asset allocation versus policy, and will evaluate any variation considered significant.

The policies and procedures of VCERA's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as fund conditions change and as investment conditions warrant.

VCERA adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- The actuarially projected liabilities and benefit payments and the cost to both covered employees and employers;
- Historical and expected long-term capital market risk and return behavior;
- The perception of future economic conditions, including inflation and interest rate levels;
- The risk tolerance of the Board; and
- The relationship between current and projected assets of the Plan and its actuarial requirements.

VCERA's current target asset allocation (including ranges) is attached as Appendix A to this Policy Statement.

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The Board will implement the asset allocation policy through the use of specialized investment managers, who will be given full discretion to invest the assets of their portfolios subject to investment guidelines incorporated into the investment management agreement executed with the Association. When appropriate, passive and index managers will also be utilized.

The Board, in recognition of the benefits of commingled funds as investment vehicles (e.g., the ability to diversify more extensively than in a direct investment account and the lower costs that can be associated with these funds) may from time to time elect to invest in such funds. The Board recognizes that the practices of such funds will be in accordance with the funds' offering documents. Any change in the offering documents of a fund in which the Board has placed as investment will be promptly delivered to the Board.

Tactical Rebalancing Policy (implementing Hewitt EnnisKnupp's (Change in Process)

V. ROLE OF ASSET CLASSES

VCERA will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

Equities – VCERA anticipates that total returns to equities will be higher than total returns to fixed income securities over the long-run, but may be subject to greater volatility as well. There are several components of the Association's equity holdings:

Stocks –

- **Core Stocks** – This portfolio will provide broadly diversified, core exposure to the U.S. equity market, primarily through holdings in large capitalization companies.
- **Small Stocks** – Small cap stocks are those with market capitalizations below \$1.0 billion. Although more volatile than larger capitalization stocks, small stocks are generally characterized by faster growth and (historically) higher long-term returns. Low correlation between small caps and large caps leads to portfolio diversification. Small stocks tend to outperform large caps at the onset of economic recoveries, and outperform over time due to the higher risk premium associated with earnings uncertainty.
- **International Equities** – This portfolio provides access to major equity markets outside the U.S. and consequently plays a significant role in diversifying VCERA's equity portfolio. This segment will provide exposure to developed non-U.S. markets, whose growth and returns are not necessarily synchronized with those of the U.S. This core international segment will concentrate on larger companies in established non-U.S. equity markets. Limited discretion will be provided to active

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managers deemed to have an appropriate level of expertise to invest opportunistically in emerging markets.

- **Global Equities** – A further diversifying feature that allows Investment Managers to select securities domiciled both in the domestic and international stock markets. While most global equity managers invest in the larger capitalization offerings, limited discretion will be placed on the active managers in an effort to allow for a greater level of outperformance. Managers are allowed to invest in U.S. Stocks, Non-U.S. Domiciled Stocks, as well as emerging market securities.

Fixed Income – The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the Association's investment assets. The fixed income holdings are comprised of the following:

- **Bonds** – This portfolio will provide core exposure to the U.S. and non-U.S. fixed income markets (maturities from 1 to 30 years) including Treasury and government agency bonds, corporate debt, mortgages and asset-backed securities. The portfolio will be largely composed of investment grade issues with limited discretion provided to those active managers deemed to have an appropriate level of skill to invest opportunistically in non-dollar and high yield bonds.
- **Absolute Return Bond Portfolios** - Due to the historic low interest rates, the board has a concern that maintaining a duration exposure similar to the Barclays Aggregate index creates the real possibility of significant losses. Therefore some of the US and non-US fixed income exposure will be achieved by using managers with a more flexible mandate that differs significantly from the benchmark in an effort to earn an absolute return with lower down-side risk.

Real Estate – The role of real estate, in general, is to provide a competitive risk adjusted rate of return compared to other asset classes and to provide prudent portfolio diversification consistent with risk and return objectives. This portfolio diversification is due to real estate's low correlation with returns of equity and fixed income. Real Estate investments shall consist of the broad range of investment opportunities including direct investment in properties, REITs and commingled funds.

Private Equity – The role of private equity, in general, is to provide a superior risk adjusted rate of return compared to other asset classes and to provide prudent portfolio diversification consistent with risk and return objectives. This portfolio diversification is due to private equity's low correlation with returns of equity and fixed income. Private Equity investments shall consist of a broad range of investment opportunities and may include leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

Liquid Alternatives – The role of liquid alternatives, in general, is to provide a superior risk adjusted rate of return across different economic regimes and to provide prudent portfolio diversification consistent with risk and return objectives. This portfolio diversification is due to liquid alternatives low

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correlation with returns of equity and fixed income. Liquid alternatives initially shall include MLP's and risk parity strategies, but it is anticipated that additional liquid alternatives that provide similar uncorrelated returns will be added over time.

Performance Benchmarks – Please refer to the manager-specific guidelines in the appendix for each manager's specific benchmark. The composite benchmarks for the respective asset classes are:

- Domestic Equities
 - Composite – the DJ U.S. Total Stock Market Index
- International Equities
 - Composite – the MSCI All-Country World Ex-US Index
- Global Equities
 - Composite – the MSCI All Country World Index
- Fixed Income
 - Composite – Barclays Capital Aggregate Index, Barclays Capital Global Aggregate Bond Index
- Real Estate
 - Composite – NCREIF Open-End Fund Property Index
- Private Equity
 - Composite - DJ U.S. Total Stock Market Index + 3%
- Liquid Alternatives
 - Composite - CPI + 4%
- Total Fund
 - Weighted Benchmark based on asset allocation

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VI. INVESTMENT MANAGEMENT POLICY

The managers will have full discretion and authority for determining investment strategy, security selection and timing subject to the Policy guidelines and any other guidelines specific to their portfolio. Performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and relative to a peer group of managers following similar investment styles.

Investment actions are expected to comply with "prudent expert" standards. Each investment manager will be expected to know the VCERA's policies (as outlined in this document) and to comply with those policies. It is each manager's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with the Board toward possible improvement of said policies.

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VCERA will also review each investment manager's adherence to its investment policy, and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.) or its investment process. The investment managers retained by the Association will be responsible for informing the Board of such material changes as detailed in the investment manager's guidelines.

Investment managers under contract to VCERA shall have discretion to establish and execute transactions through accounts with one or more securities broker/dealer(s) that a manager may select. The investment managers will attempt to obtain the best available price and most favorable execution with respect to portfolio transactions.

Selection Criteria for Investment Managers

Criteria will be established for each manager search undertaken by VCERA, and will be tailored to the Association's needs in such search. In general, eligible managers will possess attributes including, but not limited to, the following:

The firm must be experienced in managing money for institutional clients in the asset class/product category specified.

- The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- The firm must demonstrate adherence to the investment style sought, and adherence to the firm's stated investment discipline.
- The firm's fees must be competitive with industry standards or the product category.
- The firm must be willing and able to comply with the "Duties of the Investment Managers" outlined herein.

Criteria for Investment Manager Termination

VCERA reserves the right to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to, the following:

- Failure to comply with the guidelines agreed upon for management of the portfolio, including holding restricted issues.
- Failure to achieve performance objectives in the manager's guidelines.
- Significant deviation from manager's stated investment philosophy and/or process

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- Loss of key personnel.
- Evidence of illegal or unethical behavior by the investment management firm.
- Lack of willingness to cooperate with reasonable requests by the Association for information, meetings or other material related to its portfolios.
- Loss of confidence by the Board in the investment manager.
- A change in the asset allocation program that necessitates a shift of assets to a different investment style.

The presence of any one of these factors will be carefully reviewed by the Board, but will not necessarily result in an automatic termination.

VCERA reserves the right to place its investment managers on a formal Watch List.

A manager may be placed on "Watch" status for:

- 1) failure to meet one or more of the standards, objectives, goals, or risk controls as set forth in this policy statement
- 2) violation of ethical, legal, or regulatory standards
- 3) material adverse change in the ownership of the firm or personnel changes
- 4) failure to meet reporting or disclosure requirements
- 5) failure to meet performance objectives or goals
- 6) any actual or potentially adverse information, trends, or developments that the Board feels might impair the investment manager's ability to deliver successful outcomes for the participants of the plan

The Board may take action to place a manager on Watch status. Managers placed on Watch status shall be notified in writing, and be made aware of the reason for the action and the required remediation. Watch status is an optional interim step that may be used to formally communicate dissatisfaction to the investment manager and the potential for termination. Watch status is not a required step in terminating a manager. Watch status will normally be for a period of six months, but the time frame may be determined by action of the Board. The Board retains the right to terminate the manager at any time, extend the period of the Watch status, or remove the manager from Watch status at any time.

Watch status indicates that the manager shall be subject to increased focus on the remediation of the factors that caused the manager to be placed on Watch status. Discussion of the manager on Watch status shall become a regular monthly reporting agenda item for the Board. Staff or retained Consultant

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shall prepare a written monthly report addressing the progress of the manager in the remediation of the dissatisfaction.

VII. GENERAL GUIDELINES

Custody of Assets

With the exception of assets invested in commingled funds, the assets of VCERA shall be held in a custody/record keeping account in a master custody bank located in a national money center and in international sub-custodian banks under contract with the custodian bank.

Derivatives

VCERA's investment managers may be permitted through individual investment guidelines to use derivative instruments to control or manage portfolio risk. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or derivative. While this definition includes collateralized mortgage obligations, the most common type of derivatives, it is also intended to include (but not be limited to) futures, forwards, options, options on futures, swaps, swap options, etc.

VCERA's managers are not to utilize derivatives for speculative purposes (for example, by taking a position greater than 100% or less than 0% of underlying asset exposure). In no circumstances can derivatives lever any positions in VCERA's portfolio. No derivatives positions can be established that create portfolio characteristics outside of current portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, and maintaining exposure to a desired asset class while effecting asset allocation changes.

VCERA's Investment Consultant shall be responsible for monitoring the investment managers' derivative usage and for reporting to the Board any deviations from this Investment Policy Statement and the investment managers' specific guidelines.

Securities Lending

The Board may authorize the execution of a Securities Lending Program for separate accounts and will also conduct best efforts due diligence and monitoring of such activities in commingled funds.

VCERA may participate in a securities lending program administered by a lending agent approved by the Board for the purpose of increasing income. The Board, or agent, as designated by the Board, shall be responsible for overseeing the securities lending program. The securities lending program shall be established pursuant to a written agreement established between the Board and the custodian that stipulates the working of the program.

The terms of any securities lending program should incorporate the following provisions at a minimum:

- A description of the allocation queuing system used.

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- The number of brokers involved and a list of the brokers used.
- The appropriate percentage of asset types for loans outstanding.
- Provision for indemnification in case of broker default.
- Provisions for the selection/elimination of brokers from the program by the lending agent and/or the Board.
- The securities to be included in the program.
- Provisions for the elimination of securities from the securities lending program by either the lending agent or the Board.
- The collateral to be used for each security and provisions for the adjustment of collateral when it fails.
- The lending agent/VCERA split on the securities lending income
- Provisions for termination of a loan.
- The requirement for a securities lending report which which details the securities loaned, the collateral used, the broker used and the income and fees received. The report should break out intrinsic and reinvestment income when reporting revenues.
- Disclose potential conflicts with existing clients.
- Collateralization limits (102% for U.S. and 105% for non-U.S. holdings)
- The collateral pool should be invested conservatively in high quality short maturity fixed income instruments. Leverage shall not be allowed in the collateral pool.

Voting of Proxies

Retained investment managers will vote, or cause to be voted, all proxy proposals on an individual basis. The manager's process in dealing with proxy issues should be both thorough and reasonable, and oriented toward achieving maximum long-term shareholder value. The manager is to discharge expected fiduciary duty by use of proxy voting policies and procedures solely in the interest of the participants and beneficiaries. To act prudently in the voting of proxies, the manager should consider those factors that would affect the value of the plan's investment and act solely in the interest of, and for the exclusive purpose of providing benefits to participants and beneficiaries. The manager will not subordinate the interest of participants and beneficiaries in their retirement income to unrelated objectives. Managers will review and vote all proxies that are received. Each investment manager shall notify the custodial bank of their responsibility to forward to the manager all proxy material. An ongoing review should be done to see that all expected proxies have been received, and if not, the bank should be directed to vote any proxy it receives in conformance with the manager's instruction. The manager

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may outsource this service in order to discharge its proxy voting responsibilities in conformance with these guidelines.

On an annual basis, investment managers should send VCERA a report of its proxy voting activities. A brief explanation of the following key elements must be included in this report from investment managers:

- Stock name, number of shares owned by the fund and meeting date
- Number of management and shareholder proposals that came to a vote
- Number of votes with management
- Number of votes against management and the rationale behind the vote
- Whether any proxies were not voted, why they were not voted and whether steps have been taken to ensure all proxies will be voted in the future

PUBLIC MARKET EQUITY OBJECTIVES AND GUIDELINES

Domestic Equities

- No securities shall be purchased on margin or sold short.
- American Depositary Receipts (ADRs) are permissible investments.
- Managers shall not purchase stock (or securities convertible into stock) of any issuer if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock, or more than 5% in (market) value of all outstanding securities of a single issuer (assuming all shares are converted).

Prohibited Transactions

Unless otherwise provided for, the following transactions will be prohibited:

- Physical commodities, including gold;
- Tax exempt securities, either state or federal;
- Options including the purchase, sale or writing of options;
- Speculative or leveraged use of derivatives;
- Warrants;
- Margin buying;
- Short selling;

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- Reverse repurchase agreements; and
- Transactions that involve a broker who is -acting as a "principal," ~~where~~ where such broker is also the investment manager who is making the transaction. Any exemption from these guidelines requires prior written approval from the Board of Retirement.

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International Equities

- Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts, and equity securities of companies domiciled outside the U.S. including established and emerging countries.
- No securities shall be purchased on margin or sold short.

Global Equity

- No securities shall be purchased on margin or sold short.
- Managers shall not purchase stock (or securities convertible into stock) of any issuer if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock, or more than 5% in (market) value of all outstanding securities of a single issuer (assuming all shares are converted).
- Appropriate investments include stocks domiciled in the United States, on foreign exchanges, and emerging market securities.

VIII. FIXED INCOME OBJECTIVES AND GUIDELINES

U.S. Fixed Income

- The total portfolio's minimum rating will be AA or better by Moody's, AA by Standard & Poor's, or AA by Fitch. Although, any individual manager may be less.
- No more than 5% of the market value of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.
- U.S. dollar-denominated issues of foreign governments, international organizations and U.S. subsidiaries of foreign corporations are permitted up to 10% of the market value of any single portfolio.
- No securities shall be purchased on margin or sold short.
- Limited investments in mortgage interest only (IO) or principal only (PO) securities or derivatives based on them that have uncertain or volatile duration or price movements.

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- Bonds rated investment grade by either Moody's or Standard and Poor's must comprise at least 90% of the total portfolio.
- The total portfolio is limited to 5% in bonds issued by entities not domiciled in the J.P. Morgan Government Bond Index. This restriction is meant to limit the portfolio's emerging market exposure to no more than 5%.

Global Fixed Income

- At least 80% of the Fund's Market Value must be invested in investment-grade securities
- Below investment-grade rated securities cannot exceed 20% of the portfolio when combining High Yield securities and below investment grade rated Emerging Market Securities.
- No more than 5% of the market value of any single portfolio will be invested in any one issuer, with the exception of the United States, Canada, United Kingdom, Germany, France, Australia, New Zealand and Japan or securities issued or guaranteed by A- or better rated supranational entities.
- Limited investments in mortgage interest only (IO) or principal only (PO) securities or derivatives based on them that have uncertain or volatile duration or price movements.

Real Estate, Private Equity, Liquid Alternatives

- Due to the varying nature of these strategies, and the primary use of commingled vehicles, each investment will be subject to the customized guidelines created for that strategy.

IX. MANAGEMENT CONTROL PROCEDURES – RESPONSIBLE PARTIES

Duties of the Board

Procedures concerning the oversight of VCERA include the following:

- The Board shall have discretion to develop and execute VCERA's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the timely implementation and administration of these decisions.
- A formal review of VCERA's investment structure, asset allocation and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation plan to reflect any changes in pension fund regulations, long-term capital market assumptions or VCERA's financial condition.

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The Board or its designate(s) will adhere to the following procedures in the management of VCERA's assets:

- External investment managers will manage VCERA's investment assets. In accordance with the asset allocation guidelines, external investment managers will be hired who have demonstrated experience, expertise and investment styles that are consistent with the need for return and diversification. Investment guidelines will be developed for each manager, and investment performance will be monitored against these guidelines. Each investment manager will manage its portfolio according to a formal contract.
- The Board, with the assistance of Staff and consultants, shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on:
 - Manager adherence to the Policy guidelines.
 - Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping VCERA advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
- The Board shall be responsible for selecting a qualified custodian.
- The Board shall administer VCERA's investments in a cost-effective manner. These costs include, but are not limited to, management, trustee, consulting and custodial fees, transaction costs and other administrative costs chargeable to VCERA.

Duties of the Retirement Administrator

The Retirement Administrator or his designate(s) will adhere to the following procedures in the management of VCERA's assets:

- The Retirement Administrator shall support the Board in the development and approval of the Investment Plan, implement and monitor the Plan, and report at least monthly on investment activity and matters of significance.
- The Retirement Administrator shall provide for the collection and investment of contributions and investment income, the disbursement of benefits and refunds, the payment of budgeted expenditures, the maintenance of accounting and internal control systems, the estimating and monitoring of cash flows, and shall report on matters of significance.

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- Ensure that Investment Managers conform to the terms of their contracts and that their performance monitoring systems are sufficient to provide the Board with timely, accurate and useful information.

Duties of the Custodian

The Board recognizes that accurate and timely completion of custodial functions is necessary to ~~effectively~~ monitor investment management activity ~~effectively~~. The custodian's responsibilities for VCERA's investible assets are to:

- Provide complete global custody and depository services for the designated accounts.
- Provide a Short Term Investment Fund (STIF) for investment of any cash not invested by managers ~~and to~~ ensure that all available cash is invested.
- Provide for timely settlement of securities transactions.
- Collect all income and principal realizable and properly report it on the periodic statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within 15 days from the end of the month.
- Report to VCERA situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Provide assistance to the Association to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.
- Manage a securities lending program to enhance income as directed by the Board.
- Provide other services, as required, that assist with the monitoring of managers and investments

Duties of the Investment Managers

The Investment Managers shall:

- Provide the Association with written agreement to invest within the guidelines established in the Investment Plan.
- Provide the Association with proof of liability and fiduciary insurance coverage.

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- Be SEC-Registered Investment Advisors recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets and a defined investment specialty.
- Adhere to the investment management style, concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, purchasing securities and voting proxies.
- Execute all transactions for the benefit of the Association with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Association, and, where appropriate, facilitate the recapture of commissions on behalf of the Association.
- Reconcile every quarter accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.
- Maintain frequent and open communication with the Board through Investment Consultant on all significant matters pertaining to the Investment Plan, including, but not limited to, the following:
 - Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure;
 - Significant changes in ownership, organizational structure, financial condition or senior personnel;
 - Any changes in the Portfolio Manager or other personnel assigned to the VCERA;
 - Each significant client which terminates its relationship with the Investment Manager, within 45 days of such termination;
 - All pertinent ~~issues which~~ issues, which the Investment Manager deems to be of significant interest or material importance.

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Manager Reporting Requirements

In addition to the aforementioned duties, the managers are required to provide the Staff, and Consultant with the following reports:

- Monthly – Transaction statement, asset (portfolio) statement, and performance on the portfolio and benchmark for the month, quarter, year-to-date, fiscal year-to-date, 1-year, 3-year, 5-year and since inception annualized returns gross and net of fees. ~~In addition, a~~ Also to be provided, a discussion of the portfolio's recent ~~strategy~~ strategy and expected future strategy and a demonstration of compliance with guidelines.

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Duties of the Investment Consultant(s)

The Investment Consultant(s) shall:

- Make recommendations to the Board and the Staff regarding investment policy and strategic asset allocation.
- Assist the Association in the selection of qualified investment managers, and assist in the oversight of existing managers, including monitoring changes in personnel and the investment process.
- Assist in the selection of a qualified custodian, if necessary.
- Prepare a quarterly performance report on the Association's managers, including a check on guideline compliance and adherence to investment style and discipline.
- Provide topical research and education on investment subjects that are relevant to VCERA.
- Deliver a monthly performance update.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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APPENDIX A

Asset Allocation Policy
Approved by the Board in April 1998 (Revised through July 2013)

Ventura County Employees' Retirement Association
Asset Allocation Target and Ranges

Asset Class	Target Percent	Allowable Range
U.S. Equity	30%	26-34 %
International Equities	14%	11-17%
Global Equities	10%	7-13 %
US Fixed Income	19%	15-23%
Global Fixed Income	5%	3-7%
Real Estate	7%	4-10%
Private Equity	5%	3-7%
Liquid Alternatives	10%	7-13%
Total Equity	54%	50-58%
Total Fixed Income	24%	20-28%
Total Real Estate	7%	4-10%
Total Private Equity	5%	3-7%
Total Liquid Alternatives	10%	7-13%

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**BlackRock ("Manager")
Investment Guidelines**

Extended Equity Market Fund

The Extended Equity Market Fund shall be invested and reinvested primarily in a portfolio of Equity Securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of the segment of the United States market for publicly traded equity securities. The criterion for selection of investments shall be the Dow Jones U.S. Completion Total Stock Market Index. When deemed appropriate by the Manager, the Manager may invest a portion of the Extended Equity Market Fund in futures contracts for the purpose of acting as a temporary substitute for investment in equity securities. The Extended Equity Market Fund will not engage in speculative futures transactions.

U.S. Debt Index Fund

The U.S. Debt Index Fund shall be invested and reinvested primarily in a portfolio of Debt Securities with the objective of approximating as closely as practicable the total rate of return of the market for Debt Securities as defined by the Barclays Capital U.S. Aggregate Bond Index. When deemed appropriate by the Manager, the Manager may invest a portion of the U.S. Debt Index Fund in futures contracts for the purpose of acting as a temporary substitute for investment in debt securities. The U.S. Debt Index Fund will not engage in speculative futures transactions.

BlackRock MSCI ACWI ex-U.S. IMI Index Fund

The BlackRock MSCI ACWI ex-U.S. IMI Index Fund shall be invested and reinvested in a portfolio of International Equity Securities whose total rates of return will approximate as closely as practicable the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the United States. The Manager shall determine from time to time which countries shall be represented in the BlackRock MSCI ACWI ex-U.S. IMI Index Fund and may subdivide the BlackRock MSCI ACWI ex-U.S. IMI Index Fund into one or more separate divisions each of which represents a national equity market ("National Divisions"), or may subdivide these Collective Funds into one or more separate divisions representing two or more national equity markets ("Multinational Divisions"). A participating account may be invested in the BlackRock MSCI ACWI ex-U.S. IMI Index Fund, in any one or more of the National Divisions or in any one or more of the Multinational Divisions in whatever proportion among National Divisions or Multinational Divisions as is deemed appropriate by the fiduciary responsible for the funding policy of a participating account. The primary criterion for selection of investments in each National Division shall be the MSCI ACWI ex-U.S. IMI IndexSM for the country represented. The primary criterion for selection of investments in the BlackRock MSCI ACWI ex-U.S. IMI Index Fund shall be the relative market weight of units of the National Divisions.

When deemed appropriate, the Manager may invest a portion of the BlackRock MSCI ACWI ex-U.S. IMI Index Fund in futures contracts approved by the Commodity Futures Trading Commission for the purpose of acting as a substitute for investment in securities for liquidity purposes or in shares of exchange-traded funds ("ETFs") that are open-end investment companies registered under the Investment Company Act, including ETFs that are advised or sub-advised by the Manager or an affiliate of the Manager. In addition, each fund may hold other

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collective funds that seek to provide returns consistent with such fund's goal of approximating the return of the MSCI ACWI ex-U.S. IMI IndexSM. The BlackRock MSCI ACWI ex-U.S. IMI Index Fund will not engage in speculative futures transactions.

U.S. Equity Market Fund

The U.S. Equity Market Fund shall be invested and reinvested primarily in Equity Securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of the entire United States market for publicly traded equity securities. The criterion for selection of investments shall be the Dow Jones U.S. Total Stock Market Index. When deemed appropriate by the Manager, the Manager may invest a portion of the U.S. Equity Market Fund in futures contracts for the purpose of acting as a temporary substitute for investment in equity securities. The U.S. Equity Market Fund shall not engage in speculative futures transactions.

BlackRock MSCI ACWI Equity Index Fund

The BlackRock MSCI ACWI Equity Index Fund shall be invested and reinvested primarily in a portfolio of U.S. Equity Securities and International Equity Securities with the objective of approximating as closely as practicable the capitalization weighted total rates of return of the markets in certain countries for publicly traded equity securities. The benchmark for the BlackRock MSCI ACWI Equity Index Fund shall be the MSCI ACWI Net Dividend Return IndexSM. The Manager shall determine from time to time which countries shall be represented in these funds and may subdivide these funds into one or more separate divisions, each of which represents a distinct equity market. The primary criterion for selection of investments in each country shall be the relative market capitalization weight of the constituent markets in the MSCI ACWI Net Dividend Return IndexSM. In addition to, or in lieu of investing in Equity Securities and International Equity Securities, the Manager may invest assets in American Depository Receipts, Global Depository Receipts, registered investment companies and other country funds managed by investment advisors not affiliated with the Manager, and other structured transactions utilizing foreign stocks, bonds, currencies and money market instruments, futures, exchange traded and over-the-counter options, forward contracts and swaps. Any purchases and sales of ETFs for the ACWI IMI Index Fund will be made only through secondary market transactions.

For the purposes of these investment guidelines the defined term "Equity Securities" shall mean common stocks and forms of equity securities (e.g., preferred stock), American Depository Receipts, European Depository Receipts, Global Depository Receipts and Investment Company Shares (as defined below) where such investment company portfolio seeks to replicate or outperform the performance of an equity index selected by the Manager.

For the purposes of these investment guidelines the defined term "International Equity Securities" shall mean American Depository Receipts, Global Depository Receipts, common stocks and other forms of equity securities (e.g., preferred stock), Investment Company Shares (as defined below) where such investment company portfolio seeks to replicate or outperform the performance of an equity index selected by the Manager or equity securities convertible into such stock issued by Persons (as defined below) not organized under the laws of the United States or a state thereof, the indicia of ownership of which may be held outside the jurisdiction of the District Courts of the United States.

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For the purposes of these investment guidelines the defined term "Debt Securities" shall mean (unless otherwise defined in these investment guidelines) obligations issued or guaranteed by the United States government, its agencies or instrumentalities; investment-grade obligations of corporations and dollar denominated debt obligations of other issuers included in the index tracked by a particular collective fund; Mortgage-Backed Securities (as defined below); investment-grade asset-backed securities; and Investment Company Shares (as defined below) where such investment company portfolio seeks to replicate or outperform the performance of a fixed income index.

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For the purposes of these investment guidelines the defined term "Investment Company Shares" shall mean shares of an investment company registered under the Investment Company Act of 1940, as amended from time to time, including exchange-traded funds, which investment companies may be advised or subadvised by an affiliate of the Manager.

For the purposes of these investment guidelines the defined term "Mortgage-Backed Securities" shall mean securities issued or guaranteed by the United States government or its agencies or instrumentalities; commercial mortgage-backed securities; transactions with financial institutions (that are often referred to as "dollar roll" transactions) in order to gain exposure to the mortgage-backed security market; and transactions involving commitments to deliver generic mortgage-backed securities to a purchaser at a future date (such transactions are commonly referred to as "Firm Commitment Transactions" or "to-be-announced transactions").

For the purposes of these investment guidelines the defined term "Person" or "Persons" shall mean an individual, a partnership, an association, a joint venture, a corporation, a trust (including a business trust), a limited liability company, an unincorporated organization, a committee, any other entity or a government or any department, agency, authority, instrumentality or political subdivision thereof.

The Account or the above referenced collective investment funds may invest through one or more short term investment funds used for a cash "sweep" vehicle to manage uninvested cash or reinvestment and management of cash collateral associated with securities loans, including but not limited to Money Market Fund (each, a "STIF Fund").

STIF Funds used for a cash "sweep" vehicle are invested primarily in short term debt securities, such as variable amount notes, commercial paper, U.S. government securities, repurchase agreements, certificates of deposit of banks and savings institutions, and other short term obligations.

STIF Funds used to manage cash collateral associated with securities loans ("Cash Equivalent Funds") invest such cash collateral in short term debt instruments. Additional information relating to the investment philosophy, risk management and guidelines criteria for the STIF Funds, as well as specific guidelines for each STIF Fund can be found in "Short-Term Investment Funds Overview and Guidelines", a current copy of which may be accessed via www.blackrock.com/institutional/documents.

The Board will notify the Manager if it is determined for any reason that there is a change in VCERA's investment needs affecting the stated objectives.

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**Sprucegrove ("Manager")
Investment Objectives and Policies**

I. General

This policy statement describes the investment objectives and policies of the Sprucegrove U.S. International Pooled Fund ("Fund").

The Manager is expected to operate within the prudent man rule and the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Investment practices will comply with the requirements of all applicable laws and regulations.

II. Investment Objectives

To maximize the long-term rate of return while seeking to preserve the investment capital of the Fund by avoiding investment strategies that expose Fund assets to excessive risk.

To outperform the EAFE Index over a full market cycle.

To achieve a high ranking relative to similar funds over a full market cycle.

There is no assurance that these objectives will be achieved.

1. Investment Policies

Asset Mix

The asset mix of the Fund will be determined solely by the Manager.

Investments may be selected from the following asset categories:

- Short-term investments including utilized funds containing only such investments;
- Equity securities (excluding U.S.), American Depositary Receipts (ADR's), other securities convertible into equities and utilized funds containing only such investments.
- Foreign currencies including forward currency contracts required to meet security settlements.

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Minimum and maximum exposure to each of the asset categories are as follows:

	Minimum % of Fund	Maximum % of Fund
Cash & Short Term	0	10
Equities	90	100

2. Diversification

Equities

The Fund will be diversified by region, country, sector and company holdings.

a. Region

The region will hold securities issued by companies in a minimum of three countries in each of the European and Pacific Basin regions, as follows:

Europe

Austria
 Belgium
 Denmark
 Finland
 France
 Germany
 Holland
 Ireland
 Italy
 Norway
 Spain
 Sweden
 Switzerland
 United Kingdom

Pacific Basin

Australia
 Hong Kong
 Japan
 Malaysia
 New Zealand
 Singapore
 Thailand

b. Country

The Fund will be subject to the following minimum – maximum country weightings.

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EAFE Countries

Japan	10% - 50%
United Kingdom	10% - 50%
Other countries	0% - 15%

Non-EAFE Countries

Canada	0% - 10%
Total Other countries	0% - 15%
Total Non-EAFE countries	0% - 20%

c. Sector

The Fund will hold securities in a minimum of 7 of the 10 sectors. Maximum weighting for any sector is 30% of the market value of the fund.

Sectors

Energy	Health Care
Materials	Financials
Industrials	Information Technology
Consumer Discretionary	Telecommunication Services
Consumer Staples	Utilities

d. Company Holdings

The Fund will also be diversified by company with no fewer than 40 holdings. The maximum weighting for any one security is 5% of the market value of the Fund. The maximum exposure to any one stock should not exceed 5% of that company's outstanding shares or 10% of its free float.

e. Other

In unusual circumstances, the Fund may exceed the above guidelines for short periods of time.

Short-Term

The purpose of this asset class is to provide a vehicle for temporary investment while awaiting investment opportunities in the long-term capital markets.

This asset class has no need to accept high risks to meet its objectives. Therefore, the Manager shall attempt to minimize credit risk, term risk, and liquidity risk.

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The Fund will be restricted to issues with maturities of less than thirteen months which are issued or guaranteed by the U.S. Treasury or issued by corporations rated A1 by Standard & Poor's Corporation and P1 by Moody's Investor Services. However, an unrated security may be held if it is deemed by the Manager to be A1/P1 respectively. In addition, the issuer must be known to the Manager and be acceptable to them.

3. Philosophy

Equities

Sprucegrove's mission is to provide investment management advice predominantly in the specialized area of global equities.

They aim to discover above-average businesses through the research process and to purchase these companies at below average prices – or more simply put, to discover quality companies with excellent businesses that are selling at attractive prices.

The strategy employs the "value approach" to the management of equities. Their approach is contrarian in character. It emphasizes the long term and it focuses on the selection of individual common stocks using a bottom-up approach.

Sound internal investment research is a cornerstone of their investment management process. It is the firm's belief that each investment must be based on thorough internal research, must offer safety of capital, and must promise a satisfactory long-term rate of return.

Each company in the portfolio must meet the firm's standards of investment quality including a history of above average financial performance, a secure financial position, reputable management, and growth opportunity in terms of sales, earnings, and share price.

4. Conflict of Interest

No employee of Sprucegrove will use their position or the knowledge gained therein in such a manner that a conflict arises between Sprucegrove's interests on behalf of its clients and their personal interests.

Upon association, and annually thereafter, all employees are required to disclose to Sprucegrove's Compliance Officer any outstanding commercial interests which might influence their decisions or actions including, without limitation:

- (a) direct or indirect beneficial ownership of the voting rights of any class of securities or interests in an issuer;

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- (b) the receipt of payments, gifts, entertainments or other favors which might be regarded as placing them under some obligation to a third party dealing or desiring to deal with Sprucegrove or its clients;
- (c) any outside employment, position, activities or businesses relationships which may compete or conflict to a significant extent with the interests of Sprucegrove and its clients.

If at any time an employee, or a member of their immediate family, finds that they are considering the assumption of a financial interest or outside relationship which might involve a conflict of interest, or if they are in doubts as to the proper application of this section of the Standards, they are to immediately make known all the facts to the Compliance Officer. Except as otherwise directed by the Compliance Officer, they are to refrain from exercising responsibility in any matter which might be reasonably thought to be affected by a potential conflicting interest.

Sprucegrove provides investment advisory and management services to various managed accounts and collective funds, some of which may invest in the same or similar types of securities as those in which the Fund will invest. Thus, the obligations of Sprucegrove are not exclusive. Investment decisions on behalf of the Fund are made independently from decisions for other accounts and funds managed by Sprucegrove and Sprucegrove is permitted to make an investment decision on behalf of the Fund which differs from decisions made for, or advice given to, such other accounts and funds, even though their investment objectives may be the same or similar to those of the Fund. The Trustee, J.P. Morgan Chase Bank, does not review, and has no responsibility for the investment management decisions on behalf of the Fund, or for compliance of the Fund with its investment objectives.

5. Delegation of Voting Rights

Voting rights are exercised by J.P. Morgan Chase Bank, as the Fund Trustee, under the direction of the Manager.

6. Securities Lending

Securities lending will only be transacted in circumstances in which policies and procedures have been implemented to safeguard the subject securities.

7. Review of Policy Statement

This policy statement will be reviewed no less than annually.

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**Hexavest ("Manager") EAFE Equity Fund ("Fund")
Statement of Objectives, Guidelines and Procedures**

Investment Objectives of the Fund

The Fund seeks to provide investors with capital appreciation and income generation by investing primarily in equity and quasi equity securities of issuers located in Europe, Australasia and the Far East ("EAFE") and which form part of the MSCI EAFE® Index.

Asset Classes Eligible for Investment

Subject to the investment objectives and restrictions of the Fund, the Fund may invest in any or all of the following asset categories:

- Equity securities of companies;
- Warrants, special warrants, share rights, income trusts, convertible debentures, convertible preferred shares, installment receipts or other instruments convertible into equities;
- Exchange Traded Funds (ETF) and other similar instruments providing exposure to a basket of securities (provided that the Fund's investment in any such ETF registered under the Investment Company Act of 1940 (the "1940 Act") will not exceed (a) 3% of that registered ETF's voting securities, or (b) 5% of the value of the Fund's total assets, and the value of the Fund's investments in all investment companies which are registered or required to be registered under the 1940 Act will not exceed 10% of the value of the Fund's total assets);
- American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and other similar instruments for which a market is made by leading investment dealers (provided that the Fund's investment in any such instrument issued by an investment company registered under the 1940 Act will not exceed (a) 3% of that registered investment company's voting securities, or (b) 5% of the value of the Fund's total assets, and the value of the Fund's investments in all investment companies which are registered or required to be registered under the 1940 Act will not exceed 10% of the value of the Fund's total assets);
- Bonds, debentures, notes (including floating rate notes) or other debt instruments;
- Term deposits, bankers' acceptances, call loans collateralized by Treasury Bills or similar instruments of trust companies and banks;
- Commercial paper or other money market securities;
- Currency swaps;
- Forward currency contracts; and
- Over-the-counter contracts on currency

Performance Objectives

To achieve a rate of return that will exceed that of the benchmark by an average of 2% per annum on a 4-year rolling period. However, there is no assurance that the Fund will achieve this investment objective.

Benchmark

MSCI EAFE® Index (MSCI EAFE® with net dividends reinvested) in US Dollars.

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Constraints

All guidelines and constraints are based on market value.

Asset Allocation by Class

The Manager has the discretion to change the asset mix within the range outlined below.

	Minimum (%)	Maximum (%)
Cash & Equivalents	0	10
Foreign equity exposure	90	100
Foreign currency exposure	85	100
(excluding Excluding North America)		
North American Currencies	0	15

Regional, Country and Sector Asset Allocation (equity exposure)

The Fund invests in countries that are part of the MSCI EAFE® index subject to the following (subject to a minimum of 0%):

Maximum deviation by region:

Region weight of MSCI EAFE® +/- 15%

Maximum deviation by country:

Country weight of MSCI EAFE® +/- 15%

Maximum deviation by MSCI Sector (Level 1):

Sector weight of MSCI EAFE® +/- 10%

In addition, the Fund will not invest more than 10% of its net asset value in foreign equities outside countries comprised in the MSCI EAFE® index.

Cash, Cash Equivalents & Currencies

Cash balances may be held in a currency of a country permitted by the investment policy. The Manager will actively manage currency exposure within the regional and country deviations permitted by this investment policy.

Other

Notwithstanding any other provisions of this policy or the Trust Agreement, the Fund shall earn a return only from the investment of capital, not the provision of services or goods, and it will structure its investments so that it does not exercise day-to-day management or general operating control of the business underlying a particular investment. In its capacity as an investor, however, the Fund will oversee each investment and may, in appropriate cases, or to the extent necessary to preserve its investment, exercise any rights it may possess to influence, intervene in, or control temporarily the day-to-day management of the business underlying an investment. The Fund has the right to amend its investment objectives without the approval of [Unit holders](#) [Unit holders](#), after giving [Unit holders](#) [Unit holders](#) at least 30 days' prior written notice of such amendment.

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**Walter Scott & Partners ("Manager") Limited Group Trust - International Fund ("Fund")
Investment Guidelines**

Investment Objectives

The Fund will seek long-term capital appreciation by investing in equity securities subject to the geographic and other restrictions in the more detailed descriptions below. The Fund will invest in equity securities that meet certain quantitative and qualitative investment criteria. The Fund will tend to focus on those industries or sectors experiencing upper quartile economic growth and may avoid industries which are in secular economic decline.

Guidelines

The Manager will be authorized to allocate the International Fund's assets without limitation among geographic regions and individual countries (other than the United States) based on its analysis of global economic, political and financial conditions. No more than 15% of the Fund's assets may be invested in companies located in Emerging Market Countries. For this purpose, Emerging Market Countries are those countries identified as such for purposes of the Morgan Stanley Capital Markets Indices (including any subsequent amendments thereto.) (In determining where the issuer of a security is located, the Investment Manager looks at such factors as its country of organization, the primary trading market for its securities, and the location of its assets, personnel, sales and earnings.) It is anticipated that the Fund's portfolio will contain approximately 40-60 investments.

The Fund may invest without limitation in warrants and convertible debt securities that enable the holder to acquire equity securities. The Fund may also invest indirectly in equity securities through instruments such as American Depositary Receipts. These instruments are receipts or certificates, typically issued by a local bank or trust company, which evidence ownership of underlying securities issued by an entity in another country, but which are designed to facilitate trading in the local market. The underlying securities are not always denominated in the same currency as the Depositary Receipts.

Borrowing

The Fund may not use borrowing in connection with any investment except for such short-term credits as may be necessary for the clearance or settlement of transactions.

Cash Positions

Under normal conditions, the Fund will generally seek to maintain no more than 5% of its assets in cash and cash equivalents. The Fund may hold cash-equivalents for defensive purposes during unusual market conditions or to maintain liquidity.

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Securities Lending

Although the Fund has not historically engaged in the practice and there are no current plans to do so, the Fund may engage in securities lending activity in order to earn additional income with respect to the loaned securities, none of which is payable to the Manager. Any loan of portfolio securities will be secured by collateral. When cash is received as collateral, the Fund will invest the cash and earn additional income, but will also bear the risk of any loss on such investments. Before the Fund engages in securities lending activity, the Manager will provide notice to the Fund's investors.

Grantham, Mayo, Van Otterloo & Co. LLC (GMO) ("Manager")
GMO Global All Country Equity Allocation Strategy

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Investment Objective

Total return greater than that of its benchmark, the MSCI ACWI Index.

Overview

The GMO Global All Country Equity Allocation Strategy seeks to outperform its benchmark by 2.5%-3.5%, net of fees, over a complete market cycle with lower volatility than its benchmark. The Strategy uses both top-down and bottom-up valuation methodologies to value countries, sectors, and individual securities in order to allocate assets to undervalued countries, currencies, and securities around the world. The resulting portfolio typically provides exposure to foreign and U.S. equity markets and may have exposure to foreign and U.S. fixed income markets.

Methodology

The investment process for the GMO Global All Country Equity Allocation Strategy begins with a universe generally represented by the MSCI AC World Index.** The Strategy's strategic methodology calculates optimal allocations based on long-term forecasts of relative value and risk among the major asset classes. This process analyzes country and sector levels based on factors/characteristics such as aggregated price/book, dividend yield, cash earnings, price/earnings, inflation, interest rates, etc. Once these return and risk forecasts have been developed for each country, a similar process is run at the individual security level. This forecasted return and risk information is then adjusted to incorporate the expected value-added for each of the underlying strategies which are used to implement the asset allocation portfolio. The expected value-added for each underlying strategy is determined by assessing such strategy's historical ability to add value as well as the efficiency of a given asset class.

Portfolio Construction

The GMO Global All Country Equity Allocation Strategy invests in GMO strategies (underlying stock, bond, etc., strategies). Depending upon the current valuation assessment of the global marketplace, the GMO Global All Country Equity Allocation Strategy may own different proportions of underlying strategies at different times. The Strategy attempts to rebalance opportunistically when the investment outlook has changed, when cash flows occur, or when there has been a significant change in market valuation levels.

Risks

The value of the Fund's shares changes with the value of the Fund's investments. Many factors can affect this value, and you may lose money by investing in the Fund. References to investments include those held directly by the Fund and indirectly through the Fund's investments in the underlying Funds. Some of the underlying Funds are non-diversified investment companies under the Investment Company Act of 1940, as amended, and therefore a decline in the market value of a particular security held by those Funds may affect their performance more than if they were diversified investment companies. The principal risks of investing in the Fund are

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summarized below. For a more complete discussion of these risks, including those risks to which the Fund is exposed as a result of its investments in the underlying Funds, see "Description of Principal Risks."

- **Market Risk – Equity Securities** – The market price of equity investments may decline due to factors affecting the issuing companies, their industries, or the economy and equity markets generally. If an underlying Fund purchases equity investments at a discount from their value as determined by the Manager, the Fund runs the risk that the market prices of these investments will not appreciate to or decline from that value for a variety of reasons, one of which may be the Manager's overestimation of the value of those investments. An underlying Fund also may purchase equity investments that typically trade at higher multiples of current earnings than other securities, and the market prices of these investments often are more sensitive to changes in future earnings expectations than those other securities. Because the Fund and the underlying Funds normally do not take temporary defensive positions, declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares.
- **Management and Operational Risk** – The Fund runs the risk that GMO's investment techniques will fail to produce desired results. The Fund's portfolio managers may use quantitative analyses and models, and any imperfections or limitations in those analyses and models could affect the ability of the portfolio managers to implement the strategies they wish to pursue. By necessity, these analyses and models make simplifying assumptions that limit their efficacy. Models that appear to explain prior market data can fail to predict future market events. Further, the data used in models may be inaccurate and may not include the most recent information about a company or a security. The Fund also runs the risk that GMO's fundamental assessment of an investment may be wrong or that deficiencies in GMO's or another service provider's internal systems or controls will cause losses for the Fund or impair Fund operations.
- **Non-U.S. Investment Risk** – The market prices of many non-U.S. securities fluctuate more than those of U.S. securities. Many non-U.S. markets are less stable, smaller, less liquid, and less regulated than U.S. markets, and the cost of trading in those markets often is higher than in U.S. markets. Non-U.S. portfolio transactions generally involve higher commission rates, transfer taxes, and custodial costs than similar transactions in the U.S. In addition, the Fund may be subject to non-U.S. taxes, including potentially on a retroactive basis, on (i) capital gains it realizes or dividends or interest it receives on non-U.S. securities,

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(ii) ~~transactions~~ Transactions in those securities and (iii) the repatriation of proceeds generated from the sale of those securities. ~~Also~~In addition, many non-U.S. markets require a license for the Fund to invest directly in those markets, and the Fund is subject to the risk that it could not invest if its license were terminated or suspended. In some non-U.S. markets, prevailing custody and trade settlement practices (e.g., the requirement to pay for securities prior to receipt) expose the Fund to credit and other risks with respect to participating brokers, custodians, clearing banks or other clearing agents, escrow agents and issuers.

Further, adverse changes in investment regulations, capital requirements or exchange controls could adversely affect the value of the Fund's investments. These and other risks (e.g., nationalization, expropriation or other confiscation of assets of non-U.S. issuers) tend to be greater for investments in companies tied economically to emerging countries, the economies of which tend to be more volatile than the economies of developed countries.

- Liquidity Risk – Low trading volume, lack of a market maker, large position size, or legal restrictions may limit or prevent the Fund or an underlying Fund from selling particular securities or unwinding derivative positions at desirable prices.
- Derivatives Risk – The use of derivatives involves the risk that their value may not move as expected relative to the value of the relevant underlying assets, rates, or indices. Derivatives also present other risks, including market risk, liquidity risk, currency risk and counterparty risk.
- Fund of Funds Risk – The Fund is indirectly exposed to all of the risks of an investment in the underlying Funds in which it invests, including the risk that those Funds will not perform as expected. Because the Fund bears the fees and expenses of the underlying Funds in which it invests, a reallocation of the Fund's investments to underlying Funds with higher fees or expenses will increase the Fund's total expenses. The fees and expenses associated with an investment in the Fund are less predictable than those associated with an investment in funds that charge a fixed management fee.
- Smaller Company Risk – Smaller companies may have limited product lines, markets, or financial resources, may lack the competitive strength of larger companies, or may lack managers with experience or depend on a few key employees. The securities of small- and mid-cap companies often are less widely held and trade less frequently and in lesser quantities, and their market prices often fluctuate more, than the securities of companies with larger market capitalizations.
- Natural Resources Risk – To the extent an underlying Fund concentrates its assets in the natural resources sector, the value of its portfolio is subject to factors affecting the natural resources industry and may fluctuate more than the value of a portfolio that consists of securities of companies in a broader range of industries.

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- **Commodities Risk** – Commodities prices can be extremely volatile and exposure to commodities can cause the price of the Fund's shares to decline and fluctuate more than the price of shares of a fund with a broader range of investments.
- **Currency Risk** – Fluctuations in exchange rates can adversely affect the market value of non-U.S. currency holdings and investments denominated in non-U.S. currencies. In addition, hedging a non-U.S. currency can have a negative effect on performance if the U.S. dollar declines in value relative to that currency.
- **Leveraging Risk** – The use of reverse repurchase agreements and other derivatives and securities lending creates leverage. Leverage increases the magnitude of the Fund's losses when the value of its investments (including derivatives) declines.
- **Counterparty Risk** – The Fund runs the risk that the counterparty to an over-the-counter (OTC) derivatives contract or a borrower of the Fund's securities will be unable or unwilling to make timely settlement payments or otherwise honor its obligations.
- **Real Estate Risk** – To the extent an underlying Fund concentrates its assets in real estate-related investments, the value of its portfolio is subject to factors affecting the real estate industry and may fluctuate more than the value of a portfolio that consists of securities of companies in a broader range of industries.
- **Market Disruption and Geopolitical Risk** – Geopolitical and other events may disrupt securities markets and adversely affect global economies and markets. Those events, as well as other changes in non-U.S. and U.S. economic and political conditions, could adversely affect the value of the Fund's investments.
- **Short Sales Risk** – The Fund runs the risk that an underlying Fund's loss on a short sale of securities that the underlying Fund does not own is unlimited.
- **Market Risk – Fixed Income Investments** – The market price of a fixed income investment can decline due to a number of market-related factors, including rising (or, in some limited cases, declining) interest rates and widening credit spreads, or decreased liquidity that reflect the market's uncertainty about the value of a fixed income investment (or class of fixed income investments).
- **Market Risk – Asset-Backed Securities** – The market price of fixed income investments with complex structures, such as asset-backed securities, can decline due to a number of factors, including market uncertainty about their credit quality and the reliability of their payment streams. Payment streams associated with asset-backed securities held by the Fund depend on many factors (e.g., the cash flow

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generated by the assets backing the securities, the deal structure, the credit worthiness of any credit-support provider, and the reliability of various other service providers with access to the payment stream) and a problem in any one of these areas can lead to a decrease in the payment stream expected by the Fund at the time it purchased the asset-backed security.

- Credit Risk – The Fund runs the risk that the issuer or guarantor of a fixed income investment will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. The market price of a fixed income investment will normally decline as a result of the issuer's or guarantor's failure to meet its payment obligations. Below investment grade securities have speculative characteristics, and changes in economic conditions or other circumstances are more likely to impair the capacity of issuers to make principal and interest payments than is the case with issuers of investment grade securities.
- Focused Investment Risk – Focusing investments in countries, regions, sectors, companies, or industries with high positive correlations to one another creates more risk than if the Fund's investments were less correlated.
- Large Shareholder Risk – To the extent that a large number of shares of the Fund is held by a single shareholder (e.g., an institutional investor), the Fund is subject to the risk that a redemption by that shareholder of all or a large portion of its Fund shares will disrupt the Fund's operations.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

**Loomis, Sayles & Company ("Manager")
Medium Grade Full Discretion ("Fund")
Statement of Objectives, Guidelines and Procedures**

Objectives

The objective of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios. The return of the Manager should exceed that of the custom benchmark (30% of the rate of return of the Citigroup High-Yield Index, 5% of the rate of return of the J.P. Morgan Non-U.S. Hedged Bond Index and 65% of the rate of return of the Barclays Capital Aggregate Bond Index), net of fees, over a typical market cycle (generally three to five years).

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

All investments are subject to compliance with Investment Policies, Objectives and Guidelines for Ventura County Employees' Retirement Association (VCERA). The portfolio must be managed in accordance with the guidelines and restrictions.

In addition, the Manager shall adhere to the CFA Institute Code of Ethics and Standards of Professional Code of Conduct as presented in the *Standards of Practice Handbook*.

Guidelines

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

U.S. Treasuries	Derivative mortgage-backed securities
U.S. Agencies	Bonds of developed non-U.S. issuers
U.S. government sponsored enterprises	Bonds of emerging non-U.S. issuers
U.S. corporate bonds	Fixed income and currency futures, options, forward contracts and swaps
Mortgage-backed securities	Private placement bonds
Asset-backed securities	Rule 144(a) securities
Municipal bonds	Commercial mortgage-backed securities
Structured notes	Capital notes/Preferred trust certificates
Cash equivalents	Private and public commingled funds approved by the Board

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

Restrictions

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

Security Type Qualifications

Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. The instruments may not be used to lever the portfolio.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

Preferred stock, convertible preferred stock and bonds convertible into common stock are permitted to a limit of 20% of the market value of the portfolio.

The portfolio may receive instruments prohibited or not contemplated herein through the conversion, exchange, reorganization, corporate action or bankruptcy of an otherwise permissible investment. The manager is required to notify the Board upon receipt of any such instrument and sell the equity securities as soon as it is prudent or possible to do so.

Credit Quality

The total fixed income portfolio will maintain a minimum average credit quality rating of BBB- by S&P and Baa3 by Moody's. Issues that are unrated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

At time of purchase, debt securities must be rated at least "C" by Moody's, Fitch, and S&P or if unrated by Moody's, Fitch, and S&P, debt securities must have a Loomis Sayles rating that is equivalent of a "C" rating by Moody's, Fitch, and S&P.

Bonds rated investment grade by either Fitch, Moody's or Standard & Poor's must comprise at least 65% of the total portfolio.

Non-U.S. Exposure

Non-U.S. dollar bond exposure shall not exceed 20% of the total portfolio. Bonds issued by any non-U.S. entity shall not exceed 40% of the total portfolio. Examples of securities included in this restriction include the following:

Yankee bonds	Emerging market sovereign bonds
Non-U.S. dollar sovereign bonds	Emerging market non-sovereign bonds
Non-U.S. dollar non-sovereign bonds	Supranational bonds
Structured notes linked to non-U.S. markets	

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Excluding 144A instruments, 10% in bonds issued by entities not domiciled in the J.P. Morgan Government Bond Index. This restriction is meant to limit the portfolio's emerging market exposure to no more than 10%.

2% in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.

Additional Sector and Position Limits

To the extent that the portfolio holds an allocation to non-investment grade emerging market bonds, that exposure shall also count against the total portfolio's 35% high yield maximum and 55% non-U.S. maximum combined allocation.

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include IOs, POs and inverse floaters.

Excluding U.S. government, agency and GSE issuers the portfolio is limited to a 5% allocation in any single U.S. issuer. On a monthly basis the Manager will provide a report to VCERA noting investment in any issuer that exceeds 3% of the market value of the portfolio.

The portfolio's combined allocation to the security types listed below may not exceed 55%.

Bonds not receiving an investment-grade rating from either Fitch, Moody's or Standard & Poor's¹ (not to exceed the 35% maximum allocation noted above)

Bonds issued by non-U.S. entities

Privately placed debt, excluding 144(a) securities

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues

Commingled funds. Up to 15% of the market value of the portfolio, as determined at the time of purchase, may be invested in the Loomis Sayles Full Discretion Institutional Securitized Fund. Additionally, up to 15% of the market value of the portfolio, as determined at the time of purchase, may be invested in the Loomis Sayles Senior Loan Fund LLC.

The commingled funds listed above are not rated by S&P, Moody's or Fitch. Therefore, Loomis Sayles' internal ratings will be used for purposes of calculating the portfolio's credit quality restrictions. The average rating of these commingled funds as determined by Loomis are high yields and the investments will also be governed by the limitation on high yield investments. The commingled funds are U.S. instruments denominated in U.S. dollars.

¹ Any nationally recognized rating agency is acceptable.

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Investments in the commingled Funds shall not be subject to any guidelines or restriction included herein, with the exception of the credit quality, country, duration and currency restrictions. In applying these restrictions, the credit quality, country, duration and currency of the applicable Commingled Funds will be used and not the credit qualities, country, durations and currencies of the underlying instruments in the Commingled Funds.

Compliance Monitoring

If any of the parameters described above are breached (except those that are to be determined at the time of purchase), as a result of market movements, capital additions or withdrawals, credit downgrades or other events not within the control of Loomis Sayles, Loomis Sayles shall have a reasonable period of time, generally not to exceed three months, to bring the portfolio into compliance with the foregoing investment guidelines. Loomis Sayles will notify VCERA in a timely manner if any guideline exception occurs, providing details and a recommendation. Loomis Sayles will report on the status of any exception no less frequently than every two weeks until the matter is resolved.

Performance Measurement

The net-of-fee returns of the total fixed income portfolio are expected to be in the top quartile of comparable bond managers during trailing one year periods.

The portfolio's performance is also expected to compare favorably to that of the custom benchmark, net of fees, on a risk-adjusted basis. The custom benchmark consists of 30% of the rate of return of the Citigroup High Yield Index, 5% of the rate of return of the J.P. Morgan Non-U.S. Hedged Bond Index and 65% of the rate of return of the Barclays Capital Aggregate Bond Index.

Reporting Requirements

An update on organizational developments and performance for the portfolio and benchmark for the month and one-year returns gross and net of fees will be sent to VCERA and its investment consultant by the 10th of the following month, as well as a discussion of the portfolio's recent strategy and expected future strategy and demonstration of compliance with guidelines.

Reconcile every quarter accounting, transaction, and asset summary data with custodian reports and communicate and resolve any significant discrepancies with the custodian. Send a copy of the reconciliation to the VCERA by the 10th of the following month subsequent to quarter end.

The Manager will meet with VCERA's staff as often as determined necessary by VCERA's Board, and will meet with the Board at least annually.

Ensure that all documents, exhibits and written materials that will be used during the annual meeting between VCERA's Board and the investment manager be submitted to and received by VCERA at least seven business days in advance of these meetings.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

Provide VCERA with proof of liability and fiduciary insurance coverage of at least \$5 million, in writing, on an annual basis.

The Manager will keep VCERA apprised of relevant information regarding its organization, personnel and investment strategy. The firm will notify VCERA within one business day of any change in the lead personnel assigned to manage the account.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

**LOOMIS SAYLES ("Manager")
GLOBAL FIXED INCOME TRUST ("Fund")
INVESTMENT OBJECTIVES AND GUIDELINES**

This portion of the Total plan is invested in the Loomis Sayles Global Fixed Income Trust, a private commingled vehicle. The guidelines are governed by the Private Placement Memorandum and Declaration of Trust of the trust, a copy of which has been provided to the Board at inception. Loomis Sayles will provide updated governing documents to the Board, with material changes going into effect 30 days after providing notice of such changes. The below excerpt describes the objective and general investment permissible in the trust fund.

Investment Objective and Policies

The Fund's investment objective is high total investment return through a combination of current income and capital appreciation.

The Fund seeks to achieve its objective by investing typically 80% of its net assets (plus any borrowings made for investment purposes) in fixed-income securities. The Fund invests primarily in investment-grade fixed-income securities worldwide, although it may invest up to 20% of its assets in below investment-grade fixed-income securities (commonly known as "junk bonds"). Below investment-grade fixed-income securities are rated below investment-grade quality (*i.e.*, none of Moody's Investor Service, Inc., Fitch Investor Services, Inc. or Standard & Poor's Ratings Group have rated the securities in one of their respective top four rating categories). The Fund's fixed-income securities investments may include unrated securities if the Investment Manager determines that the securities are of comparable quality to rated securities that the Fund may purchase.

Securities held by the Fund may be denominated in any currency and may be issued by issuers located in countries with emerging securities markets. The Fund may invest in fixed-income securities of any maturity. The Fund also may invest in foreign currencies and may engage in other foreign currency transactions for investment or hedging purposes.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

**LOOMIS SAYLES ("Manager")
Strategic ALPHA TRUST ("Fund")
INVESTMENT OBJECTIVES AND GUIDELINES**

This portion of the Total plan is invested in the Loomis Sayles Global Fixed Income Trust, a private commingled vehicle. The guidelines are governed by the Private Placement Memorandum and Declaration of Trust of the trust, a copy of which has been provided to the Board at inception. Loomis Sayles will provide updated governing documents to the Board, with material changes going into effect 30 days after providing notice of such changes. The below excerpt describes the objective and general investments permissible in the trust.

Investment Objective and Policies

The Fund's investment objective is to provide absolute returns in excess of the great of (1) the three month London Interbank Offered Rate ("LIBOR") in U.S. dollars plus two to four percent of (2) 7% with a risk volatility goal of approximately 4 to 6% over market cycles. LIBOR is used for comparative purposes only and is not intended to parallel the risk or investment style of the Fund.

The Fund may invest a substantial portion of its assets in public or private debt securities and other instruments issued or guaranteed by U.S. or non-U.S. issuers, including, but not limited to, government securities (including their agencies, instrumentalities and sponsored entities), municipal securities, non-U.S. sovereign debt, equity securities, corporate obligations, commercial and residential mortgage-backed securities, asset-backed securities, convertibles and preferred securities, synthetic bonds, warrants, derivatives, when-issued and delayed delivery securities, over-the-counter ("OTC") securities, loans, loan participations and assignments, senior loans, second lien loans, other secured and unsecured loans, real estate investment trusts ("REITS"), securities of issuers in real estate-related industries, structured notes, hybrid instruments, currencies, commingled pools (including but not limited to exchange-traded funds ("ETFs") and closed-end funds), temporary high quality cash items and cash equivalents.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

**Reams Asset Management Company ("Manager")
Core Plus Fixed Income ("Fund")
Statement of Objectives, Guidelines and Procedures**

Objectives

The objective of the fixed income portfolio is to maximize risk-adjusted total return by systematically pursuing relative value opportunities throughout all sectors of the fixed income market. The targeted annual return in times of lower volatility is LIBOR plus 300 basis points per annum while minimizing the probability of a negative absolute return in any calendar year. In times of higher volatility, the targeted annual return will increase in correlation with relative value opportunities.

The fixed income portfolio will be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

All investments are subject to compliance with Investment Policies, Objectives and Guidelines for Ventura County Employees' Retirement Association (VCERA). The portfolio must be managed in accordance with the guidelines and restrictions.

In addition, the Manager shall adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct as presented in the *Standards of Practice Handbook*.

Guidelines

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

U.S. Treasuries	Derivative mortgage-backed securities
U.S. Agencies	Bonds of developed non-U.S. issuers
U.S. corporate bonds	Bonds of emerging non-U.S. issuers
Mortgage-backed securities	Fixed income and currency futures, options, forward contracts and swaps
Asset-backed securities	Private placement bonds
Municipal bonds	Rule 144(a) securities
Structured notes	Commercial mortgage-backed securities
Cash equivalents	Capital notes/Preferred trust certificates
	Commingled funds investing in fixed income securities

Restrictions

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

Duration

Average portfolio duration shall be within a range of -3 to 8 years. There is no restriction on individual holdings.

Security Type Qualifications

Swaps, including credit default swaps, futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. These instruments may not be used to lever the portfolio.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

Credit Quality

Bonds may be rated investment grade or below investment grade by either Moody's, Fitch, or Standard & Poor's without limitation. Issues that are unrated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Non-U.S. Dollar Exposure

Non-U.S. dollar holdings shall not exceed 30% of the total portfolio at purchase, including positions hedged and unhedged.

Additional Sector and Position Limits

The portfolio is limited to a maximum of 10% outstanding issuer at purchase.

No single credit industry shall exceed 25% of the portfolio at purchase.

Emerging market securities shall not exceed 30% of the portfolio at purchase.

Performance Measurement

The net-of-fee returns of the total fixed income portfolio are expected to be in the top quartile of comparable bond managers during trailing one year periods.

The portfolio's performance is also expected to compare favorably to that of the Index, net of fees, on a risk-adjusted basis.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

Reporting Requirements

Monthly – Fund statement and performance for the portfolio and benchmark for the month, quarter, year-to-date, fiscal year-to-date, 1 year, 3 year, 5 year and since inception annualized returns gross and net of fees will be sent to the Board of Retirement (Board) of VCERA and its investment consultant by the 10th of the following month. A discussion of the portfolio's recent strategy and expected future strategy and demonstration of compliance with guidelines shall also be included.

The Manager shall meet with VCERA staff as often as determined necessary by the Board, and will meet with the Board at least annually.

The Manager shall ensure that all documents, exhibits and written materials that will be used during the annual meeting between the Board of Retirement and the Manager shall be submitted to and received by the Retirement Office at least seven business days in advance of these meetings.

The Manager will provide the Board with proof of liability and fiduciary insurance coverage of at least \$5 million, in writing, on an annual basis.

The Manager shall keep VCERA apprised of relevant information regarding its organization, personnel and investment strategy. The Manager shall notify the VCERA within one business day of any change in the lead personnel assigned to manage the account.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

**Western Asset Management Company ("Manager")
Core Fixed Income ("Fund")
Statement of Objectives, Guidelines and Procedures**

Objectives

The objective of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios. The return of the Manager should exceed that of the Barclays Capital Aggregate Bond Index, net of fees, over a typical market cycle (generally three to five years).

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

All investments are subject to compliance with Investment Policies, Objectives and Guidelines of Ventura County Employees' Retirement Association (VCERA). The portfolio must be managed in accordance with the guidelines and restrictions.

In addition, the Manager shall adhere to the CFA Institute Code of Ethics and Standards of Professional Code of Conduct as presented in the *Standards of Practice Handbook*.

Guidelines

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

U.S. Treasuries	Derivative mortgage-backed securities
U.S. Agencies	Bonds of developed non-U.S. issuers
U.S. corporate bonds	Bonds of emerging non-U.S. issuers
Mortgage-backed securities	Fixed income and currency futures, options, forward contracts and swaps
Asset-backed securities	Private placement bonds
Bonds and preferred stock convertible into common stock	Rule 144(a) securities
Preferred stock	Commercial mortgage-backed securities
Municipal bonds	Capital notes/Preferred trust certificates
Structured notes	Commingled funds investing in fixed income securities
Cash equivalents	4(2) CP (commercial paper)
Bank loans	

Restrictions

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration. Each of the restrictions limiting concentration are applicable only at the time of purchase.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

Duration

Portfolio duration is to be kept within +/- 20% of the Barclays Capital Aggregate Bond Index.

Security Type Qualifications

Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. These instruments may not be used to lever the portfolio.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

Credit Quality

The total fixed income portfolio will maintain a minimum average credit quality rating of AA. Issues that are unrated by any major credit rating agency shall be rated by the Manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds rated investment grade by either Moody's, Fitch, or Standard & Poor's¹ must comprise at least 70% of the total portfolio.

The portfolio's below-investment grade holdings are limited to a maximum of 1% in any single issuer at the time of purchase. A maximum of 1.5% of the portfolio's weight may be allocated to a below-investment grade issue. Limited Liability Company (LLC) vehicles are to be exempt from the definition of the single issuer.

Non-U.S. Exposure

Bonds issued by any non-U.S. entity shall not exceed 20% of the total portfolio. Examples of securities included in this restriction include the following:

Yankee bonds	Emerging market sovereign bonds
Non-U.S. sovereign bonds	Emerging market non-sovereign bonds
Non-U.S. non-sovereign bonds	Supranational bonds
Structured notes linked to non-U.S. markets	

5% in bonds issued by entities not domiciled in the J.P. Morgan Government Bond Index. This restriction is meant to limit the portfolio's emerging market exposure to no more than 5%.

1% in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.

¹ Any nationally recognized rating agency is acceptable.

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Additional Sector and Position Limits

To the extent that the portfolio holds an allocation to non-investment grade emerging market bonds, that exposure shall also count against the total portfolio's 10% high yield maximum and 20% non-U.S. maximum combined allocation.

Excluding U.S. government and agency issues the portfolio is limited to a 5% allocation in any single investment grade U.S. issuer.

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include IOs, POs and inverse floaters.

The portfolio's combined allocation to the security types listed below may not exceed 30%.

Bonds not receiving an investment-grade rating from either Moody's, Fitch, or Standard & Poor's

Bonds issued by non-U.S. entities

Privately placed debt, excluding 144(a) securities

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues

The portfolio's performance is also expected to compare favorably to that of the Barclays Capital Aggregate Index, net of fees, on a risk-adjusted basis.

The Manager will meet with VCERA staff as often as determined necessary by VCERA's Board, and will meet with the Board at least annually.

Reporting Requirements

An update on organizational developments and performance for the portfolio and benchmark for the month, and 1-year returns gross and net of fees will be sent to VCERA and its investment consultant by the 10th of the following month. In addition, a discussion of the portfolio's recent strategy and expected future strategy and demonstration of compliance with guidelines.

Reconcile every quarter accounting, transaction, and asset summary data with custodian reports and communicate and resolve any significant discrepancies with the custodian. Send a copy of the reconciliation to VCERA by the 10th of the following month subsequent to quarter-end.

The Manager will meet with VCERA staff as often as determined necessary by VCERA's Board, and will meet with the Board at least annually.

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Ensure that all documents, exhibits and written materials that will be used during the annual meeting between VCERA and the Manager be submitted to and received by VCERA at least seven business days in advance of these meetings.

Provide VCERA with proof of liability and fiduciary insurance coverage of at least \$5 million, in writing, on an annual basis.

The Manager will keep VCERA apprised of relevant information regarding its organization, personnel and investment strategy. The firm will notify VCERA within one business day of any change in the lead personnel assigned to manage the account.

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**Western Asset Management Company ("Manager")
Index Plus ("Fund")
Investment Guidelines**

Objectives

The objective of the Index Plus portfolio is to maximize the long term total return in the portfolio while providing a core domestic equity exposure to the Standard & Poor's (S&P) 500 Index and controlling and restricting overall portfolio risk. The return of the manager should exceed that of the S&P, net of fees, over a typical market cycle (generally three to five years).

S&P 500 Index exposure will be accomplished by using the cheapest method of exposure including index futures, options, and the common stocks underlying the index. The core strategy will normally hold a long position in the S&P 500 index futures which will be rolled forward on a quarterly basis. The notional dollar amount of index exposure through any combination of futures, options, and stocks will be confined to a range of 95% to 105% of the market value of the underlying short term investment portfolio, with a target of 100%.

The implied interest rate of the futures or option contracts establishes a cost of funds for the term of the index exposure. The funds in excess of the initial margin will be invested in a short term fixed income portfolio. The objective of this portfolio will be to maximize the total return subject to prudent risk and liquidity constraints described below. To the extent that returns exceed the costs of index exposure for the term, enhanced performance versus the index is achieved.

All investments are subject to compliance with Investment Policies, Objectives and Guidelines of Ventura County Employees' Retirement Association (VCERA). The portfolio must be managed in accordance with the guidelines and restrictions.

In addition, the Manager shall adhere to the CFA Institute Code of Ethics and Standards of Professional Code of Conduct as presented in the *Standards of Practice Handbook*.

Guidelines

The total portfolio may invest in the following fixed income securities and their futures or options derivatives, individually or in commingled funds, subject to credit, diversification and marketability guidelines below, may be held outright and under resale agreement:

1. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies;
2. Obligations of U.S. and non-U.S. corporations such as mortgage bonds, convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations;
3. Mortgage-backed and asset-backed securities (including CDOs, CBOs & CLOs);

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4. Obligations, including the securities of emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants, and forward contracts;
5. Obligations issued or guaranteed by U.S. local, city and state governments and agencies;
6. Swaps, forwards, options on swaps, options on forwards;
7. Securities defined under Rule 144A and Commercial Paper defined under Section 4(2) of the Securities Act of 1933;
8. Swaps, futures and options on commodity indices; and
9. Bank Loans

Any of the following equity securities, indices and their futures or options derivatives, individually or in commingled funds, subject to credit and marketability guidelines below, may be held outright:

1. The Standard & Poor's (S&P) 500 capitalization weighted index
2. Individual equity securities included in the S&P 500 index

Duration Exposure

The average weighted duration of portfolio security holdings will always be one year or less.

Credit Quality

In all categories, emphasis will be on high-quality securities and the weighted average of portfolio holdings will not fall below AA- or equivalent. Holdings are subject to the following limitations

1. Rated Securities: At least 90% of the portfolio will be of "investment grade", i.e. rated as high as or higher than the following standards or their equivalent by one or more nationally recognized statistical rating organizations (NRSRO):
 - i. Standard & Poor's BBB-, or A-2, or
 - ii. Moody's Baa3, or Prime-2, or
 - iii. Fitch BBB-, or D-2
2. Other Unrated Securities: Securities not covered by the standards in (1) above will normally be, in the judgment of Western Asset Management, at least equal in credit quality to the criteria implied in those standards
3. Downgraded Securities: In the event downgraded securities cause a breach of the maximum percentage allocation permitted in below investment grade, the client will be consulted on the appropriate course of action
4. Securities Inside 270 Days: For securities with legal final maturities of 270 days or less, Western Asset Management may use the underlying credit's short term ratings as proxy for establishing the minimum credit requirement

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Diversification

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

1. Maturity: Securities covering the full range of available maturities are acceptable.
2. Sector: The portfolio will at all times be diversified among the major market sectors, subject to the following limitations:
 - a. Up to 10% of the portfolio may be invested in non-dollar denominated securities; up to 5% of the portfolio may be invested in un-hedged non-dollar denominated securities;
 - b. Up to 5% of the portfolio may be invested in U.S. securities rated below investment grade;
 - c. Up to 10% of the portfolio may be invested in non-U.S. securities (dollar and non-dollar denominated) rated investment grade; and
 - d. Up to 10% of the portfolio may be invested in CDOs, CBOs & CLOs
3. Issuer: Holdings are subject to the following limitations:
 - a. Obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations and agencies are eligible without limit
 - b. Obligations of other national governments are limited to 10% per issuer
 - c. Private mortgage-backed and asset-backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer
 - d. Obligations of investment grade corporations are limited to 3% per issuer
 - e. Obligations of other issuers are subject to a 2% per issuer limit excluding investments in commingled vehicles
4. Credit: No more than 10% of the portfolio will be invested in issuers rated below Baa3 or BBB- / A2 or P2
5. Derivatives:
 - a. No more than 20% of the portfolio will be invested in original futures margin and option premiums, exclusive of any in-the-money portion of the premiums. Short (sold) options positions will generally be hedged with cash, cash equivalents, current portfolio security holdings, or other options or futures positions
 - b. Use of leverage is not permitted in the portfolio

Marketability

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at minimum cost and accurate market valuation.

Futures and options contracts will be limited to liquid instruments actively traded on major exchanges or, if over-the-counter for options, executed with major dealers.

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Performance Measurement

Total portfolio return will be calculated and reported at the end of each calendar month by marking to their respective fair value all index futures and option positions, and the increment from management will be judged against the following standards:

1. other enhanced index managers pursuing similar strategies as measured by recognized measurement services and
2. the U.S. equity market as measured by the total return of the S&P 500 index with all dividends reinvested in the index

These standards will be treated as a target only and should not be considered as an assurance or guarantee of performance.

Performance Objectives

The Manager shall aim to exceed the total return of the S&P 500 index with all dividends reinvested in the index by 75 basis points annually.

Reporting Requirements

An update on organizational developments and performance for the portfolio and benchmark for the month and 1-year returns gross and net of fees will be sent to VCERA and its investment consultant by the 10th of the following month. A discussion of the portfolio's recent strategy, expected future strategy, and demonstration of compliance with guidelines will be included.

Reconcile every quarter accounting, transaction, and asset summary data with custodian reports and communicate and resolve any significant discrepancies with the custodian. Send a copy of the reconciliation to VCERA by the 10th of the following month subsequent to quarter end.

The Manager will meet with VCERA staff as often as determined necessary by VCERA's Board, and will meet with the Board at least annually.

The Manager will ensure that all documents, exhibits and written materials that will be used during the annual meeting between VCERA and the Manager be submitted to and received by the Retirement Office at least seven business days in advance of these meetings.

The Manager will provide the VCERA with proof of liability and fiduciary insurance coverage of at least \$5 million, in writing, on an annual basis.

The Manager will keep VCERA apprised of relevant information regarding its organization, personnel and investment strategy. The firm will notify VCERA within one business day of any change in the lead personnel assigned to manage the account.

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**PIMCO ("Manager") Global Bond (unhedged) ("Fund") Investment Guidelines
Ventura County Employees' Retirement Association
Manager Account # 7384**

The investment objectives of the Fund are as stated below.

Performance Objective

Achieve "excess return" in the order of 1.5%, relative to the index (Barclays Capital Global Aggregate Bond Index) with a corresponding tracking error target of 2.0-3.0%.

Risk Objective

The performance objective should be achieved while minimizing the volatility of return relative to the index over a rolling 3-year period. Volatility is measured as the annualized tracking error (standard deviation of monthly alphas). Ex-post tracking error should, under normal circumstances, be limited to below 4.0%.

Investment Guidelines

Pacific Investment Management Company LLC ("PIMCO") will have full discretion within the guidelines to invest in Global securities of all types represented in the benchmark and those specifically listed in these guidelines. Unless otherwise stated below, the following guidelines will be applied at the time of purchase.

Risk Limits

Duration:	+/- 2 years versus the Benchmark
Currency:	+/- 10% versus benchmark per currency
	+/-25% versus benchmark in aggregate total

Transaction Types

Purchases and sales may be transacted for regular or deferred/forward settlement, including repurchase agreements and reverse repurchase agreements. Hedging, spread, and income generating strategies may include the use of short sales. Currency spot and forward transactions can be used as a means of hedging or taking active currency exposure within risk limits specified above.

PIMCO has authority to take actions in connection with exchanges, reorganizations, conversions or other corporate events that could result in the receipt of securities (including, but not limited to, common stock) that may or may not be referenced elsewhere in the investment guidelines. PIMCO may, in the best interest of the portfolio, hold these for a reasonable amount of time.

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Credit Quality Minimums

Should an issue have more than one rating, it should be treated as having a rating equal to the middle of Moody's, S&P and Fitch or the lower when there are only 2. If an issue is not rated by one of these rating agencies, then PIMCO will determine a rating.

Minimum Average Portfolio Quality:	A+ Rating
Minimum Issue Quality:	B- Rating
Minimum Commercial Paper Quality:	A2/P2

Should an issue be downgraded below these minimums, PIMCO will determine the appropriate action (sell or hold) based on the perceived risk and expected return.

Leverage

In order to avoid leverage, PIMCO must set aside cash or cash equivalents that it reasonably believes to be sufficient to cover net long exposures resulting from swap, bond futures and forward positions held in the Account. Cash equivalents are defined as investment grade securities (minimum S&P/Moody's rating of A3/P3, or equivalent) with a duration of one-year or less. Cash equivalent securities will not be counted against asset type limits as set forth below. The account will avoid transactions that add economic leverage to the portfolio by inappropriately magnifying risk exposures outside of the portfolio's expected ranges.

Asset Types and Investment Vehicles

- Government and Agency Securities
- Supranational Securities
- Municipal Bonds
- Corporate Securities
- Event-linked Bonds
- Money Market Instruments
- Bank Loans
- Yankee and Euro Bonds
- Mortgage-Backed Securities (including collateralized mortgage obligation ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs"))
- Mortgage Derivatives
- Asset-Backed Securities
- Preferred Stock
- Contingent Securities
- Emerging Market Securities
- Private Placements
- Structured Notes
- Futures and Forwards
- Foreign Exchange
- Options, Caps and Floors

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- Swaps and Swaptions
- Credit Default Swaps (Long and Short)
- PIMCO Pooled Funds (with prior written agreement from the client)

Prohibited Investments

- Collateralized debt obligations ("CDOs"), collateralized loan obligations ("CLOs") and collateralized bond obligations ("CBOs")

PIMCO Funds Private Account Portfolio Series

Portfolio

PIMCO Short-Term Portfolio
PIMCO U.S. Government Sector Portfolio
PIMCO Mortgage Portfolio
PIMCO Investment Grade Corporate Portfolio
PIMCO Long Duration Corporate Bond Portfolio
PIMCO Short-Term Floating NAV Portfolio II
PIMCO FX Strategy Portfolio
PIMCO Real Return Portfolio
PIMCO Municipal Sector Portfolio
PIMCO Asset-Backed Securities Portfolio
PIMCO High Yield Portfolio
PIMCO International Portfolio
PIMCO Emerging Markets Portfolio
PIMCO Developing Local Markets Portfolio
PIMCO Senior Floating Rate Portfolio

Concentration Limits

PIMCO will limit the concentrations within the portfolio to the following:

Concentration Limits to Issuers:

- Issuers rated A- or higher 5%
Excludes sovereign debt of governments rated A- or higher, debt guaranteed by those governments, and US agency securities, which have no limit, and supranational issuers, which have a 25% limitation. Specific mortgage pools and trusts are considered separate issuers, and each tranche within a CMO is considered a separate issue.
- Issuers rated BBB+ to BBB- 3% (5% for sovereigns)
- Issuers rated BB+ and lower 2%

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Concentration Limits to Sectors or Security Types:

- High Yield Securities (rated below BBB-) 10%
- Emerging Market Securities: 20%
- PIMCO uses World Bank definition for emerging markets which is based on GNP per capita calculation.
- Below investment grade rated securities cannot exceed 20% of the portfolio when combining High Yield securities and below investment grade rated Emerging Market Securities.
- Private Placements (excluding 144As): 10%
- Mortgage Derivatives 10%
- Structured Notes 5%
- Preferred Securities 5%
- Bank Loans 10%

Compliance Monitoring

If any of the parameters described above are breached (except those that are to be determined at the time of purchase), as a result of market movements, capital additions or withdrawals, credit downgrades or other events not within the control of PIMCO, PIMCO shall have a reasonable period of time, generally not to exceed three months, to bring the portfolio into compliance with the foregoing investment guidelines. PIMCO will notify the Board in a timely manner if any guideline exception occurs, providing details and a recommendation. PIMCO will report on the status of any exception no less frequently than every two weeks until the matter is resolved.

Reporting Requirements and Transaction Types

Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month, quarter, year-to-date, fiscal year-to-date, 1-year, 3-year, 5-year and since inception annualized returns gross and net of fees will be sent to the Board and its investment consultant by the 10th of the following month. In addition, a discussion of the portfolio's recent strategy and expected future strategy and demonstration of compliance with guidelines shall be included.

PIMCO will meet with staff as often as determined necessary by VCERA's Board, and will meet with the Board at least annually.

Ensure that all documents, exhibits and written materials that will be used during the annual meeting between the VCERA and PIMCO be submitted to and received by VCERA at least seven business days in advance of these meetings.

Provide VCERA with proof of liability and fiduciary insurance coverage of at least \$5 million, in writing, on an annual basis.

PIMCO will keep VCERA apprised of relevant information regarding its organization, personnel and investment strategy. PIMCO will notify the VCERA within one business day of any change in the lead personnel assigned to manage the account.

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**Prudential Financial, Inc. ("Manager")
Prudential Property Investment Separate Account (PRISA) ("Fund")
Investment Guidelines**

Listed below are the guidelines for the PRISA investments. Prudential is the discretionary investment manager and fiduciary to the fund. The guidelines are monitored in connection with each investment decision made by Prudential on behalf of PRISA. These guidelines may be waived or modified in the best interest of the fund. Prudential shall notify VCERA within 30 days of any waiver or modification.

Assets consist primarily of direct and indirect interests in real property, including without limitation fee interests, leasehold interests, debt investments such as mortgage loans, swaps, options and interests in general and limited partnerships, limited liability companies, real estate investment trusts or any other entity, security or vehicle which, directly or indirectly, has real property as its primary underlying investment.

Assets may also include a moderate amount of cash and the investment equivalents of cash (to facilitate the orderly programming of permanent investments). The Account may utilize secured or unsecured debt in connection with the acquisition, management or disposition of assets of the Account, and in connection with such borrowings may utilize interest rate caps and similar instruments or methods to control risk.

Legal Structure

PRISA is a separate account product offered through a group insurance annuity contract issued by The Prudential Insurance Company of America.

Vehicle Life

Open-end fund

General Description

PRISA is a broadly diversified equity real estate portfolio that invests primarily in completed, income-producing properties with strong cash flow that is expected to increase over time and thereby provide the potential for capital appreciation. The Account makes investments in office, retail, industrial, apartment, hotel, and self-storage properties. Investments may be made through direct property ownership, or indirectly through such vehicles as joint ventures, general or limited partnerships, limited liability companies, mortgage loans and other loans including mezzanine debt, or interests in companies or entities that directly or indirectly hold real estate or real estate interests. The Account has a preference for wholly owned properties but will enter into a venture if PRISA retains unilateral control over the management, sale and financing of the venture's assets or has a viable mechanism for exiting the venture, within a reasonable period of time, without the partner's consent.

Property Type Focus: The fund will make equity investments in all major property types including office, residential, retail, industrial, hotel, and self-storage properties.

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Regional Focus: Investments are made in various US markets.

Leverage: As of 3/31/09, the leverage was 35.5%.

Reporting

Manager provides quarterly fund reviews to all PRISA investors describing fund performance and activity. Audited financial statements are provided to investors, which includes an opinion letter representing that the Fund's performance is presented in conformity with the Global Investment Performance Standards (GIPS) previously reported under the AIMR Performance Presentation Standards.

Investment Objective and Performance

The objective of the fund is to annually achieve a total return, which exceeds the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE).

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**UBS Realty Investors LLC ("Manager")
Real Estate Separate Account (RESA) ("Fund")
Investment Guidelines**

Listed below are guidelines for RESA investments. UBS Realty is the discretionary investment manager and fiduciary to the fund. The guidelines are monitored in connection with each investment decision made by UBS Realty on behalf of RESA. These are guidelines that may be waived or modified in the best interest of the fund. Notice of waiver or modification shall be given to VCERA within 30 days of such waiver or modification.

1. Joint ventures, partnerships or limited liability companies, which own real estate and involve a third party, including in connection with developmental projects, will not exceed 50% of total gross assets.
2. Mortgage loans, including construction loans, will not exceed 30% of total gross assets; a construction loan may only be made in connection with the prospective acquisition of a property on a wholly-owned or partnership, joint venture or limited liability company basis or in connection with a conventional or participating mortgage. Construction loans will not exceed 10% of total gross assets.
3. Publicly-traded REITs, other real estate securities, and collateralized mortgage obligations will not exceed 5% of total gross assets.
4. No one NCREIF property type will exceed 50% of total gross assets.
5. Total investment in any one NCREIF geographic region will not exceed 50% of total gross assets.
6. Total investment in any local market (CBSA)¹ will not exceed 20% of total gross assets.
7. No single new investment shall exceed 10% of total gross assets (applies separately to each non-contiguous investment in a portfolio transaction).
8. Mortgage debt will generally not exceed 20% of total gross assets.
9. Short-term borrowing or a line of credit generally will not exceed 15% of total gross assets.
10. All investments shall be located in the United States.
11. Equity interests (including through joint ventures, partnerships and limited liability companies) in office, apartment, retail, industrial and hotel properties will constitute at least seventy percent (70%) of Gross Asset Value.

¹ Core-Based Statistical Area formerly Metropolitan Statistical Area

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12. Cash and cash equivalents will be invested primarily in short-term fixed-income securities such as US government obligations, high quality commercial paper, repurchase agreements, and certificates of deposit, the average maturity of which will be generally 25-65 days and the maximum maturity of which will be generally limited to 185 days.

UBS Realty, as the advisor, may permit temporary and/or immaterial deviations from these guidelines from time to time, in its discretion, if UBS Realty believes that such deviations are in the best interest of TPF, UBS Realty may make prospective changes to the Investment Guidelines at any time, including altering or eliminating existing guidelines or adding new ones, provided that VCERA is given written notice of any material changes at least 90 days before such changes before effective.

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RREEF ("Manager") America REIT III, Inc. ("Fund") Investment Plan

This plan presents a continuing strategy for managing and increasing the real estate assets of RREEF America REIT III, Inc. (the Fund or RAIII). RAIII is a private real estate investment trust (REIT) that seeks to provide shareholders with leveraged value added investment returns above those available from unleveraged, income-producing "core" properties. The Fund achieves these returns by upgrading the physical condition, occupancy and operating characteristics of the properties in which it invests, enhancing their income streams and market values. Fund activities include the acquisition, physical improvement, market repositioning, active management, and sale of well-located apartment, industrial, office, and retail properties in major metropolitan markets across the continental United States. The Fund also invests in new speculative development projects.

RAIII is overseen by an independent Board of Directors and managed by RREEF America L.L.C. (RREEF), a wholly-owned subsidiary of DB Real Estate, the real estate investment management arm of Deutsche Bank Asset Management. RREEF is a major global real estate investment advisor to institutional clients established in 1975.

This Investment Plan (Plan) serves as RREEF's operating guide in building and managing the Fund's portfolio during the 2008 Plan year. RREEF operates on a discretionary basis within the parameters of the Plan. Any investment decisions or actions that fall outside of Plan guidelines require specific, prior approval by the Fund's Board of Directors. The Plan is updated and approved annually. It may be modified at any point during the year in response to changes in real estate markets and performance prospects or in the Fund's investment needs.

Investment Objectives

RAIII seeks to generate nominal, leveraged total returns of 12.0% to 16.0% over the long term from a combination of current income and capital appreciation².

In addition the Fund seeks to provide:

- Property acquisitions significantly below replacement cost providing downside protection
- Total returns (leveraged) 300 to 500 basis points over core returns
- Opportunistic property sales
- Quarterly dividend distributions
- Speculative development opportunities where higher potential returns are commensurate with the risk

Overall leveraged targeted returns for the Fund are as follows:

² Targeted returns in this Investment Plan are Time-Weighted Rates of Returns, as required per the Association for Investment Management and Research (AIMR), are before the deduction of any investment management fees, and are calculated as follows:

$$\text{Income (Loss) + Appreciation (Depreciation)}$$

$$\text{Beginning Net Asset Value + Time-Weighted Contributions - Time-Weighted Distributions}$$

Income (Loss) represents all operating income of the investment (i.e. rents, interest and other income from day-to-day investment activities) less operating expenses, determined on an accrual basis in accordance with generally accepted accounting principles, but without regard to debt service, capital expenditures (including leasing commissions), and non-cash expenditures such as depreciation and amortization of intangibles.

Appreciation (Depreciation) represents all realized and unrealized gains and losses on an investment, based on fair market value as determined by the Fund's Board of Directors.

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Income Return:	2.00% - 4.00%
Appreciation Return:	6.00% - 8.00%
Total Expected Return:	8.00% - 12.00%
Dividend Yield:	1.00% - 2.50%

Fund Life

The Fund is an infinite life vehicle. No investment strategy should be subject to limits based upon the life of the vehicle.

Use of Leverage

Moderate leverage up to a maximum of 60 percent of the market value of assets held by the Fund will be used when deemed prudent and advantageous to Fund performance. This leverage may be achieved either through the assumption of existing debt or the placement of new financing. As a general rule, leverage will only be employed if it positively contributes to Fund performance. Under some circumstances, however, properties may be acquired with unfavorable loans in place if (1) management feels they will be attractive investments despite the existing debt, and (2) expected returns meet minimum performance thresholds.

Individual assets may be leveraged up to a maximum of 80 percent of their market value, provided the Fund's overall debt cap is not exceeded.

During 2008 there are 3 loans of \$18 million expiring. We are actively working with our capital markets group to renegotiate or replace these loans. The following chart details the Fund's future debt expirations:

% Debt Expiring in 2013 and beyond:	36%
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Types of Property to be Acquired

Since this investment is in "wind-down" mode, no further property acquisitions will be made.

Control

The Fund will acquire controlling equity interests in the properties it acquires, either directly or in joint venture with a local partner. In a majority of cases, it will acquire full equity ownership. Direct ownership by the Fund provides management with maximum control and operating flexibility over each asset. However, consideration of joint ventures with carefully selected partners is likely to provide attractive investment opportunities.

Individual Investment Sizes

Equity investment in individual properties will range in size from \$20 million to 10% of the Fund's gross market value. Properties may be acquired through portfolio acquisitions provided the individual properties meet the Fund's size and other criteria. Smaller sized individual property investments of less than \$20 million may be undertaken where the proposed acquisition will complement the existing portfolio.

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Property Holding Periods

Individual property assets may be sold at any time in order to maximize their value to the Fund. Management expects that most will be held for a four to eight year period in order to complete the planned value-adding activity, lease or stabilize the asset, maximize the tax advantages of the REIT structure, and sell on the most favorable terms.

Sustainability

New acquisitions, development, and the existing portfolio will be reviewed in the context of their sustainability and "green" attributes. Where economically justified, a LEED designation will be sought. Early results indicate that environmentally green properties are also more economical to operate and create better value in the long term.

Geographic Focus

Property investments are made in major metropolitan areas within the continental United States, recommended by RREEF's Research Department and where RREEF has an established market presence, superior local knowledge, access to potential investments, and the ability to provide effective property management and leasing. Target markets vary by property type as noted in the property strategy sections.

All the metropolitan areas targeted for investment are large and economically diverse and have a history of attracting institutional investment. Economic and real estate market conditions vary widely from city to city, between the different property types within each metropolitan area and individual submarkets. These differences are carefully reflected in the initial financial underwriting of each investment, in its price, and in the management plan and operating decisions for each property.

At this mid-stage of the economic and property market cycles, market selectivity is more important than was the case in the earlier recovery stages of the cycles. As a result, primary consideration should be given to those metropolitan areas where economic growth should be the strongest, based on above-average activity in international financial services, defense, trade, medical and high-tech (see Map below). RREEF Research believes these sectors will be the strongest for the US economy during the next several years. These "Globally-Linked" locations should achieve particularly strong economic growth and should be primary targets for investment. This economic growth will continue to produce broad-based activity and increases in space demand. These markets also typically provide above-average household education and income, reflecting their "knowledge-based" foundation.

In the final section of this Plan, investment strategies have been delineated for the four major property sectors, industrial, office, apartment and retail. Target market designations, as shown for each investment style (pp 27-30), are based on both demand and supply conditions.

Investments in specific submarkets of other larger metropolitan areas are considered if economic and market conditions in the submarket are sound and the specific investment opportunities are appropriate to RAII's investment strategy. Based on gross value, 86 percent of existing RAII investments are located in "globally linked" markets.

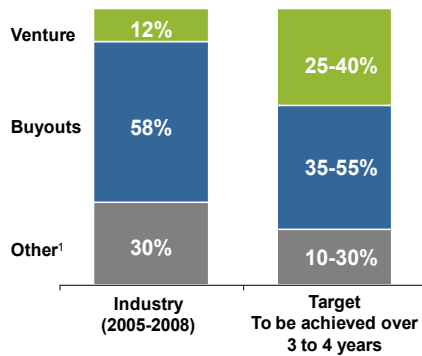
VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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The Adams Street ("Manager") Partnership Fund Program - U.S. Fund ("Fund")
Portfolio Guidelines

The portfolio guidelines of the U.S. Fund are subject to the Trade Allocation Policy and are as follows:

- Each participant's subscription to the U.S. Fund will be allocated to private equity partnership investments that in turn invest a substantial portion of their assets in North American companies typically over three to four years;
- No more than 10% of a participant's subscription to the U.S. Fund will be allocated to any single partnership investment;
- Up to 40% of each participant's subscription to the U.S. Fund may be used to opportunistically purchase secondary interests in private equity partnerships and /or their portfolio companies; and
- Adams Street anticipates 15-30 North American private equity partnership investments will be made during each year of the U.S. Fund's investment period. Adams Street Partners will target a participant's subscription to the U.S. Fund to be diversified by subclass as set forth in the chart below.

Over a typical three- to four-year commitment period, the U.S. Fund is targeted to invest as follows:



¹ Includes mezzanine/subordinated debt, restructuring/distressed debt and special situations partnerships
 Source: Venture Economics

**Pantheon ("Manager" Global Secondary Fund IV (PGSF) ("Fund")
Portfolio Guidelines**

Objective

Fund IV's objective is to generate superior risk-adjusted returns for its investors. It aims to achieve this through investing in portfolios of private equity assets, encompassing leveraged/management buyout, venture capital, development capital and mezzanine funds, as well as direct portfolios of private equity assets and other privately negotiated transactions in the secondary market.

Portfolio Diversification

Pantheon will seek to diversify Fund IV's assets by vintage year, sector, industry, stage and geography, as appropriate.

Global Portfolios

Local presence and depth of resources in the major private equity markets worldwide enable Pantheon to maximize its competitive advantage in global transactions.

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**HarbourVest Partners L.P. ("Manager")
Dover Street VIII L.P. ("Fund")**

Portfolio Guidelines

The primary objective of the Fund is to provide compelling investment returns through a selected portfolio of private equity investments.

The Fund intends to invest in secondary transactions in venture capital, leveraged buyout, and other private equity assets. The Fund may also invest up to 10% of its capital in strategic primaries and up to 5% of its capital in secondary purchases of real estate and infrastructure assets, and debt. The Fund will consider many different types of transactions: traditional limited partner interests, portfolios of direct investments (synthetic secondaries) and structured transactions. As a result of its investment strategy, the Fund expects to be diversified by geography, stage, industry, vintage year, and type, as appropriate.

Notwithstanding anything contained herein to the contrary, the Fund will only make investments in accordance with the terms of the Amended and Restated Limited Partnership Agreement of Dover Street VIII L.P. dated as of November 1, 2011, as amended by amendment dated December 10, 2012, and as may be further amended from time to time.

Tortoise Energy Infrastructure MLP Separate Account Investment Guidelines

Single Issuer Concentrations – We limit exposure to any single issuer to 10% of portfolio market value at the time of purchase. Occasionally, market value fluctuations may cause positions to increase above 10% of portfolio market value. Although not required by these guidelines, we will normally reduce positions to below 10% of portfolio value in a reasonable amount of time.

Industry Concentrations – By its nature, the Energy Infrastructure MLP Separate Account product is a strategy concentrated in energy infrastructure MLPs. We will invest up to 100% of the portfolio in securities issued by MLPs and/or their affiliates (general partners, i-shares, etc.).

Sector Allocations – Our strategy emphasizes more stable, fee based cash flow segments of the MLP asset class (for example – long haul, natural gas transmission, crude oil, and refined petroleum product pipelines). These MLPs tend to be the larger, better capitalized, and higher credit rated entities within the MLP sector. Generally, at least 70% of the portfolio will be invested in MLPs that derive a majority of their business from long-haul pipelines. Other segments of the MLP sector that we may invest in currently include natural gas gathering and processing, propane, coal, and shipping MLPs; however, we intend to limit aggregate exposure to these segments to 30% or less of the portfolios.

We limit portfolio exposure to sectors with the most commodity price exposure:

- We generally will not invest in companies that have a majority of their revenues directly exposed to changes in commodity prices (e.g., exploration and production MLPs).
- Natural gas gathering and processing, propane, and coal MLPs have varying degrees of commodity price exposure. The degree of exposure varies significantly depending on the proportion of the MLP's contracts that are fee based (no commodity price exposure) as well as the degree to which the MLPs

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have hedged the non-fee based portions of their business. In this area, we prefer MLPs who mitigate their commodity price exposure via some or all of the following: fee based contracts, hedging programs, higher distribution coverage ratios.

Cash Balances – We aim to limit cash and money market balances to 5% or less of portfolio value. However, we may temporarily hold higher cash balances for defensive reasons or to facilitate a trade program.

Leverage – we do not employ leverage in our separate account product.

Long- Only – This is a long-only strategy. We will not engage in short selling.

Use of Derivatives – We will not use any derivative strategies within separate accounts. We will only make exceptions to this guideline when specifically requested by a client.

Custody of Client Assets – Under no circumstances will Tortoise Capital Advisors custody client assets. A qualified, independent third – party custodian must be selected by the client prior to establishing an account. Tortoise Capital Advisors will have authorization to direct trades within clients' custody accounts; however, Tortoise Capital Advisors will not accept authorization or responsibility for transferring cash or other assets in or out of the custody account. The only exceptions to this are investment management fee disbursement and securities trades which are typically handled on a 'delivery versus payment' basis.

Guideline Review – These guidelines will be reviewed on an as needed basis and will not be changed without client notification.

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Bridgewater Associates, LP ("Manager")

All Weather Portfolio, LLC ("Fund")

Description

The Fund is a commingled fund and the practices of the Manager and the Fund will be in accordance with the Fund's offering documents and related Fund documents, as may be amended and supplemented from time to time.

Investment Objective and Strategy:

The investment objective of the Fund is to seek to provide returns with no material bias to perform better or worse in any particular type of economic environment. In other words, the portfolio seeks to perform approximately as well in rising or falling inflation periods, or in periods of strong or weak economic growth. To achieve this objective, the Fund, directly or indirectly, holds investments in different asset classes that have different biases to economic conditions. These asset classes may include the currency, fixed-income, inflation linked bond, equity, and commodity markets, among others.

Allocations to the asset classes described above are set from time to time by the Manager in its sole discretion so that they balance each other (i.e., represent an approximately equal portion of the Fund's risk, as determined by the Manager in its sole discretion), thereby minimizing the portfolio's exposure to changing economic conditions. The Manager does not vary the weights of investments based on any tactical view of how particular investments will perform, but rather attempts to balance the risk of the Fund based on its understanding of the relationship between asset classes and economic environments, provided that the Manager may vary the allocations to asset classes based on its assessment of market conditions, in a manner that is consistent with the long term investment objective of the Fund. The Fund will invest primarily in exchange traded futures contracts, over-the-counter derivatives, including without limitation, credit derivatives, cash securities, and spot and forward contracts on the international, interbank currency market but may invest in other securities or instruments. Asset classes may be added to and removed from the portfolio by the Manager from time to time in its sole discretion. The Fund may invest in both listed and unlisted securities or instruments which may be investment grade or non-investment grade.

The long-term annual targeted return of the Fund is expected to be approximately 5% to 7% above cash (90-day Treasury bills) while targeting a tracking error of approximately 10%, where tracking error is measured as the standard deviation of the portfolio return of the Fund above cash. The Fund may employ leverage in the forms of trading on margin, entering into other forms of direct and indirect borrowings and investing in derivative instruments that are inherently leveraged.

Investment activity of the Fund described herein may be carried out directly or indirectly through a trading company or trading vehicle.

Trading Policies and Restrictions:

In order to seek to limit exposure to risk, the Fund requires the Manager to observe the following trading policies:

- The Fund will not invest directly in real estate.
- The Fund will generally not invest directly in physical commodities. However, the Fund may invest in precious metals or in derivative contracts on physical commodities.
- The Fund will not take legal or management control of the issuers of underlying investments.
- The Fund may invest in regulated or unregulated money market funds or similarly constructed business trusts or other commingled or collective investment funds, (including investment funds managed by the Manager or by an external manager acceptable to the Manager). Holdings within commingled vehicles are not subject to the specific guidelines and restrictions of the Fund but must be managed in a manner

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consistent with the overall investment objectives of the Fund. When assets of the Fund are allocated to a commingled investment fund managed by the Manager, the Fund will not pay any additional investment management fees or profit participation fees within such investments.

Derivatives, repurchase agreements, reverse repurchase agreements and securities lending, among other forms of leverage, may be used by the Fund in achieving its Risk Parity strategy, and VCERA has agreed that limits thereon in Section VII and VIII shall not apply to Risk Parity portfolios (to the extent such provisions would otherwise apply).

The Manager is retained by the Fund. Consistent with the foregoing, the Manager will provide services to the Fund as fiduciary to the Fund in the aggregate.

Without limiting the foregoing, duties of the Manager in respect of proxy voting, best execution, insurance, client communications (including such matters as are expressly referenced in "Duties of the Investment Managers") and reporting shall be as set forth in the offering documents of the Fund.

The Manager shall promptly deliver material changes in the offering documents of the Fund to VCERA. The guidelines and description of the Fund's investment program set forth in this exhibit shall be automatically deemed updated, without further action of the Manager, by the terms of any material changes so delivered.

VCERA's Board will notify the Manager if it is determined for any reason that there is a change in VCERA's investment needs affecting the stated objectives.

Consistent with the treatment of commingled funds as set forth in Section IV, the specific terms set forth in these guidelines supersede the general terms set forth in the remainder of VCERA's Investment Policy Manual.

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**Clifton PIOS INVESTMENT GUIDELINES
PIOS® SUMMARY DESCRIPTION AND DEFINED TERMS
Updated October 2014**

These PIOS® Guidelines form an integral part of that certain Investment Management Agreement dated January 28, 2008 between the Ventura County Employees' Retirement Association ("Client") and The Clifton Group Investment Management Company as Investment Manager (herein after referred to as "Clifton").

Clifton's PIOS® program is an overlay investment strategy that seeks to provide for the disciplined maintenance of target asset allocations. PIOS® uses financial products to overlay the selected assets of a fund (the underlying "manager portfolio(s)" which are managed by a manager chosen solely by Client) to seek to bring about a more exact match with target allocations. PIOS® can be broken down into six components:

PIOS® PROGRAM ELEMENT	CHECK BOX IF UTILIZED	PROGRAM ELEMENT SUMMARY DESCRIPTION
<u>Invest Unallocated Cash</u>	[X]	Clifton monitors a fund's overall positions daily and synthetically invests unallocated cash using financial futures contracts. Cash will be invested synthetically as directed by Client.
<u>Invest Manager Cash</u>	[X]	Clifton monitors manager cash positions daily and synthetically invests uninvested portions using financial futures contracts. Client will communicate to Clifton which manager's cash positions are to be included in the overlay. Cash will be invested synthetically as directly by Client.
<u>Manage Transitions</u>	[X]	Client will be responsible for contacting Clifton as transition events arise. Each transition issue will be reviewed individually with the objectives of maintaining a seamless transition to target market exposure (no market timing) and minimizing transition costs. Transition events include, but are not limited to, an impending transition of: a) a Custodian, b) manager, c) asset allocations between or among manager portfolios, d) changes in asset allocation targets, e) "bridging" cash positions in alternative asset classes, or f) this program to another manager or termination of program.
<u>Maintain Target Allocation</u>	[X]	A fund's actual allocation is calculated and compared to targets. If actual allocations differ from targets by more than the client's predetermined tolerance level, the fund is synthetically rebalanced on an overlay basis using futures. Target allocations and variance bands as provided by Client are set forth in Addendum A .

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Alpha Transport [] It is possible to separate alpha and beta and capture them independent of one another. In doing so a fund may be able to more efficiently manage specified objectives by targeting a combination of alpha and beta that represents a desired risk/return profile. Alpha can be taken from an asset class where a manager has outperformed the benchmark and "transported" back to the base asset class through the use of futures and/or swaps. The Index and exposure to be maintained as well as the "embedded" beta of the manager portfolio(s) provided by Client are set forth in **Addendum A**.

Duration Modification [] The fund's duration may be modified, subject to the duration constraints of the fund, by using exchange traded futures and/or OTC contracts on fixed income securities to lengthen or shorten effective duration. Established targets and related ranges as provided by Client are set forth in **Addendum A**.

In addition to the use of futures or other financial products as stated in the Product Element Summary Description above, Clifton may utilize other or additional financial products such as Exchange Traded Funds or options or other financial products as limited and subject to the authority Client has granted Clifton.

EACH PROGRAM ELEMENT IS DESCRIBED IN FURTHER DETAIL BELOW

OBJECTIVES

PIOS® seeks to achieve three key objectives: increase returns, improve tracking relative to target allocations and improve portfolio efficiency and flexibility. PIOS®'s impact on Client's fund is dependent in part upon the extent to which each PIOS® component is utilized.

PORTFOLIO MONITORING

On a regular basis (which will be, utilizing reasonable efforts, a daily basis, however in no case less than monthly, and depending upon availability), Clifton will seek to obtain all information from State Street ("Custodian") regarding the market value of the Client's manager portfolios ("Information"). In the case of commingled funds (e.g. mutual funds) or other assets where a "download" of Information is not available, a portfolio value tracking methodology will be established for each holding as set forth in **Addendum B**. This may involve manually retrieving fund values on a regular basis from the manager for such holdings. In addition, each manager's portfolio holdings will be further broken down defining the specific allocation to equity, fixed income, cash or any other asset class which is to be overlaid by PIOS®.

Subject to the foregoing, where electronic interfacing is reasonably available for the purposes set forth herein, Clifton will be responsible for establishing a communication link and electronic interface methodology enabling the transfer of Information from the Custodian. From time to time such communication link may be unavailable due to

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system outages or other technical issues outside of Clifton's reasonable control, which include, but are not limited to internet problems, or hardware or software issues.

In the event that Information cannot be transferred on any given day, regardless of the reason, Clifton will attempt to receive Information through an alternative method, such as fax. Client will reasonably assist Clifton in obtaining Information. If Information is ultimately not received by Clifton, an adjustment to the previous day's portfolio value will be made using benchmark index total returns as a proxy. Regardless of the method by which Clifton obtains or is to obtain Information (which may include but is not limited to electronic download, manual retrieval or benchmark index proxy), Client acknowledges and agrees that Clifton will rely on Information provided by these methods without further investigation or confirmation.

In the event that the aggregate fund value changes by more than 1% in a day, Clifton will seek to identify the origin of change (e.g. markets) and contact Client if the reason is not clearly identifiable. If an individual manager portfolio's value changes by more than 3%, a similar process will be followed.

INDEX REPLICATION

Each index replication portfolio will be periodically rebalanced based on the methodology described for each index replication portfolio.

Client's index replication information is set forth in Addendum A.

DOMESTIC EQUITY

When acquiring (long) or removing (short) domestic equity exposure for Client, financial products including but not limited to equity index futures contracts will be used individually or in combination to seek to replicate the benchmark index (es) designated by Client. The replication approach utilized by Clifton will seek to minimize tracking error after giving consideration to trading costs.

INTERNATIONAL EQUITY

When acquiring (long) or removing (short) international equity exposure for Client, financial products including but not limited to international equity index and currency futures will be used individually or in combination to seek to replicate benchmark index(es) as designated by Client. The replication approach utilized by Clifton will seek to minimize tracking error after giving consideration to trading costs.

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DOMESTIC FIXED INCOME

When acquiring (long) or removing (short) domestic fixed income exposure for Client, financial products including but not limited to US fixed income futures will be used individually or in combination to seek to replicate the benchmark index(es) as designated by Client. The replication approach utilized by Clifton will seek to minimize tracking error after giving consideration to trading costs.

MANAGER ASSET CLASS ASSIGNMENTS

See daily PIOS® report posted on the company's web site. Client is responsible for informing Clifton, at its earliest opportunity, of any changes in managers or when class assignments are revised.

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PIOS® PROGRAM ELEMENT DESCRIPTIONS

INVEST UNALLOCATED CASH

If the Invest Unallocated Cash program element is utilized by Client, this section will apply.

Unallocated fund cash is generally defined as:

- 1. Cash balances for the PIOS® overlay pool.** A cash overlay pool will be established with the Custodian to provide the margin necessary for PIOS® positions. The size of the margin pool will be a function of the size of PIOS® overlay positions as well as Client's desire to increase the level of overall fund liquidity. Clifton is responsible for providing Client's representative with an estimate of variation and initial margin required, as well as margin pool adequacy/sensitivity reports for the PIOS® program on a daily basis via Clifton's website at www.theclifongroup.com. Clifton will attempt to contact Client's representative if the margin pools move to a level requiring the addition or variation margin or when excess margin is present in the margin pool.
- 2. Cash held at the fund level in excess of target allocations.** For example, this may be cash from a terminated manager waiting for a new manager to be selected and funded or other fund level cash balances as designated by Client. Cash held at the fund level will be synthetically invested as directed by Client's representative.

The overlay targets for the unallocated cash exposure are set forth in Addendum A.

INVEST MANAGER CASH

If the Invest Manager Cash program element is utilized by Client, this section will apply.

Cash held by equity managers. Cash held by equity managers (including estimated cash in commingled accounts as designated by Client) will be deployed synthetically in the manager's benchmark index or as requested by Client.

Cash held by fixed income managers. Cash held by fixed income managers will not be deployed synthetically unless otherwise requested by Client.

Cash held by other managers. Cash held by other managers may be deployed as requested by Client.

On a daily basis, un-invested or unallocated manager cash is identified and invested via an overlay in the appropriate asset class(es). It is Client's responsibility to establish and revise from time to time the asset class categories and weights and communicate any such revisions to Clifton.

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Invest Manager Cash information is provided in Addendum A.

MANAGE TRANSITIONS

If the Manage Transitions program element is utilized by Client, this section will apply.

The Client's PIOS® program representative will be responsible for contacting Clifton with as much advance notice as practicable as transition events arise. Client must provide Clifton with information as specified by Clifton, and in a reasonable time period as so deemed solely by Clifton. Clifton will provide transition management services as provided herein on a best efforts basis, based upon information provided by Client. Minimal information requirements of Clifton may be obtained from Clifton and may be provided on a document or otherwise, posted on Clifton's website.

Each transition issue will be reviewed individually with the objectives of: 1.) minimizing imbalances in actual asset class positions, 2.) maintaining a seamless transition to target market exposure (no market timing), and 3.) minimizing transaction costs.

Clifton acknowledges that there may be transition events that do not require the use of Clifton's services.

SPECIAL CONSIDERATIONS AND RISKS

Tracking Error: Over the term of the PIOS® program for Client, Clifton believes there may be tracking error between the actual overlay portfolio and target allocations described in these Guidelines. For example, futures contract may not exist for certain indices. To attempt to replicate such index results, a blend of futures contracts on securities of various maturities is utilized. This blend of futures contracts may or may not replicate the performance of the actual index. This is a form of tracking error. Tracking error could be material. Other sources for tracking error may include, among others:

- Execution value versus previous day's closing index value
- Transaction costs
- Change in relative futures premiums
- Index replication variances and differences
- Mid-day information flows

Leverage: Leverage introduces special risks and will change the volatility of Client's underlying assets (manager portfolios). Margin is a form of leverage. Adverse moves in the futures positions can require Client to post additional margin beyond those amounts initially deposited. Failure to maintain sufficient margin may result in the closing out of futures positions in a manner not consistent with the Guidelines. Leverage in the form of portfolio volatility or margin requirements may result in a loss to Client.

Futures: Client understands that the use of futures entails risks. These risks include:

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- Market Risk – The potential that the market moves in a manner adverse to the futures position causing a mark-to-market loss of capital.
- Liquidity Risk – To the extent the futures position generates a loss in excess of margin available, the fund will require liquid assets to satisfy any outstanding commitments or experience liquidation of positions.
- Collateral Risk – The fund may experience losses on the underlying designated assets in addition to potential losses on the index market exposure overlaying these assets.
- Information Risks – As described above under “Portfolio Monitoring”, Clifton will maintain index market exposures based on designated asset values provided by one or more third party(ies). Clifton cannot verify these values but will rely on this information as being reflective of true fund values. If actual fund values are different from the values provided by such third parties, losses may result from over or under exposure to the desired index.
- Leverage Risk – Notional exposure in excess of portfolio capital or fund collateral may produce a significant loss of capital to the fund.

EXECUTION GUIDELINES

In accordance with these policy guidelines, Clifton has the authority to execute trades which are intended to achieve program objectives and are consistent with the structure as described herein.

A daily tracking report will be generated by Clifton using fund data downloaded from the custodian bank, subject to the limitations regarding availability of daily data as set forth in the Portfolio Monitoring section above. The tracking report will generally be completed near the opening of the U.S. market enabling necessary transactions to be completed at the open of the domestic markets. If trades required by the PIOS® policy are not executed due to uncontrollable events (e.g. trading halts) Clifton will contact Client to discuss alternatives. Clifton will implement order execution for all Guidelines based transactions in a manner to seek to avoid having the net synthetic index exposure greater than the underlying total fund cash amount for which exposure, maintenance or rebalancing is sought. In certain instances, such as fixed income and international equity synthetic index exposure, the notional amount of futures contracts utilized may be more or less than the specific exposure sought, but the net synthetic index exposure would remain less than the underlying total fund cash amount, which is unleveraged from a market exposure standpoint.

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For example, removing fixed income duration through futures contracts does not typically require sale of a notional amount of contracts equal to the notional amount of underlying fixed income securities held (e.g., \$10 in fixed income holdings with a duration of 5 can become "zero" duration cash through the sale of \$5 in treasury futures with a duration of 10). An opposite example occurs for gaining international equity exposure in that for every dollar of aggregate exposure desired, one dollar of foreign stock index futures contracts are needed plus one dollar of foreign currency futures contracts are needed (e.g., to gain \$10 in FTSE index exposure, \$10 in FTSE futures are required plus \$10 in British pound futures). This is because foreign stock index futures alone do not include exposure to the US \$.

In each of the foregoing examples, it is the synthetic index exposure which remains unleveraged. By combining the foregoing two principles, the concept of not introducing leverage within the PIOS® program is illustrated:

Assume under the PIOS® program a client fund ("Fund X") has \$100 in total assets consisting of \$30 in large cap equity securities at a manager with a S&P 500 benchmark, \$50 in fixed income securities with a duration of 5 at a manager with a Barclays Aggregate Index benchmark, \$10 in international equity exposure with a EAFE Index benchmark and \$10 in cash. Fund X desires to be fully invested 40% in large cap, 40% in fixed income with a duration of 5, and 20% in international equity. Under the PIOS® program, Clifton would purchase \$10 in S&P 500 futures contracts, sell \$5 in fixed income futures contracts with a duration of 10 and purchase \$10 in foreign stock index futures and \$10 in foreign currency futures to bring Fund X into compliance with its asset allocation targets.

The net notional amount of contracts outstanding would be \$25 (long \$10 in S&P index futures minus \$5 short in treasury futures for the fixed income exposure reduction plus \$20 in foreign stock index and currency futures to gain the international equity exposure). Yet the position is neutral from a market exposure stand point because the synthetic index exposure of \$10 in long S&P futures, \$10 in short Barclays index exposure and \$10 in long EAFE index exposure (net of \$10 long) does not exceed the then cash amount of \$10 in Fund X.

Notwithstanding the foregoing discussion of leverage, the use of margin, which is a form of leverage, has special consideration as described above under the caption "Special Considerations and Risks".

REPORTING AND COMMUNICATION

Clifton will provide the following to Client:

1. A tracking report summarizing actual fund allocations, manager holdings (to the extent available), actual PIOS® positions and key program parameters. This report is available daily (in normal circumstances) via Clifton's web site (www.thecliftongroup.com).
2. A program summary report describing the performance of the program relative to the predetermined benchmarks (produced monthly).
3. An accounting report containing transaction details, position values, etc. (produced quarterly).

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4. All Clifton employees, including portfolio managers, are accessible to answer questions or clarify activity.
5. In the event market conditions warrant a change to these Guidelines, Clifton will initiate contact with the Client's contact person to discuss any recommended changes.
6. In person performance reviews with a portfolio manager are anticipated to be conducted annually, or more often if requested by Client. Client may request that other personnel from Clifton or its consultants are present for such performance reviews.

There is no assurance the Client will achieve its objective through the use of the PIOS® program. Past performance does not guaranty future results. Clifton does not warrant any particular rate of return, level of tracking error or index replication reliability.

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Addendum A

Client will select the assets to be overlaid by Clifton's PIOS® program. Specifically, that portion shall consist of those funds designated by Client as cash reserves at its custodian as well as cash held from time to time by other investment managers for Client (the manager portfolio(s)).

The asset class allocation targets and associated benchmark indexes are as follows:

<u>Asset Class</u>	<u>Target %</u>	<u>Benchmark Index</u>
Domestic Equity	34.00%	Wilshire 5000
Global Equity	10.00%	MSCI ACWI (including US)
International Equity	16.00%	MSCI ACWI (ex US)
Fixed Income	25.00%	Barclays Aggregate
Private Equity*	5.00%	N/A
Real Estate*	10.00%	NCREIF Property
Cash	<u>0.00%</u>	N/A
Total:	100.00%	

*For PIOS® Program purposes, target exposure will be equated with actual exposure with the difference allocated proportionally to the four replicable asset classes - Domestic Equity, Global Equity, International Equity and Fixed Income. For example, if the actual allocation to Private Equity is 4.00% and the long-term allocation is 5.00%, and the actual allocation to Real Estate is 9.00% and the long-term allocation is 10.00%, the difference of 2.00% is allocated as follows:

<u>Asset Class</u>	<u>Target %</u>	<u>Proportional Adjustment</u>	<u>Adjusted Target Allocation</u>
Domestic Equity	34.00%	0.80%	34.80%
Global Equity	10.00%	0.23%	10.23%
International Equity	16.00%	0.38%	16.38%
Fixed Income	25.00%	0.59%	25.59%

It is Client's responsibility to establish and revise as necessary the asset class categories.

INVEST UNALLOCATED CASH AND MANAGER CASH COMPONENT

Unallocated cash and manager cash will be synthetically invested as follows: Clifton will overlay cash balances on an ongoing basis to seek to reduce the overall fund's deviation from the targets. Initially, cash will be securitized in a manner which seeks to reduce the fund's deviation from the adjusted target allocations as defined above. On an ongoing basis, as cash levels change, futures contracts will be added or removed with an objective of reducing imbalances relative to the adjusted target allocation.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

MAINTAIN TARGET ALLOCATION COMPONENT

Clifton will monitor fund asset allocation relative to the following variation bands:

<u>Asset Class</u>	<u>Variation Band %*</u>	<u>Rebalancing Approach</u>
Domestic Equity	28% – 38%	Futures Based
Global Equity	7% - 13%	Futures Based
International Equity	12% - 18%	Futures Based
Fixed Income	20% - 30%	Futures Based

*Client will be notified if a variation band has been exceeded.

Rebalancing will occur only upon written direction of Client.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MANAGER GUIDELINES

Addendum B

OVERLAID ASSETS FOR WHICH VALUES ARE NOT RECEIVED FROM THE CUSTODIAN

It will be the responsibility of Clifton to request regular updates on the value of the overlaid assets for which values are not received from the Custodian. Because Clifton does not control these managers, it is possible that Clifton will not receive information in a timely manner from such managers. It is also possible that this information will not be accurate. Client agrees that Clifton may rely on such information as provided by the source without further investigation or confirmation.

Managers	Frequency*	Method of Update**	Index Used	Index Btick
BlackRock MSCI ACWI Equity Index	Monthly	Henry Solis's Monthly Reports	MSCI ACWI	JETAX
BlackRock MSCI ACWI ex. US	Monthly	Henry Solis's Monthly Reports	MSCI ACWI ex. US	NDUEACWZ
BlackRock Wilshire 5000	Monthly	Henry Solis's Monthly Reports	Wilshire 5000	DWCF
Extended Equity	Monthly	Henry Solis's Monthly Reports	Wilshire 5000	DWCF
In-House Cash	Daily	Henry Solis's email		
Sprucegrove	Monthly	Henry Solis's Monthly Reports	MSCI ACWI ex. US	NDUEACWZ
Western Asset	Daily	My StateStreet Daily NAV spreadsheet	Wilshire 5000	DWCF

As more managers are added, it will be Client's responsibility to contact Clifton and assist in developing a method for updating values for each new manager.

Approved and Confirmed Changes to the Guidelines

<u>Date</u>	<u>Guidelines / Change</u>	<u>Verified by</u>
06/02/2008	Portfolio targets and Unallocated Cash targets have been updated.	Email sent on 6/2/2008 by Tim Thonis to Megan Zhou, titled "RE: Ventura PIOS® Guidelines updated with new targets"
07/28/2008	Addendum B has been updated.	
12/03/2008	Addendum B has been updated	
01/05/2009	Addendum B has been updated	
01/20/2009	Addendum A target allocations revised and Maintain Target Allocation Component added	

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGER GUIDELINES

10/02/2009	Addendum B has been updated.	
11/20/2009	Addendum B has been updated.	
05/26/2010	Addendum B has been updated.	
01/31/2011	Addendum B has been updated, Tim Thonis replaced by Henry Solis.	
06/13/2011	Addendum A has been updated	Email sent on 05/25/2011 to Alex Gomelsky/TCG from Henry Solis titled, "RE: VCERA Cash – Week of May 25 th "
08/22/2011	Addendum A: asset class allocation targets and associated benchmark indexes have been updated	Conference call on August 19, 2011 between Ben and Team PIOS and representatives from Hewitt EnnisKnupp and Client.
06/18/2012	Addendum A: Asset classes revised as well as targets, adjustments and allocations. Revised body of Guidelines regarding Invest Manager Cash.	Conference calls with Client.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

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<http://www.ventura.org/vcera>

October 29, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: AD HOC DISABILITY PROCEDURE REVIEW COMMITTEE

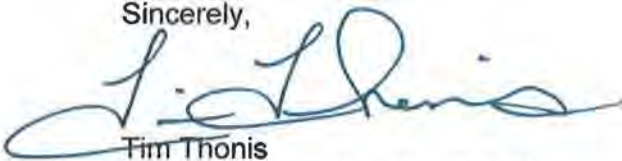
Dear Board Members:

The Ad Hoc Disability Procedure Review Committee (Committee) has been assigned the task of reviewing VCERA's existing disability retirement procedures. The Committee will be investigating various alternatives to improve the disability process and make it more efficient for all parties, or stakeholders. Earlier, VCERA received a draft of proposed disability procedures from a consultant considered an expert in '37 Act disability matters. The Committee's work will include a review of these proposed procedures in its overall review of the disability process, and a copy of the proposed disability procedures are included with this letter.

The Committee will be addressing its goals, expectations and timelines today and will be greatly appreciative of all input from fellow trustees.

I will be pleased to respond to any questions you may have on this matter at the October 29, 2014 meeting.

Sincerely,



Tim Thonis
Interim Retirement Administrator

Attachment

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY HEARING PROCEDURES

SECTION 1 – PURPOSE

Consistent with the Board of Retirement's fiduciary duty to administer provisions of the 1937 County Employees Retirement Law (CERL) in a ~~These procedures are intended to provide an equitable, fair and impartial manner, these procedures are adopted for the processing of applications for disability retirement benefits.~~
method for acting upon applications for rights, benefits and privileges under the County Employees' Retirement Law of 1937, as amended, to the end

It is the Board's intention that applications for disability retirement benefits may be expeditiously processed evaluated under CERL disability legal standards (and associated case law) and that all participants are informed of these procedures. with a minimum lapse of time, and that when a hearing is required, all parties will have notice of the hearing and an opportunity to appear before the Board or duly appointed hearing officer to present their cases.

SECTION 2 - DIVISION OF RESPONSIBILITY

a. Applicant

The "Applicant" will provide all requested documents and information in support of the application and will fully cooperate with the Board's procedures.

b. Employer

The employing agency (County of Ventura or a VCERA Member District) will investigate the facts of the application, adhere to the Board's procedures and timelines, timely file a "Notice of Employer Position", make recommendations to the Board on the merits of the claim, submit documents for placement on the Board agenda and present evidence at hearings.

c. VCERA staff

VCERA staff will counsel members regarding disability retirement procedures, receive applications, issue notices and communications to the parties, retain hearing officers, provide status reports to the Board, assemble agenda items and maintain statistical data.

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d. The Board of Retirement

The Board will set policy, implement procedures, evaluate and revise procedures, monitor all aspects of the disability retirement program, and take action on the final disposition of all disability retirement applications.

SECTION 32 – DEFINITIONS

As used in these hearing procedures, unless the context or subject matter otherwise requires:

a. "Applicant" means the person or entity filing an application for disability retirement benefits as follows: (1) an eligible member of the Ventura County Employees' Retirement Association (VCERA) claiming benefits, rights, or privileges under the County Employees' Retirement Law of 1937, as amended, or (2) a VCERA "member employer/member district" or (3) any person, having standing, who files an application for claiming such benefits, rights or privileges on behalf of or through an eligible VCERA member.

a.b. "Subject member" means the VCERA member on behalf of whom an application is filed

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c. "Application" means application for disability retirement benefits (or service-connected death benefits) pursuant to the County Employees Retirement Law of 1937 (CERL)

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b.d. "Interested Party" means the applicant, the subject member, the applicant's or subject member's representative or beneficiary with standing to pursue an application for benefits any person and his/her representative, the subject member's employer (the County of Ventura or an employing Member District), the VCERA Board of Retirement, and the "Retirement Association" if one, disclosed by the records of the retirement system or by the application to have an interest in the subject matter of an application for benefits. The term "Party" shall also include the County of Ventura and districts which are included within the Retirement Association.

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e.e. "Association" means the Ventura County Employees' Retirement Association.

d.f. "Board" means the Board of Retirement of the Association.

e.g. "Administrator" means the Board appointed Administrator of the Association.

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f.h. "Hearing Officer" or "Referee" means the designee of the Board to conduct a hearing pursuant to the provisions of Government Code Sections 31533 and 31534.

g.i. "Medical Advisor" means the County Health Officer or his/her designee.

h.i. "Legal Advisor" means the office of the County Counsel or other counsel as appointed by the Board.

i.k. "Employer" means the County of Ventura or any VCERA member district which is a member of the Association.

l. "Day" means calendar day.

m. "In Service" means "active employment status" with Ventura County or with a VCERA member district.

j. m. "Discontinuance of service" means "separated from Ventura County or from a VCERA member district employment".

n. "Presumption" refers to Government Code Sections 31720.5, 31720.6, 31720.7 and 31720.9

o. "Retirement Law" means the County Employees Retirement Law of 1937 (CERL) Government Code section 31450 *et seq*

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SECTION 43 – APPLICATION: FILING TIME; AMENDMENTS APPLICATION FOR DISABILITY RETIREMENT

a. Application Form:

* An application for disability retirement benefits shall be filed with the Association on a Board-approved form provided by the Association.

The application shall consist of 5 parts:

- Part A: Filing Information
- Part B: Authorization for Release of Records
- Part C: Questionnaire
- Part D: Physician Statement
- Part E: Counseling Acknowledgement and Waiver

b. Filing time:

* The application should be filed as soon as the subject member is reasonably sure that his/her claimed incapacity is permanent and after reasonable accommodation has been fully explored with the member's employer.

c. Filing time limitations:

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As determined by the provisions of Government Code §31722 of the CERL, the application must be filed within the following time periods:

- While the member is "in service", or
- Within four (4) months after "discontinuance of service", or
- Within four (4) months after the expiration of any period during which "a presumption" is extended beyond discontinuance of service, or
- At any time after discontinuance of service if the member can demonstrate to the Board's satisfaction that he/she has been continuously incapacitated for performance of his/her duties since the date of discontinuance of service.

d. File Date:

The application shall be considered valid and filed on the date VCERA receives, in duplicate, all of the following: In order to be considered a valid application, the applicant shall be required to submit at the time of filing the following:

1. Completed Disability Retirement Application for Disability Retirement, Parts A, B, C, D, and E.
2. The medical records of the physician who treated or is treating applicant for the condition that is the subject of the application and who completed and signed Part D (Physician Statement) of the application. Signed Authorization to Obtain and Release Records and Information.

Upon receipt of the completed application, the Administrator shall send a copy of the completed application to the member's employer for investigation.

The Administrator shall also provide timely written notification to the parties of any actions taken by the Association relating to the processing of the application

Upon the filing of a valid application, the applicant will have one hundred and twenty (120) days in which to file additional medical or other documentation in support of the application. For good cause shown, the Administrator may grant the applicant a reasonable extension(s) of time within which to file documentation. Notice of the granting of an extension of time shall be provided to all parties. The applicant may waive any or all of his/her time for filing documentation by providing written notification to the Association.

e. Amending the Application

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The applicant will be permitted to amend the application for disability retirement at any time prior up to the date the evidentiary hearing begins (if a hearing is necessary) by giving written notice of the exact manner in which the application is being specific amended to the Administrator and all other parties.

- Hearing Continuance: Any such amendment that is so-noticed **within sixty (60) days of the evidentiary hearing date** shall entitle any other interested party to a continuance of the hearing as a matter of right as determined by the assigned hearing officer or by the Board. (See section for discussion of Hearing Continuances)
- Amendment after Hearing Date: Once the evidentiary hearing begins, the applicant may amend the application by written notice to the Hearing Officer and the parties. The Hearing Officer shall decide whether to allow the applicant to present evidence in support of the amendment at the scheduled hearing, to grant a continuance or to bring a request for continuance to the Board or Administrator. application can only be amended with the consent of the Board upon such terms as the Board shall set.

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SECTION 5 - EMPLOYER INVESTIGATION, NOTICE OF EMPLOYER POSITION

a. Employer Investigation (By Ventura County or VCERA member district)

Upon receipt of the "completed application", the subject member's employer shall investigate the claims of the application. In addition to the medical issues, the investigation shall include inquiry into whether reasonable accommodation is possible to enable the member employee to perform, within his medical restrictions, the usual duties of his original assignment or those of any permanent assignment within his job classification.

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b. Employer Position: Time to file "Notice of Employer Position"

Within 120 days from receipt of a completed application, the subject member's employer must file with the Administrator, a "Notice of Employer Position" regarding the merits of the application. The employer may request one 60-day extension of the timeline. The request for extension shall be made in writing to the Administrator. Upon a showing of good cause, the Administrator shall grant the request. Notice of granting such an extension will be sent to the interested parties.

In completing the "Notice of Employer Position", the employer shall indicate one of the following positions regarding the application:

- Suspense Status (Request to place application in "suspense status" until the permanency of the claimed incapacity can be ascertained), or

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- No opposition (Analysis to follow within 60 days of "Notice" file date, or
- Oppose (request for hearing before a hearing officer)

Upon the filing of the application, the Administrator shall send a copy of the application and supporting documentation submitted by the applicant to the employer of the applicant, either the County of Ventura, Risk Management, or the contracting district.

The Administrator shall provide timely notification to all parties of all actions taken by the Association relating to the processing of the application.

The Administrator shall notify the employer of the expiration date of the applicant's time for filing documentation in support of the application. The employer has sixty (60) days from the date of such. The employer shall have sixty (60) days from the date of notification by the Administrator of the expiration of the applicant's time for the filing of documentation to respond as to whether or not the employer will contest the application. For good cause shown, the Administrator may grant reasonable extension(s) of time within which to state a position in regard to the application. Notice of the granting of an extension of time shall be provided to all parties.

SECTION 6 - EMPLOYER POSITION OPTIONS

6.1 "Suspense Status"

If, after investigating the medical facts of the application, the employer concludes that the permanency of the member's claimed incapacity cannot be ascertained within the 120-day period (plus 60 day extension), the employer will timely file a Notice of Employer Position indicating a position of "Suspense Status". This is a request that the Board place the application in suspense (temporary period of no further Board action) until such time as the permanency of the member's incapacity can be ascertained. The employer shall also provide in the "Notice of Employer Position" a written explanation of the circumstances that currently prevent ascertainment of the permanency of the claimed incapacity. Such circumstances may include:

- Time for applicant to complete new medical treatment or recover from surgery
- Waiting for determination of P&S status in the Workers' Compensation proceeding
- Completion of reasonable accommodation or trial back-to-work arrangements

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The Administrator will place the employer's request for suspense on the next Board agenda and the Association will give written notice to the parties of the employer's position and of the meeting date on which the Board will consider the matter.

At the time the Board's considers the employer's request, the Board will also consider oral or written comments or argument from the subject member or the subject member's representative.

a. Board Action on employer's request to place application in suspense status

- Grant Request: If the Board grants the employer's request to temporarily place an application in "suspense" status, the Association will give written notice to the parties that the application is placed in suspense status effective on the date of the Board's action. The notice will include the reason or circumstances in support of the Board's decision.
- Deny Request: If the Board is not persuaded that the permanency of the member's claimed incapacity cannot presently be ascertained, the Board may deny the employer's request to place the application in suspense status and may take other action including:
 - o ordering the employer to file a new "Notice of Employer Position" within any time-period determined by the Board, or
 - o ordering an independent medical examination of the subject member, or
 - o other action as advised by counsel.

b. Employer activity during suspense period

During the suspense period, the employer will continue to actively investigate the circumstances related to the ascertainment of the permanency of the claimed incapacity.

c. Re-activating an Application from Suspense Status

As soon as the permanency of the member's claimed incapacity can be ascertained, the employer shall file a new Notice of Employer Position ("Oppose" or "No Opposition") The employer will then follow the procedures outlined below for stated positions of "Oppose" or "No Opposition."

6.2. "No Opposition"; Medical Analysis

If in the timely filed "Notice of Employer Position" the subject member's employer indicates that it will not oppose the application, the employer shall, within 60 days of the "Notice" file date, provide to the Administrator for placement on the next Board agenda, a "Medical Analysis" report in support of their recommendation to grant the application. a determination is made by the employer to not contest the application, the following shall apply:

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a. Medical Analysis Report

The employer's supporting Medical Analysis report shall be drafted according to the Board-adopted format. The format shall include the following sections:

- Cover Sheet: indicating agenda date, applicant name, recommended Board action, prior Board action, if any
- Documentation Index
- Applicant Statistical Information: name, sex, case number, age, service years, membership category, job class, file date, date of injury, employment status, last date worked, etc
- Claim Description
- Injury/Illness Description
- Pertinent Medical History Summary
- Objective Medical Evidence
- Reasonable Accommodation Information
- CERL Incapacity Legal Standards
- CERL Permanency Legal Standards
- CERL Service-Connection Legal Standards (if service-connection claim)
- Analysis: Comparison of medical facts/issues, including reasonable accommodation efforts, to the CERL appropriate legal standards.
- Recommended Board Action
- Attached supporting documents

- The application for disability retirement, employer's statement of position and analysis of medical documentation, and all supporting documentation will be forwarded directly to the Board for its consideration. Notice of the date on which the Board will hear the application shall be provided to all parties by the Association.

The Association shall provide to the parties written notice of the meeting date on which the Board will consider the employer's Medical Analysis report and recommendation.

b. Board Action on employer's Medical Analysis and recommendation to grant

- Board action: Adopt recommendation to grant application

If, upon review and discussion of the employer's Medical Analysis report, the Board votes to grant the application for disability retirement, the Board shall direct counsel to prepare formal written "Findings" documenting the Board's decision for distribution to the parties, unless the parties waive findings. If the parties waive findings, the Administrator shall send written notice of the Board's action to grant the application to the parties, indicating the date of the Board action and the effective date of the benefit.

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- Board action: Reject employer's recommendation, Order medical exam

If the Board does not adopt the ~~position taken by the employer~~ employer's recommendation to grant the application, the Board may direct that the member submit to one or more independent medical, ~~psychological~~ or psychiatric examinations, as provided for in section 48 herein below. Upon receipt of the ~~The~~ reports of any such examinations, the Administrator shall provide a copy of the report to the interested parties. The Administrator shall place on the next Board agenda, the report, together with any additional relevant evidence provided by the parties, shall be presented to the Board for a Board determination on the application or other appropriate action. The Association shall provide written notice to the parties of the date on which the Board will consider the matter, at a duly noticed meeting as soon as practical.

- Board action: Continue the matter for hearing before the Board

~~Alternatively~~ If the Board does not adopt the employer's recommendation to grant the application and does not order a medical examination, the Board matter may be ~~continued~~ continue the matter to the next disability meeting for an evidentiary hearing to be conducted before the Board on the merits of the application. The Association shall give the parties written notice of the date on which the Board will hear the matter.

At the subsequent Board hearing, the Board may hear argument from the parties and then take appropriate action on the application including action to grant, deny, refer to a hearing officer, order a medical exam, refer back to employer for further investigation, etc.

6.3. Oppose Application; Setting of Hearings

If ~~in~~ the "Notice of Employer Position" determination ~~is made by the employer~~ the employer states its intention to ~~contest~~ "oppose" the disability retirement application, the ~~written~~ a "Notice" ~~etic~~ shall also include a request for an evidentiary hearing before a hearing officer ~~and of such position shall be provided by the employer to the Association.~~ The employer shall provide advise the Association of the name, address and telephone number of the attorney ~~that~~ who will represent the employer in the matter. Upon receipt of the employer's request for hearing, VCERA staff will retain a hearing officer according to the procedures discussed below.

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SECTION 7 – HEARINGS BEFORE A HEARING OFFICER

The Board may refer a matter to a Hearing Officer on request from the employer (or any interested party) or in any instance in which the Board determines that an evidentiary hearing is necessary.

The appointed hearing officer shall be selected from the Board's panel of approved candidates, and will be assigned in rotational order by VCERA staff with input from the interested parties as discussed below.

Every hearing shall be reported by a certified shorthand reporter arranged for by the Association. The reporter's notes shall be transcribed only if requested by the Hearing Officer or by the Board or by an interested party, in which case, the requesting party, if not the hearing officer, shall pay the transcription costs.

7.1 Hearing Officer Assignment/Reassignment

a. "Notice": Notice of Request for Hearing, Notification of Potential Hearing Officer Assignment or Intent to Assign Potential Hearing Officer and Notice of Opportunity to Request Hearing Officer Reassignment

Upon receipt of notice that the employer will contest or oppose the application for disability retirement, the Administrator shall issue to the parties a Notice of Request for Hearing and Notification of Potential Hearing Officer Assignment (or Intent to Assign Potential Hearing Officer) and Notice of Opportunity to Request Hearing Officer Reassignment:

• **Represented Subject Member**

If the subject member has previously advised VCERA that he/she is represented by legal counsel, the "Notice" will indicate that the matter is now assigned to a potential hearing officer (name provided) from the Board's approved panel. The "Notice" shall also inform the Parties of their option to request reassignment to a different hearing officer and will attach a Petition for Reassignment form.

• **Unrepresented Subject Member**

If the applicant has not yet advised VCERA whether he/she is represented by legal counsel, the Notice will indicate the *Intent to assign a Potential Hearing Officer* 60 days from the date of the "Notice".

At the expiration of the 60-day period (or earlier, see below), the Administrator shall assign the matter to a potential hearing officer from the Board panel and shall issue to the Parties a Notification of Potential Hearing Officer Assignment and Notice of Opportunity to Request Hearing Officer

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() I request that this matter currently assigned to Hearing Officer _____ be reassigned to another hearing officer from the Board's approved panel.

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() On behalf of my client That affiant believes that he/she cannot have a fair and impartial hearing before _____ the referee to whom the case has been assigned by the Association, I request that this matter currently assigned to Hearing Officer _____ be reassigned to another hearing officer from the Board's approved panel.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on _____ at _____, California.

(Signature)

c. Notice of Final Hearing Officer Assignment and Direction to Hold Pre-Hearing Conference

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At the expiration of the 15-day period to request hearing officer reassignment (or earlier if all Parties waive reassignment in writing or if all parties submit a Petition for Reassignment prior to the close of the 15 day period), the Administrator shall issue to the parties, with a copy to the assigned hearing officer, a Notice of Final Hearing Officer Assignment and Direction to hold Pre-Hearing Conference. The "Notice" shall provide the names and phone numbers of the assigned hearing officer and the parties. The notice will list the issues referred for hearing. A copy of these procedures shall be attached.

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Section 5 - Notice of Hearing

~~Unless otherwise directed by the Board, hearings held before the Board, or hearing officer, shall be set on a date to be determined by the Administrator or his/her designee, in consultation with the parties or their designated representatives, but not sooner than sixty (60) days following service of notice, unless an earlier date is otherwise agreed to by all parties.~~

7.2 Pre-Hearing Conference

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a. Pre-Hearing Planning: Notice of Pre-Hearing Conference

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Within three weeks of the mailing date of the Notice of Final Hearing Officer Assignment and Direction to hold Pre-Hearing Conference, the Hearing Officer and the Parties shall

participate in a telephonic pre-hearing planning conference on a mutually acceptable date.

The participants shall include:

- Subject Member(Applicant), if unrepresented and/or Subject Member's counsel
- Applicant (if applicant is not the Subject Member) and or Applicant Counsel
- Subject member's employer and/or employer's counsel
- Hearing Officer
- VCERA Disability Specialist

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The appointed Hearing Officer will contact the parties to access availability for the phone conference and will issue a Notice of Pre-hearing Telephonic Conference to the parties. The notice will specify the date and time of the conference and the list the topics to be addressed. The VCERA staff will execute the conference call at the designated time:

b. Pre-Hearing Conference Topics; Summary and Rulings of Pre-Hearing Conference

During the telephonic Pre-Hearing Conference, the following topics shall be addressed:

- Selection of the hearing date(s)
- Listing of issues to be heard
- Estimated time for each party to present their case
- Briefing schedules
- Evidence exchange deadlines
- Witness availability
- Admissibility of evidence
- Any other preliminary matters of concern to the participants

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The Hearing Officer shall rule on all matters raised in the pre-hearing conference and, following the conference, shall issue to the parties and VCERA a written Summary and Rulings of Pre-Hearing Conference indicating the sum and substance of the rulings.

c: Unrepresented Subject Member Participation – Hearing Information

If the Subject Member is unrepresented, the assigned hearing officer will also inform the Subject Member orally of the hearing procedures, describe the hearing environment, answer Subject Member questions, and provide clarification of Subject Member concerns where appropriate.

7.3 Hearing Date Limitations; Hearing Date Notice

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The hearing date(s) shall be selected during the pre-hearing telephonic conference. The selected date must be no earlier than 60 days (unless the parties agree to an earlier date), and no later than 180 days, from the mailing date of the Notice of Final Hearing Officer Assignment and Direction to hold Pre-Hearing Conference.

Once the hearing date is selected, the assigned hearing officer shall issue, to the Association and the Parties, a "Notice of Hearing Date" indicating the date, time, and location of the hearing and listing the issues to be heard.

Section 6 – 7.4 Hearing Officer Jurisdiction; Continuances

a. Hearing Officer jurisdiction to hear the matter

The assigned hearing officer maintains jurisdiction to hear the matter for 180 days from the service date of the Notice of Final Hearing Officer Assignment. If a matter cannot be heard within the 180 day period, the hearing officer jurisdiction is suspended unless the Board extends the jurisdiction as described below. Continuances are disfavored and may be granted only upon a showing of good cause. After the matter is heard, the hearing officer maintains jurisdiction over the matter until the Board acts on the hearing officer's recommendation.

b. Continuances of hearing

- Within the 180-day period:

If a party makes a written request for a continuance of the scheduled hearing date to another date within the 180-day period in which the matter must be heard, the assigned hearing officer shall consider the matter and approve the request upon a showing of good cause. The hearing officer will then issue, to the Parties and to the Association, a Notice of Continuance and New Hearing Date

- Beyond the 180-day period

If a party makes a written request for a continuance of the scheduled hearing date to a new date later than the 180-day limit in which the matter must be heard and on which the hearing officer's jurisdiction ends, the assigned hearing officer shall submit, for placement on the Board agenda, a written request for an extension of jurisdiction and time to hear the matter, along with an explanation of the circumstances necessitating the request. The Board will consider the stated reasons and shall decide whether to grant an extension and shall determine the length of a granted extension.

If the Board denies the continuance, the Board may take further action such as instruct the Hearing Officer to consider additional hearing dates within the 180

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day period- i.e. weekends, evenings, holidays, partial days, etc. or may assign a new hearing officer.

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c. Compensation for incurred actual loss due to continuance

Once the matter is set for hearing, a request for continuance of the hearing date may only be made by a written request for continuance, which may only be approved by the Board or hearing officer upon a showing of good cause.

- Continuance/cancellation less than 14 days prior to hearing date

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Each party who requests and obtains a continuance or cancellation of a hearing less than fourteen (14) days prior to the hearing date shall fully compensate each other party and the Board of Retirement for all actual losses directly incurred as a result of the continuance or cancellation. Such losses shall include, but not be limited to, the actual fees charged by the hearing officer, court reporter and expert witnesses, if any. Such losses shall not include any retirement or disability benefit claimed by or through the member or the member's surviving spouse or children.

The Board shall make the final determination of what losses, beyond hearing officer, court reporter and expert witness fees, were incurred as a result of the continuance or cancellation unless all affected parties have separately agreed upon the total amount to be so paid and the Board may, upon a showing of good cause, find that any or all such costs shall not be reimbursed.

7.5 Hearing Depositions

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Depositions may be noticed and taken by any interested party preferably prior to the hearing date. A deposition of any witness may be also ordered and noticed by the Hearing Officer or the Board at anytime. Each party shall bear its own costs in connection with such depositions. The provisions of the CCP applicable to depositions of non-expert depositions shall apply to depositions of experts and non-experts alike, and the CCP provisions applicable to depositions of expert witnesses shall not apply.

7.6 Hearing Officer Report; Objections

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a. Hearing Officer Finding of Facts, Conclusions of law and Recommended Action

Where the evidentiary hearing on the application for disability retirement has been held before a Board-appointed hearing officer, the proposed Findings of fact, Conclusions of Law and Recommendations of the hearing officer shall be served on the parties and the Association within sixty (60) days of the closing of the record.

b. Interested Party Objections

The interested parties shall have ten (10) days from the date of service (plus 5 additional days, if service is by mail) of the Hearing Officer's report to submit to the Association written objections thereto which shall be incorporated into the record to be considered by the Board.

7.7 Board Action on Hearing Officer Report

Upon receiving the Hearing Officer's proposed findings of fact and recommendations, the Board may:

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- a. Approve and adopt the proposed findings and the recommendations of the Hearing Officer, or
- b. Require a transcript or summary of all the testimony, plus all other evidence received by the Hearing Officer. Upon receipt thereof the Board shall take such action as in its opinion is indicated by such evidence, or
- c. Refer the matter back with or without instructions to the Hearing Officer for further proceedings, or
- d. Set the matter for hearing before itself. At such hearing the Board shall hear and decide the matter as if it had not been referred to the Hearing Officer.

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SECTION 87 - DETERMINATION BY THE BOARD HEARINGS BEFORE THE BOARD

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Where the evidentiary hearing on the application for disability has been held before the Board, the Board shall determine separately each of the following:

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- a. All factual issues raised by the application.
- b. Whether or not the applicant is permanently physically or mentally incapacitated to perform his/her duties as provided in Government Code Section 31720.
- c. Whether or not such incapacity, if any, is a result of injury or disease arising out of and in the course of his/her employment; and if so, whether such employment contributed substantially to such incapacity.
- d. Whether or not the applicant has completed five (5) years of service.
- e. The effective date of the disability retirement.

a.

The matter shall be heard by a quorum of the Board at a special meeting in accordance with the Board's Bylaws. In lieu of live testimony, the Board may direct that a transcript of testimony given in prior proceedings be considered.

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Quorum and Voting: No hearing before the Board shall take place unless at least a majority of the entire Board is present. No member of the Board who did not hear all of the evidence may vote on the decision. By agreement of all parties, a Board member who was not present during a portion of the hearing may vote on the decision if he/she has reviewed all portions of the administrative record relating to the absent period, including examining all documentary evidence introduced and reviewing the audio tapes and/or transcripts, as applicable, of all testimony and argument presented.

e.

Where the evidentiary hearing on the application for disability retirement has been held before a Board appointed hearing officer, the proposed findings of fact and recommendations of the referee shall be served on the parties by the referee within ninety (90) days of the closing of the record. The parties shall have ten (10) days to submit to the Association written objections thereto which shall be incorporated into the record to be considered by the Board. Upon receiving the proposed findings of fact and the recommendations of the referee, the Board may:

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a. Approve and adopt the proposed findings and the recommendations of the referee, or

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~~b. — Require a transcript or summary of all the testimony, plus all other evidence received by the referee. Upon receipt thereof the Board shall take such action as in its opinion is indicated by such evidence, or~~

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~~e. — Refer the matter back with or without instructions to the referee for further proceedings, or~~

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~~d. — Set the matter for hearing before itself. At such hearing the Board shall hear and decide the matter as if it had not been referred to the referee.~~

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SECTION 98 – CONDUCT OF HEARINGS BEFORE A HEARING OFFICER OR BEFORE THE BOARD

Unless the Chair of the Board or referee rules that it is not necessary to so proceed in a particular hearing, all hearings shall proceed in the following manner:

- Presiding Officer: The Chair of the Board, or the hearing officer shall preside over hearings, under these rules. He/she shall exercise such control over the proceedings, including the time allotted to each party, as may be reasonable and necessary. In addition to other duties he/she shall rule on the admissibility of evidence and shall order a party to yield the floor when his/her allotted time has been used.
- Applications Filed on Behalf of the Member: In cases where the application has been filed by a person or agency other than the member, the member shall be considered to be a party and, in particular, shall be entitled to participate fully at all hearings.
- Order of Presentation:
 - (1) The Chair or hearing officer will read the title of the case and ask for appearances for all parties. This information shall be recorded in the minutes of the Board and in the official file of the hearing.
 - (1) ~~If all parties are ready to proceed, the Chair or hearing officer will mark for identification only, and not as evidence receive all papers submitted by the parties, and hear argument from the parties regarding admissibility of any submitted document. The Hearing Officer will then rule on the admissibility of all the evidence, all papers in the official record of the hearing, which should include, but may not be limited to:~~

- ~~(c) The application for disability retirement.~~
- ~~(d) The hearing notice with proof of service.~~
- ~~(e)(a) Other documents in the official file.~~

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- (2) The party filing the application shall present his/her evidence in support of such application. The party filing the application shall have the burden of proof.
 - (3) Each other party shall then present his/her evidence, in the order determined by the Chair or hearing officer.
 - (4) Each party will be allowed to cross-examine witnesses.
 - (5) Upon application to the Board or hearing officer, each party may present rebuttal evidence.
 - (6) Upon the conclusion of all testimony, the Chair or hearing officer will inquire if all parties are ready to submit the matter for decision.
 - (7) The hearing will then be closed and the matter submitted to the Board or hearing officer for decision. If further documentary evidence is to be filed, the Board or hearing officer may allow time for filing and serving such documentary evidence, and order that the matter will be deemed submitted after such period unless any party objects to such documentary evidence within ten (10) days after it is filed. Copies of such documentary evidence shall be served on all parties who appeared at the hearing.
- ~~Quorum and Voting: No hearing before the Board shall take place unless at least a majority of the entire Board is present. No member of the Board who did not hear all of the evidence may vote on the decision. By agreement of all parties, a Board member who was not present during a portion of the hearing may vote on the decision if he/she has reviewed all portions of the administrative record relating to the absent period, including examining all documentary evidence introduced and reviewing the audio tapes and/or transcripts, as applicable, of all testimony and argument presented.~~
 - Representation: Any applicant or party shall be entitled to be represented by legal counsel or a representative of his/her choice at any hearing before the Board or hearing officer. After an attorney or representative appears at a hearing on behalf of a party, or after the filing of written notice that the attorney or representative is appearing on behalf of a party, all notices shall thereafter be served upon such counsel or authorized representative. The selection, substitution, or dismissal by the applicant of an attorney or representative shall be made in writing and filed with the Board and served on all parties at the earliest possible date and in compliance with section 284, 285 and 286 of the Code of Civil Procedure. Until this notice is given, the Board and all parties shall continue to recognize the former attorney or representative.

SECTION 10 - HEARINGS: RULES OF EVIDENCE:

a. **10.1 Admissibility of Evidence Rules:** The hearing need not be conducted according to the technical rules of evidence relating to evidence and witnesses. Any relevant evidence shall be admitted if it is the sort of evidence on which responsible persons are accustomed to rely in the conduct of serious affairs, regardless of the existence of any common law or statutory rules which might make improper the admission of such evidence over objection in civil actions.

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a. Hearsay: ~~The hearing need not be conducted according to the technical rules of evidence relating to evidence and witnesses. Any relevant evidence shall be admitted if it is the sort of evidence on which responsible persons are accustomed to rely in the conduct of serious affairs, regardless of the existence of any common law or statutory rules which might make improper the admission of such evidence over objection in civil actions.~~ Hearsay evidence may be used for the purpose of supplementing or explaining any direct evidence, but shall not be sufficient, in of itself, to support a finding unless it would be admissible over objection in civil actions. Admissibility of physicians reports is governed by subsection h.

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b. Applicant's Burden of Proof: The applicant shall have the burden of proof by a preponderance of the substantial evidence as to all facts necessary to establish the member's right to the benefits sought by the application.

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c. Evidence Exchange Limitation: Each party shall serve upon the Board and the Parties, all documentary evidence that is intended to be introduced at the evidentiary hearing upon the Board and all parties at least twenty (20) days prior to the date of the hearing before the Board or the hearing officer.

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d. Oral Evidence: Oral evidence shall be taken only upon oath or affirmation.

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e. Witnesses: Each party shall have the right to call and examine witnesses, to introduce exhibits and to cross-examine opposing witnesses on any matter relevant to the issues. If the applicant or any other party does not testify on his own behalf, he/she may be called and examined by any other party to the matter as if under cross-examination.

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f. Refusal: Refusal of any applicant or party to submit to examination or to answer relevant questions, when such refusal is not protected by a recognized legal privilege, shall be grounds for considering such questions, for the purposes of that hearing, to be answered in a way

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unfavorable to the refusing party, and such refusal may result in an unfavorable decision on the application of the applicant or the party seeking affirmative relief.

g. Government Records: Certified copies of the reports or records of any governmental agency, division or bureau will be accepted as evidence in lieu of the original thereof.

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h. Workers' Compensation Records: Medical reports prepared for purposes of Workers' Compensation proceedings are not made admissible or inadmissible by that fact alone; however, no opinion expressed in such reports or records shall constitute substantial evidence to support a finding of permanent incapacity if that opinion is based upon any criterion that is peculiar to Workers' Compensation, or is otherwise not germane to the issue of permanent incapacity and service connection under the Retirement Law.

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b.i. Physicians' Reports and Testimony as Evidence:

The Board favors the production of medical evidence in the form of written reports or medical records. These reports should include: that are relevant and that constitute substantial evidence, provided that they have been disclosed and served in compliance with section (c) above. Each interested party shall have the right, at their own cost, to cross-examine by deposition the author of any such medical report or record.

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Medical reports may be found not to constitute substantial evidence, if they do not include the following information:

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- History of the occurrence and treatment of the subject member's injury or illness and the source of that information;
- Discussion of the subject member's prior medical history and the source of that information
- The subject member's current patients subjective complaints;
- Source of all facts set forth in the history and complaints;
- Findings on examinations and testing, and whether these are objective or subject to the volition of the member;
- Opinion as to the whether the current extent of incapacity, if any, limits the member's ability to perform any physical/mental activities and job duties and the extent of such limitations disability and working ability;
- Cause of the disability;
- Medical treatment indicated; and an explanation of any standard medical treatments (tried and untried) likely to substantially improve applicant's functionality to allow him to perform his/her job duties;

- Likelihood of permanent disability; An opinion as to whether the member's current level of incapacity, if any, is permanent, or whether the permanency of the incapacity cannot presently be ascertained
- Indication of whether a description or physical factors form of the member's job assignment and alternative assignments has been reviewed
- An indication of whether an explanation of possible reasonable accommodations for performance of the member's duties has been reviewed and considered
- Opinion as to whether or not the member/patient is permanently incapacitated physically or mentally for the performance of his/her duties with or without reasonable accommodation;
- Opinion as to whether or not the member's/patient's County (or member district) employment substantially caused the claimed incapacity is the result of injury or disease arising out of and in the course of his/her employment; and an explanation for the expressed opinion.
- Opinion as to whether or not the member's/patient's disability is due to the intemperate use of alcoholic liquor or drugs, or so far as the medical examination discloses, willful misconduct, and the reasons for the opinion.

The reasons for the opinions.

- (e). Chiropractic Records: Chiropractic evidence is acceptable for consideration along with any other medical records or testimony

e. 10.2 Medical Report Admission Requirement: No written medical report shall be considered at the hearing unless:

- (a) The report has been served on all parties more than twenty (20) days before the hearing, and, if requested pursuant to subsection (3), the physician is produced at the hearing; or
- (b) The physician is voluntarily produced at the hearing for cross-examination purposes where the medical report is served within twenty (20) days of the hearing; or
- (c) The Board or hearing officer may permit the introduction of medical reports which were served within twenty (20) days of the hearing on the condition that the opposing party be permitted an opportunity to present rebuttal evidence or cross-examine the physician. A continuance of the hearing should be granted if necessary to satisfy these conditions.

d. 10.3 Personal Appearance of Medical Witness: The party submitting the written report of a physician shall, if requested by the opposing party, join in a request that the physician appear at the hearing; however, the party instituting the request that the physician be produced for cross examination shall pay the physician's fee for such

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appearance. The Board may require that this fee be deposited in advance of the appearance.

f. ~~10.4~~ Nothing herein shall preclude the Board, if it so desires, from requiring such proof, including medical, psychological and psychiatric examinations at the expense of the applicant.

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~~g. Chiropractic evidence is acceptable for consideration along with any other medical records or testimony.~~

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e. 10.5 Objections to Admissibility: During the course of a hearing, a party may object to the admission of evidence (either oral or documentary) being offered by another party. The party objecting shall express the reason(s) for his/her objection(s), and thereafter, the offering party may respond to the objection(s). The Chair or hearing officer shall sustain or overrule the objection(s).

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d. 10.6 Continuances for Additional Evidence by the Board or Hearing Officer:

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a. The Board or the Hearing Officer (as described) may continue any hearing in progress to another time and place, order additional evidence be presented, order additional medical, psychological or psychiatric examinations, or allow other evidence to be gathered and presented, as in its or his/her determination is required for a proper presentation of the case.

~~b. 10.7 Close of Evidentiary Record: Notwithstanding the authority of a hearing officer to grant continuances, No hearing officer may extend the time for submission of briefs, arguments or additional evidence beyond thirty (30) days after the close of any hearing before such hearing officer. In addition, no hearing officer may accept or consider additional briefs, arguments or additional evidence after the time set for filing such materials unless the hearing officer has the written approval of counsel for the Association.~~

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SECTION 11-9 – DECISION OF THE BOARD

The Board shall render its decision by the second regularly scheduled disability meeting following the meeting at which the matter is submitted for decision.

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- a. Voting: The Board shall render its decision by the second regularly scheduled disability meeting following the meeting at which the matter is submitted for decision. Any finding or decision of the Board must be made by a majority of the members of the Board voting. A tie vote results in the failure to find in favor of the applicant and constitutes a denial of the application, or that portion of the application on which the vote is taken.
- b. Board Findings of Fact: Every decision of the Board, or hearing officer, shall include findings of fact which shall specifically include findings with respect to:
 - Incapacity; permanency
 - Service-connection ed sources of incapacity;
 - Term of service credited to qualify applicant for disability retirement, and
 - Effective date of retirement.

In the event that the Board finds that an applicant is permanently mentally or physically incapacitated to perform his/her duties, the relevant finding shall describe the duties of applicant's job and the specific incapacity which prevents the performance of those duties.

All such findings by the Board shall specifically describe the evidence which supports each such finding of fact.

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~~c. In the event that the Board finds that an applicant is permanently mentally or physically incapacitated to perform his/her duties, the relevant finding shall describe the duties of applicant's job and the specific incapacity which prevents the performance of those duties.~~

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~~d. Upon service of the hearing officer's proposed findings of fact and recommendations, the parties shall have ten (10) days to submit written objections thereto which shall be incorporated into the record to be considered by the Board.~~

c. Statement of Decision; Objections thereto: When the evidentiary hearing has been conducted before the Board, the prevailing party shall submit a proposed Statement of Decision containing the findings of fact to the Board

within fifteen (15) days of the Board's announcement of its intended decision, unless waived by all parties.

- Written objections to the proposed Statement of Decision may be submitted within ten (10) days (plus 5 additional days, if service is by mail) from the date the proposed Statement of Decision is served on all parties delivered.

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d. Board Final Decision: The Board shall make its final decision by the second regularly scheduled disability meeting after the proposed Statement of Decision has been submitted for the Board's consideration. In the event that the prevailing party fails to timely submit the proposed Statement of Decision, the Board may direct its counsel to prepare the Statement of Decision and may charge all or part of such expense to the prevailing party.

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e. Waiver of Findings/Statement of Decision: The Board need not issue/adopt written findings/Statement of Decision as described above if, at the meeting in which the matter is considered, all parties orally waive findings/Statement of Decision.

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SECTION 120 – EFFECTIVE DATE OF BOARD DECISION

a. The Board's decision regarding the merits of an application shall become effective thirty-five (35) days after the adoption by the Board of its Statement of Decision (hearing before the Board) [or after the occasion of the waiver of findings/Statement of Decision by the parties] or of the adoption of the proposed "Findings of Fact and the Recommendations" of the hearing officer, unless:

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- A petition for reconsideration is filed within that time (see Section 14, or
- The Board orders that the decision shall become effective sooner, or
- All parties, at the Board meeting in which the matter is considered, orally waive provide a signed written waiver of the right to file a petition for reconsideration and for judicial review of the proceedings before the Board, in which case the Board's decision shall become effective on the date set forth in the waiver, but not earlier than the date on which the Board adopted the Statement of Decision, [or on the date of the meeting in which the matter is considered, if findings/Statement of Decision is orally waived by the parties] or the findings of fact and recommendations of the hearing officer.

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a. Effective Date Stayed: When a petition for reconsideration is timely filed (See Section 14) before the effective date of the decision, the filing of such petition shall stay the effective date of the decision until the Board takes action to reaffirm its earlier decision.

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- Reconsideration Granted: If the petition for reconsideration is granted, the effective date of the Board's earlier decision is continually stayed until the completion of additional proceedings ordered by the board.

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- Reconsideration Denied: If the petition for reconsideration is denied, the Board shall reaffirm its earlier decision and the decision shall become effective on the date the petition is denied or deemed denied. If the final date for filing a petition for reconsideration falls on a regular meeting date and a petition for reconsideration is filed on that day, the following regular meeting shall for purposes of this section be deemed to be the first regular meeting following the date the decision would otherwise become effective.

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SECTION 134 – NOTICE OF FINAL DECISION

The Administrator shall give written notice of the final decision to the applicant and each other party within five (5) days following the date the decision is rendered. The notice shall be delivered pursuant to section 146. The notice shall contain the decision, the date it was rendered and a statement substantially as follows: "This decision shall become effective thirty-five (35) days after its adoption by Board action unless a petition for reconsideration is filed within that time." If the Board orders that the decision shall become effective sooner, or if all parties have waived the right to file a petition for Reconsideration and judicial review of the proceedings before the Board, the notice shall so state.

SECTION 142 – PETITION FOR RECONSIDERATION

a. Time for reconsideration: The Board, on its own motion or on petition of any party, may order reconsideration of all or part of the matter on which the decision was rendered. The request for reconsideration must be made within 35 days of the Board's adoption of either its Statement of Decision (or parties waiver of same) or of the Hearing Officer's recommendation. The power to request reconsideration shall expire when the decision becomes effective.

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a. Placement on Board agenda: When a petition for reconsideration is filed, it shall be placed on the Board agenda for the first regularly scheduled disability meeting at which all parties are available to attend. If the Board takes no action upon the petition before the final adjournment of that regular meeting, the petition shall be deemed denied on that date. However, the Board may at that time continue the hearing on the petition to another disability meeting date not to exceed ninety (90) days from the date the Board orders the matter continued.

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b. Grounds for reconsideration: A petition for reconsideration shall be in writing and shall set forth all reasons and grounds for requesting reconsideration.

The petition for reconsideration must be based upon one or more of the following:

- (1) That the Board or hearing officer acted without or in excess of its or his/her powers;
- (2) That the findings of fact were procured by fraud;
- (3) That the evidence does not justify the findings of fact;
- (4) That the applicant has discovered new evidence material to him/her, which he/she could not, with reasonable diligence, have discovered and produced at the hearing, and which is not merely cumulative.

c. Appearance by petitioner: The Board will determine the petition on the basis of the information and documentation set forth in, and attached to, the petition. Petitioner may appear, and, with the consent of the Board, be heard on the petition. Petitioner should state in the petition if he/she desires to discuss the merits of the petition at the hearing.

d. Notice of Disposition: The Administrator shall give written notice to all parties of the disposition of the petition within ten (10) days after the Board acts on the petition. If the Board fails to act within the time prescribed in these rules, such notice shall be given within ten (10) days after the final date upon which the petition was granted, denied or deemed denied.

d.e. Reconsideration granted; Additional hearing: In the event that the petition for reconsideration is granted and further hearing on the case is required, a date for such hearing shall be set, not to exceed ninety (90) days from the date the Board orders the petition granted.

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Section 153 – Judicial Review of the Board's

The Board adopted California Code of Civil Procedure section 1094.6 on September 9, 1985. In those cases where a party is entitled to judicial review of the proceedings before the Board, the petition to the court shall be filed within ninety (90) days from the date on which the decision of the Board becomes final.

If the petitioner files a request for the record as specified in subdivision (c) within 10 days after the date the decision becomes final as provided in subdivision (b), the time within which a petition pursuant to Section 1094.5 may be filed shall be extended to not later than the 30th day following the date on which the record is either personally delivered or mailed to the petitioner or his attorney of record, if he has one.

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If the member's application is denied the board shall give notice of such denial to the employer. The employer may obtain judicial review of such action of the board by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure or by joining or intervening in such action filed by the member within 30 days of the mailing of such notice.

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SECTION 14-16 – SERVICE OF NOTICE

Whenever the rules of the Board require that notice be given, it shall be sufficient that such notice be provided to a party or the party's personal representative either by personal delivery or by mail, deposited in the United States mail, postage prepaid, in a sealed envelope addressed to the person to whom it is to be delivered, at his/her last known address as disclosed by the records of the Association. The delivery is complete at the time of such deposit or personal delivery.

SECTION 175 – PROCEEDINGS RECORDED

All proceedings before the Board, or hearing officer, shall be reported by a court reporter at a cost to be paid for by the Association. Any party may request a transcript of the proceedings through the Association upon payment of a reasonable fee, which shall not be less than the estimated cost to the Association of such transcript.

SECTION 186 – LEGAL AND INVESTIGATORY SERVICES

The Board may secure such legal, investigatory and other such services and advice as is necessary to make a responsible determination on an application for disability retirement. The Board may contract with an attorney in private practice for the legal services and advice it deems necessary.

SECTION 197 – MEDICAL EXAMINATION

In its sole discretion, the Board may, on its own motion or upon request of one of the parties, and based upon good cause, require an applicant for disability retirement to submit to one or more medical, psychological or psychiatric independent medical examinations to determine the existence of the disability and causes therefor. The examining physician shall have had no prior connection with the applicant's treatment or evaluation for benefits from other entities. Communication to the examining physician regarding the facts of the case and the specific legal standards for disability retirement under the CERL and associated case law shall be made in a cover-letter format adopted by the Board. Such examination(s) shall be at the expense of the Association, if ordered upon the Board's own motion. If the additional examination(s) is (are) requested by one of the parties, the Board may require that the requesting party pay all reasonable

expenses of such examination(s) as a condition of ordering the applicant to submit to such testing.

SECTION 2018 – ROLE OF THE MEDICAL ADVISOR TO THE BOARD

The Medical Advisor may advise the Board on general matters regarding applications for disability retirement, including providing the Board with explanations of medical terms, interpretations of medical reports before the Board, and the analysis of other medical evidence before the Board.

The Medical Advisor shall only be required to attend disability meetings when specifically requested to do so by the Board to provide recommendations or advice as discussed below.

To ensure that the rights of the applicant and employer are protected the Board should act at all times to ensure that:

- a. All advice and recommendations provided to the Board by the Medical Advisor are based upon evidence that is before the Board. The Medical Advisor should not conduct any independent research on an applicant's claims unless specifically directed by the Board.
- b. If the Board determines at the time of any hearing that a recommendation or other advice from the Medical Advisor on any aspect of an individual case is warranted, the Board shall immediately continue the matter to a subsequent hearing date. The Administrator shall request the presence of the Medical Advisor for that hearing, and, if the Medical Advisor prepares a written report for the Board, the Administrator shall serve all parties such report at least ten (10) days prior to the new hearing date.
- c. The applicant, or his/her representative, and the employer shall have the right to cross-examine the Medical Advisor under oath before the Board at the time of the hearing, limited to the content of the recommendation or other advice provided to the Board by the Medical Advisor.

SECTION 21-19 – INQUIRIES INTO APPLICANT'S CONDUCT

To assist in making a recommendation or determination, and to assure that a disability is not due to intemperate use of alcoholic liquor or drugs, willful misconduct, or violation of law on the part of the applicant, the Board may review the conduct of the applicant, either by inquiry of the applicant, a medical examiner to whom the applicant is referred or any other source of information that Board believes to be reliable.

SECTION 220 – ISSUANCE OF SUBPOENAS

The Board may issue subpoenas and subpoenas duces tecum. Subpoenas may be signed by the Chair, Vice Chair, Treasurer or the Administrator.

SECTION 234 – PROCEDURES FURNISHED TO THE PARTIES

A copy of these procedures shall be furnished to the applicant along with the application for disability retirement. All other parties shall receive a copy at the time notice of hearing is given.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
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<http://www.ventura.org/vcera>

October 29, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: UPDATE ON CONTRACT NEGOTIATIONS WITH STATE STREET BANK AND TRUST COMPANY

Dear Board Members:

VCERA has made significant progress in negotiating an updated custodial agreement with State Street Bank and Trust Company (State Street). As the Board will recall, staff was directed to engage State Street in order to update VCERA's original 1997 custodian bank agreement. A point of emphasis for VCERA in the negotiations was to obtain State Street's acceptance of fiduciary responsibility for the custody of VCERA's assets.

As of today, staff has successfully negotiated State Street's acceptance of fiduciary responsibility within the contract's "Standard of Care" provision. In pertinent part, the provision states "The Custodian acknowledges and agrees that this Contract places it in a fiduciary relationship with the VCERA Board and VCERA....." Other important provisions that have been successfully negotiated include financial reporting requirements, certain operational areas including the management of trade failures, income crediting provisions and what constitutes "proper instruction" for State Street to follow in acting as VCERA's custodial bank. Within the negotiations, there have been two provisions – indemnification and limitations of liability – that have been sticking points and have consumed significant amounts of time.

The indemnification provision was, as originally drafted, not mutual. As a rule, VCERA will not accept an indemnification provision that isn't mutual. State Street has recently proposed changes to the indemnification provision and VCERA is presently evaluating the adequacy of those changes.

In terms of limitations of liability, State Street held for a long period that the agreement must contain language limiting the bank's liability. VCERA countered that it would be unable to recommend approval for any contract where the board waived its rights to recoverable damages caused by negligent action. State Street ultimately acquiesced on this point and removed the language that would limit liability.

The State Street negotiation has taken longer than first anticipated, but staff believes the updated contract, when approved, will contain the fiduciary language requested by

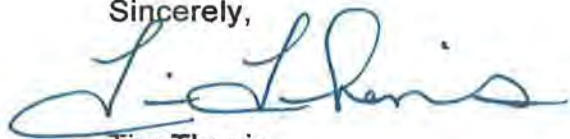
October 29, 2014

Page 2 of 2

the Board and many other sufficient legal protections for this critical area of VCERA operations.

I will be pleased to respond to any questions you may have on this matter at the October 29, 2014 meeting.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tim Thonis". The signature is fluid and cursive, with a large initial "T" and a long, sweeping underline.

Tim Thonis
Interim Retirement Administrator

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 29, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: INTRODUCTION TO STRATEGIC PLANNING

Dear Board Members:

Strategic planning is, in the most simple of terms, where an organization is going over the next year or more, how it is going to get there and how you know if you actually got there or not. There is not one set way to conduct strategic planning, but there are several fundamental questions the Board may wish to consider before starting its own planning process.

For example, the Board may wish to consider:

1. When should strategic planning be done?
2. Who needs to be involved in the planning process?
3. What are the useful skills to have in planning?
4. Does VCERA need a facilitator/consultant to assist in the process?

Potential answers to the above questions may include:

1. Strategic planning may be accomplished in preparation for a major venture, for example, the hiring of a new leader for the organization or the implementation of a new system.
2. The Board Chair and the Executive position should be the leaders of strategic plan development and plan implementation. Members of the Board need to be actively engaged as well given the Board's role in leading the organization. Those responsible for implementing the strategic plan (managers) need to be involved as well.
3. The skills needed within the planning group to create and implement a successful plan include innovation, creative thinking, problem solving and the ability to make decisions.
4. Organizations often consider using a facilitator or consultant when the organization hasn't conducted a strategic planning session before, when the organization perceives there is a lack of facilitation skills within the group and when a wide range of issues are being expressed within the group, thus making it difficult to establish priorities.

October 29, 2014

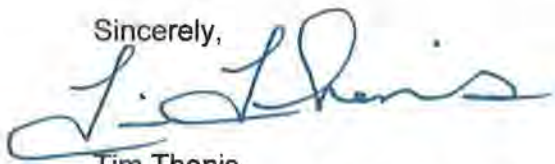
Page 2 of 2

Staff has included two articles with the agenda materials for the Board's review:

1. National Conference on Public Retirement Systems (NCPERS) article on Best Governance Practices. Please note that the first bullet under "Board Practices" calls for the development of a strategic plan.
2. CalPERS 2012-2017 Strategic Plan – to provide the Board with an example of a completed strategic plan.

I will be pleased to respond to any questions you may have on this matter at the October 29, 2014 meeting.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. Thonis". The signature is fluid and cursive, with a large initial "T" and a long, sweeping underline.

Tim Thonis
Interim Retirement Administrator

Attachments

National Conference on Public Employee Retirement Systems

Best Governance Practices for Public Retirement Systems

Introduction

Increasingly, public employee retirement systems are implementing leading edge governance and risk management practices to position their funds for improved performance, while addressing risks related to the financial markets and global economy.

As the largest trade association for public sector pension funds representing more than 550 funds and nearly \$3 trillion in assets, the National Conference on Public Employee Retirement Systems (NCPERS) supports these initiatives.

NCPERS believes that instituting best practices drives accountability, consistency and transparency, which enables improved performance and risk oversight for the benefit of public pension fund members, taxpayers and other stakeholders. To further these outcomes, NCPERS has developed Best Governance Practices for Public Retirement Systems.

Background

Governance is on the front burner for corporations, regulators and pension funds alike. In the private sector, lapses evidenced by overexposure to mortgage related securities, excessive leverage and lack of adherence to risk controls led to the collapse of well – known Wall Street investment banks and contributed to a meltdown that at one point eliminated \$4 trillion from pensions worldwide.ⁱ

Among retirement funds, boards and stakeholders are focusing on considerations such as board practices, standards of conduct, risk management and actuarial practices. In the current environment, there are several points for public fund fiduciaries to consider:

- There is a strong link between best practices and performance. Research has found that effective governance may improve long-term investment returns by up to 2.4%, annuallyⁱⁱ
- Beyond investments, best practices such as fiduciary training and risk assessments drive performance across administrative, member service and compliance functions
- The current focus on fund governance is likely to increase in light of policy debates that are increasingly focused, largely without merit, on public employee benefit levels
- Managing reputation risk is an increasingly important challenge for public funds. A fund may reduce the probability and severity of risk events by implementing a risk framework
- Notwithstanding public pension funds' record of implementing best practices, the need for communicating how they work to benefit stakeholders has never been greater.

Pension Fund Governance and Oversight

A pension fund's governance structure is typically comprised of its board, executive management, functional staff and contracted service providers. Within this structure and under the fund's statutory framework, the board sets strategy, approves implementation plans and oversees performance and risk. The board delegates specialized functions such as actuarial studies, asset management, benefits administration and auditing to internal staff and contracted service providers. The fund functions within a framework that is comprised of statutes, rulings, agreements, policies and contracts that regulate system operations. Risk oversight is a key responsibility of the board. In the post financial crisis environment, managing reputation risk is an increasingly important responsibility for public funds.

NCPERS Best Governance Practices

NCPERS encourages fiduciaries who have not done so to consider adopting the following practices with the understanding that flexibility in implementation is one hallmark of effective governance.

I. Governance Manual

Whether it is in electronic or paper form, a fund should adopt a governance manual that serves as a central repository for the fund's primary governance documents. A well designed governance manual facilitates effective management and provides a tool to educate trustees and stakeholders on fund operations. Key components include:

- Summaries of statutes, regulations, the plan document and board practices
- The systems' mission statement and, if applicable, its vision and guiding principles
- The organization chart, lines of authority, job descriptions and summaries of contracts
- Board policies, key procedures and, if applicable, charters for committees of the board
- References to rulings and agreements that determine benefits and contribution levels

II. Board Practices

A pension fund should establish, document and adhere to a set of practices that have a proven impact on performance and risk oversight. Some of these practices are mandatory (e.g. actuarial valuations), while others may be optional. Recommended practices include:

- Development of a strategic plan or equivalent that guides the fund towards its goals
- Adoption of a fiduciary education program to continuously improve fiduciaries' skill sets
- A program of assessments and audits to evaluate internal controls, performance and risk
- Actuarial valuations to inform the board of the fund's future financial needs
- Asset allocation studies to identify asset mixes for meeting future financial needs
- A corporate governance approach under which the fund votes its proxies

III. Board Policies

A fund should adopt and adhere to a set of policies designed to guide system operations toward the achievement of stated goals within established risk tolerances. While their form may vary, a board's key policies and procedures should include:

- Standards of conduct, ethics and conflicts of interest rules to codify the duties of fiduciaries
- An investment policy that includes goals, monitoring procedures and board risk tolerances
- Procurement guidelines that document procedures for selecting and monitoring contractors
- A privacy policy that sets forth procedures for protecting members' confidential data
- A risk policy (or equivalent) that defines fund risks along with measures and processes

IV. Risk Oversight

A fund should adopt a risk management framework and document it in a risk policy or within other policy documents (e.g. investment policy, privacy policy). The board should delegate accountability for management of market, credit, operational, asset / liability, liquidity and other risks through job descriptions, contracts and charters. Key components include:

- A governance approach that defines risk categories, accountabilities and reporting
- Risk assessments (e.g. audits) to test controls and potential outcomes of risk events
- Key measures to assess market, operational, credit and asset / liability risk exposures
- Access to information technology to collect and distribute risk data across the fund

V. Strategic Planning

A fund should adopt a strategic planning approach either in the form of a multi-year plan or within other documents. Strategic planning is a hallmark of successful organizations. It provides the board with a mechanism to map out long-term goals along with the implementation steps necessary to achieve them. Key components include:

- Goals and performance measures for key functions such as benefits administration
- Long-term investment goals, investment risk tolerances and diversification objectives
- Multi-year budgetary needs for fund operating units and for the system
- Service quality goals, measures and tactical plans for achieving them
- Plans for strengthening the fund's compliance program and internal controls

VI. Reporting: Key Performance and Risk Measures

Reports to the board should include a set of key performance and risk measures to help the board assess the fund's progress toward goals across actuarial, administrative, audit, compliance and investment functions. Given their expansive duties, boards rely on efficient reporting to provide effective oversight. Key measures include:

- The funded ratio as measured by the ratio of fund assets to fund liabilities
- Net annualized investment returns relative to the return assumption and benchmarks
- Timeliness and accuracy of distributions paid to members and beneficiaries
- Member satisfaction with fund services as measured by surveys and correspondence
- Future benefits owed to members as measured by the actuarial accrued liability
- Net assets available for benefits and changes thereto as reported in the annual audit

VII. Stakeholder Communications

A fund should communicate regularly with members and other stakeholders through multiple media including web site notifications, publications and letters as well as required reports. Communications provide transparency into fund operations and may increase member satisfaction, while strengthening the fund's reputation. Key components may include:

- A mission statement that describes the fund's purpose to members and the public
- Surveys that measure participant satisfaction, while providing a basis for improvements
- Updates, letters, annual reports on fund operations and forms for member beneficiaries
- Reports on fund performance, board initiatives and external events that impact members
- Governance principles that summarize the fund's structure and statutory framework

Challenges and Opportunities

It is important to note that development of a set of well written policies is by no means a guarantee of favorable results. In fact, common pitfalls of governance can lead to suboptimal performance for the most well intended organizations. These include:

- Lack of adherence to policies and rules that leads to compliance and/or risk failures
- Excessive bureaucracy (e.g. too many committees) that slows or halts decision making
- Unattainable policies and goals that increase the probability of compliance failures
- Cumbersome documentation that discourages stakeholders from understanding policies
- Overly rigid rules that take discretion from experts who are compensated to exercise it

An organization can avoid these pitfalls by adhering to basic principles, many of which are embodied in NCPERS recommended practices. Enablers of effective governance include:

- Training to equip board and staff to adhere to policies (especially when they are new)
- Clear documentation of authority for decisions in job descriptions, charters and contracts
- Brief summaries of policy documents that trustees are asked to exercise decisions on
- Reasonable flexibility in applying performance targets, risk thresholds and timelines

Conclusion

Public pension funds have played a leadership in delivering high quality, cost-effective benefits to their members through effective oversight, accountability and transparency. However, the need for continuous improvement and for communicating how these practices work to benefit stakeholders has never been greater.

The practices we recommend are intended to provide a means for ongoing improvement and for maximizing long-range organizational performance through market cycles and management changes.

Contributing Author: Julian M. Regan; March 2012

ⁱ *Pensions & Investments, November 13, 2008*

ⁱⁱ *The Ambachtsheer Letter, How Much is Good Governance Worth?, June 2006*

Modernizing Pension Fund Legal Standards for the Twenty-First Century, Keith L. Johnson and Frank Jan de Graaf, Rotman International Journal of Pension Management, Spring 2009

CalPERS 2012-17 Strategic Plan



CalPERS 2012-17 Strategic Plan

For more than eight decades, CalPERS has built retirement and health security for people who invest their lifework in the State. We are proud to serve those who serve California.

Vision

A trusted leader respected by our members and stakeholders for our integrity, innovation and service

Mission

Provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries

Strategic Goals

- Improve long-term pension and health benefit sustainability
- Cultivate a high-performing, risk-intelligent and innovative organization
- Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

Core Values

Quality | Respect | Accountability | Integrity | Openness | Balance

Goal A | Improve long-term pension and health benefit sustainability

Objective

Fund the System through an integrated view of pension assets and liabilities

Strategic Initiative

Actively manage and assess funding risk through an asset liability management framework to guide investment strategy and actuarial policy

Objective

Educate employers and other stakeholders to make informed decisions about retirement security and health care

Strategic Initiatives

Provide employers and other stakeholders with thorough, risk-based information about the expected course and variability of future pension contribution requirements

Expand member and employer access to information regarding the cost and quality of health care and ways to impact those trends

Provide existing and prospective Long-Term Care Program policy holders with premium and other information to improve decision making

Objective

Deliver target risk-adjusted investment returns

Strategic Initiative

Implement programs and initiatives that improve investment performance and ensure effective systems, operations and controls are in place

Objective

Ensure high-quality, accessible and affordable health benefits

Strategic Initiative

Implement new approaches and expand efforts already proven to reduce health care costs and improve health outcomes, including changing how we contract with health plans

Objective

Create a lifestyle of wellness among members and employers

Strategic Initiatives

Establish partnerships that focus on increasing public and private sector focus on wellness

Develop and administer an independent wellness platform that ensures the active engagement of employees and employers

Goal B | Cultivate a high-performing, risk-intelligent and innovative organization

Objective

Use a focused approach to generate, test, refine and implement new ideas

Strategic Initiative

Adopt methodologies that empower staff to quickly test, vet and refine ideas that improve internal and external performance and service

Objective

Deliver superior, end-to-end customer service that is adaptive to customer needs

Strategic Initiatives

Promote the use of business intelligence throughout the organization to optimize customer service and delivery

Enhance business processes to achieve high-quality, timely, effective and efficient customer service delivery to our members and employers

Objective

Recruit, retain, develop and empower a broad range of talents against organizational priorities

Strategic Initiative

Develop and implement a comprehensive talent management strategy that includes recruitment, knowledge transfer, succession planning, and a methodology to regularly gauge employee satisfaction

Objective

Actively manage business risks with an enterprise-wide view

Strategic Initiative

Develop a robust risk-intelligent culture through enhanced governance, risk assessment and mitigation, and collaboration with stakeholders

Goal C | Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

Objective

Clarify and communicate CalPERS perspective on pension, health and financial markets

Strategic Initiative

Establish principles and beliefs to guide public policy engagement by the System

Objective

Provide education and engagement opportunities to shape policy agenda and expand impact

Strategic Initiatives

Develop new strategic partnerships with academic institutions, governmental organizations, non-profits, the financial sector and the California business community

Develop a series of thought leadership initiatives that promote CalPERS priorities and policies

Elevate the profile of CalPERS Board of Administration and Executive Leadership through strategic involvement at industry and stakeholder events

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 29, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: MAINTAINING FAVORABLE PLAN TAX DETERMINATION STATUS;
ADOPTION OF MODEL REGULATIONS; IMPLEMENTATION OF ASSEMBLY BILL 2473;
REVIEW OF VCERA TAX DOCUMENTS AND NOTICES**

Dear Board Members:

Recommendations:

- A. Comply and implement the provisions of AB 2473 that aligned CERL (County Employees' Retirement Law) provisions with current IRS (Internal Revenue Service) laws and regulations.
- B. Receive and File VCERA's 2014 Disposition of Separated Member Account Election Form and 2014 402(f) Notice to Separated Plan Members.
- C. Adopt Model Regulations pursuant to Government Code sections 31525, 31526 and 31527 addressing multiple aspects of VCERA's plan operations including:
 1. Minimum Distribution Rules {401(a)(9)}
 2. Annual Compensation Limits {401(a)(17)}
 3. Rollovers {401(a)(31) & 402(c)}
 4. Medical Benefits {401(h)}
 5. Annual Benefit Limits {415(b)}
 6. Plan Distribution Restrictions
 7. Normal Retirement Age 401(a)(36)

Adoption of the Model Regulations assists in documenting that VCERA's current operational practices are consistent with IRS standards.

Background:

VCERA filed an application with the IRS for plan tax determination in January 2011. The IRS provided VCERA with a favorable determination letter in January 2014. Pursuant to IRS guidance, VCERA needs to demonstrate timely compliance with any tax law changes in order to maintain the favorable tax determination status earned in January. The IRS indicated, in the January 2014 determination letter, that they will review the status of the plan in operation periodically. In addition to filing for tax determination, VCERA also applied to participate in the

IRS' Voluntary Compliance Program (VCP). The VCP permits pension plans, such as VCERA, to propose corrections to plan operations and/or plan documents in order to maintain favorable tax determination. Adopting the Model Regulations and complying with AB2473's new and amended provisions demonstrates VCERA's diligence in maintaining its current tax-favored status.

Discussion:

The IRS utilizes the term "Failures" to describe operational aspects of a pension plan that are not in compliance with IRS laws and regulations. Presented below are descriptions of two types of "Failures" related to VCERA's operations, "VCERA Plan Failures" and "CERL Failures." Recommended corrections are presented for each type of "Failure" for the Board's consideration.

VCERA Plan Failure #1:

Prior to January 2014, VCERA did not permit the "rollover" of post-tax member contributions to other qualified plans that have the ability to separately account for pre-tax and post-tax contributions.

Correction:

VCERA now provides members choosing to receive a refund of contributions to rollover both pre-tax and post-tax contributions to a qualified plan.

VCERA Plan Failure #2:

VCERA's 402(f) Notice, an IRS required notification provided to all members separating from County/District service, did not reflect tax law changes made by both the passage of EGGTRA (Economic Growth and Tax Relief Reconciliation Act) and PPA (Pension Protection Act).

Correction:

VCERA updated its 402(f) Notice in January and now provides all members separated from County/District service with an IRS compliant notification that includes the tax law changes made by EGGRA and the PPA.

Proposed Board of Retirement Action:

Receive and file the attached VCERA 2014 402(f) Notice to Separated Plan Members and the 2014 Member Disposition Form (Attachments #s 1 & 2) that incorporate the necessary corrections to address the two specific VCERA Failures.

CERL Failure #1:

The CERL, VCERA's Plan Document, does not include language required by IRC (Internal Revenue Code) section 401(a)(7) that plan participants must become 100% vested in benefits covered upon plan termination or the complete discontinuance of employer contributions.

Proposed Correction:

Add Government Code section 31485.19 to the CERL. In pertinent part, Government Code section 31485.19 will provide that the rights of each member to his or her accrued benefits under the retirement system shall be non-forfeitable in accordance with IRC 401(a).

Proposed Board of Retirement Action:

Comply and implement AB 2473 which added the provisions of Government Code section 31485.19.

CERL Failure #2:

The CERL does not include the basic rules under section 401 (a)(9) of the Internal Revenue Code (Minimum Distribution Rules) with respect to payments to other than the surviving spouse and surviving child of the member. The specifics for addressing how annuities are to be paid from a tax qualified plan are found in Treasury Regulation 1.401(a)(9)-6, Q&A-2.

Proposed Correction:

Adopt a "Model Regulation" adhering to the "Required Minimum Distribution Rules" (MDR) of IRC 401(a)(9). The "Model Regulation" provides a reasonable good faith interpretation of IRC 401(a)(9) and the MDR, as applicable to governmental plans.

Adherence to Treasury Regulation 1.401(a)(9)-6 creates certain operational challenges for VCERA. Specifically, the MDR require that the survivor annuity benefit be reduced, relative to the CERL provided annuity benefit, if a greater than 10 year age difference exists between the member and non-spouse beneficiary. If the survivor benefit is reduced under the MDR, then VCERA must address how to provide the annuity difference between the CERL annuity benefit and the annuity paid under the MDR because of the vested rights created under the CERL. Operationally, VCERA may choose to provide the annuity difference in the form of a one-time lump sum benefit. It is proposed that the "Model Regulation" include a provision to provide a lump sum payment to the survivor of a VCERA member affected by the MDR.

Proposed Board of Retirement Action:

Adopt the attached "Model Regulation" addressing the "Minimum Distribution Rules" in order to provide a good faith interpretation of IRC 401(a)(9) and associated Treasury Regulations. Additionally, the proposed "Model Regulation" is intended to address the vested rights issue in retirement benefits created by the California Constitution for those specific, and rare, instances where annuity amounts paid under the MDR are less than the statutory annuity amounts created under the CERL. Further, it is proposed that Treasury Regulation 1.401(c)(9)-6, Q&A-1&2, as may be amended from time to time, be incorporated as an attachment into the "Model Regulation", in order to provide an operational template for providing required minimum distributions from VCERA's defined benefit plan.

CERL Failure #3:

Current statutory language in Government Code section 31671 regarding required 401(a)(17) compensation limits does not take into account that a '37 Act retirement system may operate on calendar year basis. As the Board is aware, VCERA operates on a fiscal year basis and is not

directly impacted by this CERL failure; however, VCERA benefits from adopting a “Model Regulation” describing the impacts on plan operations from implementing 401(a)(17) compensation limits.

Proposed Corrections:

Amend Government Code section 31671 to include language for '37 Act Retirement systems operating on a calendar year basis, and adopt a “Model Regulation” addressing 401(a)(17) compensation limits.

Proposed Board of Retirement Action:

Comply and implement the provisions of AB2473 including the amendment to Government Code section 31671. Additionally, adopt the proposed Compensation Limit “Model Regulation” for IRC 401(a)(17) defining the annual compensation limitation and important plan operational rules. In particular, the operational rules assist VCERA staff in administering plan nuances created by applying the required compensation limits to member contributions, reciprocal provisions and members with multiple membership periods.

CERL Failure #4:

The CERL was not amended timely (2009) to comply with the rollover requirements of the 1992 Unemployment Compensation Act and 2001 EGGTRA provisions regarding the acceptance of eligible rollovers. Further, Government Code section 31685.2 permits a nonmember spouse to receive a refund of accumulated contributions pursuant to a domestic relations order; however, the CERL does not address how an alternate payee, such as a nonmember, may accomplish a rollover in accordance with IRC 402(c).

Proposed Correction:

Adopt a comprehensive “Model Regulation” describing how rollover distributions from VCERA are to be accomplished.

Proposed Board of Retirement Action:

Adopt the proposed “Model Regulation” addressing IRC sections 401(a)(31) and 402(c) describing the full scope of plan member and nonmember rollover options. The CERL (Government Code section 31485.15) was amended previously; therefore, there are no required amendments to the CERL. VCERA adopted “Rollover Procedures” on January 27, 2003, and has permitted an eligible alternate payee to rollover contributions since 1992. The proposed “Model Regulation” is more expansive than VCERA’s previously adopted “Rollover Procedure” and keeps VCERA plan operations current with IRS Standards.

CERL Failure #5:

Language in the CERL providing an option for plan sponsors and retirement systems to provide retiree health benefits does not contain the necessary plan language required by IRC 401(h).

Proposed Corrections:

Amend Government Code sections 31592.2 and 31592.4, and adopt a Model Regulation addressing the provisions of IRC 401(h).

Proposed Board of Retirement Actions:

Comply and implement the provisions of AB 2473 that included amendments to Government Code sections 31592.2 and 31592.4. Additionally, it is recommended that VCERA adopt a "Model Regulation" that sets forth the rules and compliance provisions for both the IRC and CERL. The most important requirement of any 401(h) medical benefit plan is that pension assets cannot be used to provide any benefits from the 401(h) plan.

VCERA does not currently utilize 401(h) medical accounts to provide retiree health care. The adoption of the proposed "Model Regulation" may be accomplished at the Board's discretion; however, adoption of the "Model Regulation" does align VCERA specific plan documents with the CERL and IRC. Plus, adoption provides an implementation platform should there be a need for utilizing a 401(h) plan at any point in the future.

CERL Failure #6:

The CERL includes a specific provision that may violate USERRA (Uniformed Services Employment and Reemployment Rights Act) rules.

Proposed Correction:

Amend Government Code section 31649.5.

Proposed Board of Retirement Action:

Comply and implement the provisions of AB 2473 that included an amendment to eliminate the local adoption provision of Government Code section 31649.5. The local adoption provision previously found in the statute conflicted with USERRA rules.

CERL Failure #7:

The CERL incorporates references (Government Code sections 31899 & 31899.2) to IRC 415 provisions, but does not include the detailed provisions required by section 415.

Proposed Correction:

Adopt a "Model Regulation" detailing how VCERA will administer IRC 415 annual benefit limitations.

Proposed Board of Retirement Action:

Adopt a comprehensive "Model Regulation" that includes the detailed provisions required by IRC section 415. Annual limits addressed in the "Model Regulation" include those for annual

benefits, participation in multiple defined benefit plans, permissive service credits (buybacks) and annual additions (contributions) to all retirement plans offered by an employer.

Operationally, the implementation of annual 415 benefit limits is at a critical juncture for '37 Act Retirement Systems. As you may be aware, Government Code section 31899.2 provided a "grandfather election" to IRC 415 limits for those system members who entered membership prior to January 1, 1990. VCERA is now beginning to retire more and more members who entered membership subsequent to January 1, 1990. Thus, more IRC 415 benefit testing is now required.

Another aspect of IRC 415 compliance that may require additional scrutiny is adherence to IRC 415(c) {annual additions limit}. The Board may wish to consider partnering with the County of Ventura's Deferred Compensation Committee, an actuary and legal counsel to ensure the provisions of 415(c) are being satisfied.

CERL Failure #8:

The IRC contains strict rules on when a qualified pension plan may make a distribution. At this time, the CERL permits plan distributions, under certain conditions, before the earliest of death, disability, normal retirement age, termination of employment or plan termination. Examples of CERL provisions to be that permit early distributions include Government Code sections 31564, 31627.2 and 31653.

Proposed Correction:

Amend Government Code section 31564 of the CERL and adopt "Model Regulations".

Proposed Board of Retirement Actions:

Comply and implement the provisions AB 2473 that included an amendment to Government Code section 31564. Additionally, adopt "Model Regulations" to establish defined parameters for post-retirement employment, including what constitutes a "Bona Fide" separation from service and VCERA's "Normal Retirement Age." The IRS provides qualified pension plans with latitude in establishing these parameters.

Many of the parameters for post-retirement employment were established in the PEPRA (Public Employees' Pension Reform Act) legislation, and it is recommended that the "Model Regulation" describing Distribution Restrictions include, at a minimum, a reference to the appropriate PEPRA statutes. It is also recommended that the duration for separation from service prior to reentering employment after retirement be established at 180 days to be consistent with PEPRA ("Bona Fide" separation).

The Board may wish to consider several alternatives in defining "Normal Retirement Age." First, the Board may select the earliest age a member may typically retire. Under this alternative, VCERA's "Normal Retirement Age" for legacy members would be age 50 for both general and safety members. Alternatively, the Board could select that formula age where the benefit is maximized for members. Under this alternative, the "Normal Retirement Age" would be 55 for safety members and 65 for general members. Finally, the Board could engage its actuary to determine the actual ages where the plan experiences the highest incidence of retirements for both general and safety members.

At this time, staff recommends utilizing VCERA's actuary to assist in identifying the respective general and safety member ages where the plan experiences the greatest number of retirements.

CERL Failure #9:

The CERL permits a party other than an employer to make plan contributions on behalf of a member. Specifically, this situation may occur when the member is on leave from employment and serving on behalf of a recognized bargaining unit. The IRC only permits plan contributions to be made by an employer.

Proposed Correction:

Amend the CERL provision (GC #31656) that conflicts with the IRC.

Proposed Board of Retirement Action:

Comply and implement the provisions of AB2473 that included an amendment to Government Code section 31656 to address this specific inconsistency in the CERL.

CERL Failure #10:

The CERL permits, in Government Code section 31564, the refund of contributions to a district and employee contributions under specific circumstances. A contribution refund of this nature violates the IRC's "Exclusive Benefit Rule" which requires plan assets to be used solely for the exclusive benefit of member employees and their beneficiaries.

Proposed Correction:

Amend the CERL provision that conflicts with the IRC.

Proposed Board of Retirement Action:

Comply and implement the provisions of AB2473 including the proposed amendment to Government Code section 31564.

Conclusion:

Subsequent to the Board of Retirement's adoption, the "Model Regulations" will need to be presented to the Board of Supervisors for approval in accordance with Government Code section 31525.

Additionally, the Board of Retirement may choose to further study the following tax related issues:

- How to assist the SACRS community with an annual review of IRC changes to assist all '37 Act Retirement Systems in maintaining tax compliance.

October 29, 2014

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- Determine the need to publish the appropriate actuarial tables detailing the CERL's optional retirement allowances on VCERA's website in order to satisfy IRS requirements.
- In conjunction with the County of Ventura, determine the appropriateness of continuing to permit pre-tax installment payments for service credit purchases given recent IRS revenue rulings.

I will be pleased to answer any questions you may have at the October 29, 2014 meeting.

Sincerely,



Tim Thonis
Interim Retirement Administrator

Attachments:

- 1) Explanation of Employee Rights and Options
- 2) Special Tax Notice Regarding Plan Payments
- 3) Text of AB 2473
- 4) Model Regulation – Minimum Distribution Rules
- 5) Model Regulation – Annual Compensation Limits
- 6) Model Regulation – Rollovers
- 7) Model Regulation – Medical Benefits
- 8) Model Regulation – Annual Benefit Limits
- 9) Model Regulation – Plan Distribution Restrictions
- 10) Model Regulation – Normal Retirement Age



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**EXPLANATION OF EMPLOYEE RIGHTS AND OPTIONS
 and
 DISPOSITION OF SEPARATED MEMBER'S RETIREMENT CONTRIBUTIONS**

You have several options available to you upon separating from service with the County or contracting district. Please read them carefully and select one. Return this signed form to VCERA in order to receive a refund or leave your funds on deposit. Your options may include the following:

RETIRE - Service or Disability Retirement

A. At the time of termination from employment you may elect a Regular Service Retirement if you meet the eligibility requirements. The minimum requirements for a General Member are age 50 and 10 years of service credit, 30 years of service credit regardless of age, or age 70 regardless of years of service credit. For a Safety Member, the minimum requirements are age 50 and 10 years of service, or 20 years of service regardless of age. **If you are eligible for and wish to elect to receive a Regular Service Retirement, do not complete this form.** Please contact VCERA to obtain an Application for Service Retirement and related documents.

B. If you believe you are disabled from the performance of your duties and that your disability is the result of injury or disease arising out of and in the course of your employment with the County or district, you may file for a Service Connected Disability Retirement. If you believe you are disabled from the performance of your duties, but the disability was not caused by your employment with the County or district, you may file for a Non-Service Connected Disability Retirement, provided you have accrued five years of retirement service credit. **If you intend to file for Disability Retirement, do not complete this form.** Please contact VCERA to set up a counseling appointment and obtain the required Application for Disability Retirement and related documents.

LEAVE YOUR FUNDS ON DEPOSIT – Deferred Retirement, Funds on Deposit, or Reciprocity

C. At the time of termination from employment you may elect a Deferred Retirement if you have five years of Retirement service credit. By making this election you leave your retirement contributions on deposit and retain your membership with VCERA. You would be eligible to file for a service retirement at such time as you would have first been eligible to retire had you remained in continuous service. This election may be revoked at any time and you may withdraw your retirement contributions plus interest, as long as reciprocity has not been established with another California public agency.

I elect a Deferred Retirement and have accrued **five years of retirement service credit** with VCERA, or combined service with VCERA and a reciprocal public agency. I understand that I am required to leave my retirement contributions on deposit with VCERA and that I may revoke this election at a later date and receive a refund of my retirement contributions, as long as I have not established reciprocity with another public agency. I further understand that this election will result in my being eligible to draw a retirement benefit at such time as I would have first become eligible had I remained in continuous service with the County or district. I understand that the retirement benefit will not automatically start on the first date of my eligibility and that I must make a formal application to VCERA to commence receipt of my monthly retirement benefit.

D. Regardless of the amount of accrued retirement service credit, you may elect to leave your retirement contributions on deposit with VCERA. This election may be revoked at any time and you may withdraw your contributions from VCERA, plus interest, so long as reciprocity has not been established with another eligible public agency. No retirement allowance will be paid to a member who leaves their contributions on deposit pursuant to this section unless the provisions for receipt of a regular service retirement have been met. This will generally require a return to service with the County or District in order to accrue the minimum service required for a Deferred or Regular Service Retirement, or upon reaching age 70.

I elect to leave my contributions on deposit. I understand that I may withdraw my contributions so long as I have not established reciprocity with another eligible public agency. I understand that I will not be eligible to receive a monthly retirement allowance unless I otherwise meet the conditions for receiving a monthly benefit that are set forth in items A or B of this form.

E. At the time of termination from employment if you become a member of the California Public Employees' Retirement System (CalPERS), a retirement system covered by the County Employees' Retirement Law of 1937, the California State Teachers' Retirement System (CalSTRS), or a member of a retirement system of any other public agency of the State of California that has established reciprocity with the California Public Employees' Retirement System, you may be eligible to establish reciprocity. In order to establish reciprocity you must enter the new system within 180 days after leaving County or district service and make a formal election. Once reciprocity is established you may not withdraw your retirement contributions from VCERA so long as you are a member of the reciprocal system.

I elect to leave my retirement contributions on deposit with VCERA and establish reciprocity. I expect to take a position within 180 days with a public agency covered by either the County Employees' Retirement Law of 1937, the Public Employees' Retirement System (PERS) or other public agency of the state that has established reciprocity with the Public Employees' Retirement System, or the State Teachers' Retirement System (STRS).

Name of Retirement System: _____ Date of Hire: _____

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS
AND FEDERAL INCOME TAX

This notice explains how you can continue to defer federal income tax on your retirement savings in the Ventura County Employees' Retirement Association ("VCERA" or "Plan") and contains important information you will need before you decide how to receive your Plan benefits. This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. Other tax rules apply for California. (Please see Franchise Tax Board Publication 1005)

You are receiving this notice because all or a portion of a payment you are receiving from the Plan is eligible to be rolled over to an IRA, Roth IRA, or an eligible employer plan. A rollover is a payment by you or VCERA (your "Plan Administrator") of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. This notice is intended to help you decide whether to do such a rollover.

Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

General Information About Rollovers

How can a rollover affect my taxes?

You will be taxed on a payment from the Plan that is eligible for rollover (see "*How much may I roll over?*") if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

Where may I roll over the payment?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an eligible employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment. If you roll over your benefit, however, to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or an IRA in a direct rollover, your benefit will no longer be eligible for that special treatment. See sections below entitled "*If you were born on or before January 1, 1936*" and "*If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?*"

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the taxable portion of the payment for federal income taxes. This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

How much may I roll over?

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Required minimum distributions after age 70½ (or after death)

The Plan administrator or payor can tell you what portion of a payment is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Plan:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation;
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary);
- Payments made after you separate from service if you are a public safety employee and you are at least age 50 in the year of the separation;
- Payments made due to disability;
- Payments after your death;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO); or

- Payments up to the amount of your deductible medical expenses.

If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a payment from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55.
- The exception for qualified domestic relations orders does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Will I owe state income taxes?

This notice does not describe any State or local income tax rules (including withholding rules). {Please see Franchise Tax Board Publication 1005}

If my payment is not eligible for rollover, will it be subject to mandatory withholding?

If any portion of your payment is taxable, but cannot be rolled over, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask VCERA for the election form and related information.

What are the consequences for failing to defer receipt of an eligible rollover distribution?

If you choose to have an eligible rollover distribution (or a distribution that is not eligible for rollover) paid to you now rather than deferring receipt, for example, by leaving the money in the Plan, or by rolling over the eligible rollover distribution to a traditional IRA or an eligible employer plan:

- You could lose your ability to defer income taxes on the distribution until a later date.
- You may be subject to the additional 10% early distribution penalty if you receive payment before age 59½.

- Your benefit may be less now than it will be if you defer receipt until a later date.
- Your retirement savings may be reduced.

How much time do I have to decide?

Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan administrator.

Special Rules And Options

If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). The Plan Administrator can tell you the amount of any after-tax contributions included in your distribution request. If you do a rollover to an IRA of only a portion of the payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals \$12,000, of which \$2,000 is after-tax contributions. In this case, if you roll over \$10,000 to an IRA, no amount is taxable because the \$2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

Special Note: The Internal Revenue Service is currently taking the position that if there are two different recipients for a Plan distribution, then there are two distributions. In that case, the Internal Revenue Service is taking the position that, for example, if you receive a separate check for the amount of after-tax contributions you have made to the Plan and the remainder is forwarded to another qualified plan or an IRA, each of those two distributions must be treated as having an allocable share of after-tax contributions. The Internal Revenue Service has indicated to representatives of the American Bar Association that they are looking into this issue. If your payment includes after-tax contributions, you should consult with a personal financial and/or tax advisor regarding your rollover elections.

If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To

apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

If you were born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

If you are an eligible retired public safety officer and your pension payment is used to pay for health coverage or qualified long-term care insurance

If you retired as a public safety officer and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income Plan payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of \$3,000 annually.

If you roll over your payment to a Roth IRA

If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover). For payments from the Plan during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a 2-year period starting in 2011.

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

You cannot roll over a payment from the Plan to a designated Roth account in an employer plan.

If you are not a plan participant

Payments after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "*If you were born on or before January 1, 1936*" applies only if the participant was born on or before January 1, 1936.

- *If you are a surviving spouse*

If you receive a payment from the Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½.

Under current IRS guidance, effective September 16, 2013, same-sex couples legally married in a jurisdiction with laws authorizing same-sex marriage will be treated as married for federal tax purposes and the rules described in this Notice for surviving spouses will be applicable. Note that individuals who are in registered domestic partnerships, civil unions, or other similar relationships that may be recognized under state law but are not considered a legal marriage under state law, will not be treated as married for federal tax purposes. Individuals who are not considered married spouses for federal tax purposes would be covered by the rules described under the section below titled "*If you are a surviving beneficiary other than a spouse.*"

Note that California state law recognizes same-sex spouses and, for California state tax purposes, also treats registered domestic partners in the same manner as spouses. This means that it appears there will continue to be a difference in treatment of registered domestic partners for federal and California tax purposes. This area of the law is evolving and anyone affected by these situations may wish to consult with a professional financial or tax advisor.

- *If you are a surviving beneficiary other than a spouse*

If you receive a payment from the Plan because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a domestic relations order (DRO), you generally have the same options the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). Payments under the DRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled

to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Other special rules

- If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).
- If your payments for the year are less than \$200, the Plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.
- You may not elect to have separate portions of an eligible rollover distribution directly rolled over to multiple trustees or custodians.
- You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

For More Information

You may wish to consult with VCERA, or a professional tax advisor, before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590, Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.

If you have additional questions after reading this notice, you can contact VCERA at (805) 339 - 4250.

Assembly Bill No. 2473

CHAPTER 740

An act to amend Sections 31564, 31592.2, 31592.4, 31649.5, 31656, 31671, 31691, 31691.1, and 31696.3 of, and to add Sections 31485.19, 31485.20, 31485.21, 31485.22, 31694.6, and 31698.5 to, the Government Code, relating to county employees.

[Approved by Governor September 28, 2014. Filed with
Secretary of State September 28, 2014.]

LEGISLATIVE COUNSEL'S DIGEST

AB 2473, Committee on Public Employees, Retirement and Social Security. County Employees Retirement Law of 1937: federal law compliance.

Federal tax law regulates pension plans generally and regulates public pension plans specifically based on their status as governmental plans, as defined. In this regard, among other things, federal law requires that accrued member retirement benefits be nonforfeitable, as specified, establishes conditions for the distribution of funds to members from a retirement system, prescribes requirements for the vesting of benefits, and limits the application of pension funds for medical benefits.

The County Employees Retirement Law of 1937 (CERL) permits counties and districts, as defined, to provide retirement benefits to their employees pursuant to its provisions and vests the management of the retirement system in the board of retirement. CERL generally conditions distribution of benefits upon compliance with federal requirements. CERL requires a county to retain in its retirement fund specified excess earnings to maintain a reserve against possible future deficiencies in earnings, and to transfer certain of those excess earnings into county advance reserves for the sole purpose of paying the cost of benefits, as specified. CERL authorizes the use of these reserves for the payment of certain health and medical benefits, subject to specified limitations.

This bill would revise various provisions of CERL to explicitly conform with federal law. In this regard, the bill would provide that a member's accrued retirement benefits are nonforfeitable in accordance with federal law in effect on the date of the termination of, or discontinuance of contributions under, the retirement system. Upon the withdrawal of a district from a retirement system, the bill also would prohibit a refund, distribution, or transfer of contributions or other funds to an employee or district unless in compliance with prescribed federal law.

This bill would revise provisions authorizing a retirement system to apply specified earnings to designated health benefits provided federal requirements are met, and would allow the board of retirement to authorize

payment of those benefits with county advance reserves. The bill would specify that, if a county establishes a Post-Employment Benefits Trust Account as a part of its retirement fund, that account shall be used exclusively to provide health benefits for retired members, their spouses, and dependents.

This bill would revise county procedures applicable to providing service credit to a member of the retirement system for all or part of his or her military service, in accordance with federal law.

This bill would require a county that elects to provide optional long-term care or vision benefits, to comply with applicable federal law and regulation, including maintaining separate trust funds for those benefits. The bill also would make various technical, nonsubstantive changes to CERL.

The people of the State of California do enact as follows:

SECTION 1. Section 31485.19 is added to the Government Code, to read:

31485.19. Notwithstanding any other provision of this chapter, the rights of each member to his or her accrued retirement benefits under the retirement system shall be nonforfeitable, in accordance with the requirements of Sections 401(a) of Title 26 of the United States Code that are applicable to public employee plans, to the extent then funded, on the date of the termination of the system, the partial termination of the system, or the complete discontinuance of contributions under the system, as provided in Title 26 of the United States Code.

SEC. 2. Section 31485.20 is added to the Government Code, to read:

31485.20. Notwithstanding any other provision of this chapter, no amount shall be distributed from a retirement system established under this chapter prior to the time that the distribution may be made in compliance with the requirements of Section 401(a) of Title 26 of the United States Code that are applicable to public employee plans, including, but not limited to, requirements relating to the distribution of amounts prior to the earlier of a member's death, disability, separation from service with all employers that maintain the retirement system, or attainment of normal retirement age, as defined by the retirement system.

SEC. 3. Section 31485.21 is added to the Government Code, to read:

31485.21. (a) A member who has not attained normal retirement age shall have a bona fide separation from service to the extent required by Section 401(a) of Title 26 of the United States Code before working for the county or a district. The board shall establish, by regulation, the criteria under which a bona fide separation is satisfied.

(b) Notwithstanding any other provision of this chapter, to the extent required or permitted by Section 401(a) of Title 26 of the United States Code, no amount shall be paid to any member before the date the member has attained normal retirement age or has had a bona fide separation from service, whichever is earlier.

(c) The board may establish, by regulation, normal retirement age consistent with federal law and eligibility requirements under state law.

(d) To the extent that the California Public Employees' Pension Reform Act of 2013 (Article 4 (commencing with Section 7522) of Chapter 21 of Division 7 of Title 1) would provide for greater restrictions with regard to separation from service, the provisions of that act shall prevail.

SEC. 4. Section 31485.22 is added to the Government Code, to read:

31485.22. (a) A member who, while currently employed, has reached normal retirement age, as defined by the retirement system, and has met the benefit commencement requirements in Article 8 or Article 9, shall be fully vested in the benefits payable under the retirement system. Upon satisfying the requirements of this section, a member may be retired upon filing with the board a written application in the manner provided in Articles 8 and 9 of this chapter, as applicable.

(b) Notwithstanding subdivision (a), Articles 8 and 9 of this chapter, or any other applicable law, a member's earned and accrued benefits may be forfeited under Section 7522.70, 7522.72, or 7522.74.

SEC. 5. Section 31564 of the Government Code is amended to read:

31564. (a) All officers and employees of any district who have become members of the association as provided in Section 31557, may be withdrawn by a resolution of the governing body declaring all of the district's employees withdrawn from the association; provided, the governing body has first received a written petition signed by a majority of its officers and employees requesting that the district's officers and employees be withdrawn from the association.

(b) Upon the adoption of any resolution to withdraw its members, all accumulated contributions held in the association shall be refunded to the district's employees upon the effective date of their withdrawal and in the same manner as the accumulated contributions would be refunded upon the termination of their employment by the district.

(c) Upon the adoption of any resolution to withdraw its members and where there are no existing retirees from the district, the district's contributions shall be transferred to another public retirement system that meets the requirement of a tax-qualified retirement plan under Section 401(a) of Title 26 of the United States Code.

(d) A refund, distribution, or transfer of contributions or other funds shall not be made to any employee or any district unless that action complies with the requirements of Section 401(a) of Title 26 of the United States Code.

(e) In the event of the transfer of district contributions to another public retirement system, the employee contributions shall also be transferred to the other public retirement system.

(f) The effective date of withdrawal of any resolution adopted pursuant to this section shall be at the end of the calendar month during which such resolution is adopted.

SEC. 6. Section 31592.2 of the Government Code is amended to read:

31592.2. (a) In any county, earnings of the retirement fund during any year in excess of the total interest credited to contributions and reserves during such year shall remain in the fund as a reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies, except that, when such surplus exceeds 1 percent of the total assets of the retirement system, the board may transfer all, or any part, of such surplus in excess of 1 percent of the said total assets into county advance reserves for the sole purpose of payment of the cost of the benefits described in this chapter.

(b) Where the board of supervisors has provided for the payment of all, or a portion, of the premiums, dues, or other charges for health benefits, Medicare, or the payment of accrued sick leave at retirement to or for all, or a portion, of officers, employees, and retired employees and their dependents, from the county general fund or other sources, the board of retirement may authorize the payment of all, or a portion, of payments of the benefits described in this subdivision from the county advance reserves. This payment shall comply with the requirements of Section 401 of Title 26 of the United States Code. Payment may be made directly from the county advance reserves for the benefits described in Section 31691.1.

SEC. 7. Section 31592.4 of the Government Code is amended to read:

31592.4. (a) The amount of excess earnings available at the end of a fiscal year of the retirement fund, shall, subject to the limitations in this section, be treated in the immediately succeeding fiscal year, for all purposes under this chapter, as appropriations, transfers, and contributions made to the retirement fund by the county and applicable districts. That treatment shall occur only to the extent that, in the immediately succeeding fiscal year, the county and applicable districts pay for an equal amount of health benefits for members heretofore or hereafter retired and their dependents or make contributions in an equal amount to an account established under Section 401(h) of Title 26 of the United States Code solely for the purpose of providing health benefits for retired members, their spouses, and dependents, and for the associated administrative and investment expenses.

(b) For purposes of this section, "excess earnings" means earnings of the retirement fund at the end of any fiscal year that exceed the total interest credited to contributions and reserves plus 1 percent of the total assets of the retirement fund.

(c) The board of supervisors or the board of retirement shall take any actions necessary and appropriate to ensure that the program provided by this section complies with all applicable federal and state income tax laws, including, but not limited to, establishing rules and procedures for establishing and maintaining an account under Section 401(h) of Title 26 of the United States Code.

(d) In accordance with Section 401(h) of Title 26 of the United States Code and Section 1.401-14(c) of the Code of Federal Regulations:

(1) The retirement system shall specify the medical benefits that will be available and shall set out the amount that will be paid.

(2) Medical benefits shall be subordinate to the retirement benefits when added to any life insurance benefits.

(3) A separate account shall be maintained for contributions to fund the medical benefits.

(4) The funds in the separate account may be invested with the funds for retirement benefits and the earnings shall be allocated to each account in a reasonable manner.

(5) Amounts contributed for medical benefits shall be reasonable and ascertainable.

(6) No part of the medical benefits account may be used for or diverted to any purpose other than providing medical benefits and paying necessary or appropriate expenses for the administration of the medical benefits account.

(7) Any amounts remaining in the medical benefits account after satisfaction of all medical benefits liabilities for all members, their spouses, and dependents shall be returned to the employer.

(8) If a member's interest in the medical benefits account is forfeited prior to plan termination, an amount equal to the forfeiture shall reduce employer contributions to fund the account.

(c) Except to the extent allowed by Sections 401 and 420 of Title 26 of the United States Code, and related federal regulations, assets shall not be transferred or otherwise paid from the funds held by the retirement system for retirement benefits to a medical benefits account. Assets shall not be transferred or otherwise paid from a medical benefits account to the funds held by the retirement system for retirement benefits.

(f) This section shall not be operative in any county until the board of supervisors and the board of retirement of the county, by resolution adopted by a majority vote of each board, make this section operative in the county.

(g) This section is not intended, and shall not be construed to, affect the validity of any agreement entered into by a county and a retirement association whereby a county has agreed to provide and fund a health insurance program for retired employees and their dependents for hospital services, medical services, dental services, and optical services, prior to the effective date of this section.

(h) This section establishes a method of providing health benefits for retired members, their spouses, and dependents to the extent allowed under Sections 31592.2 and 31691. This section does not authorize duplicate benefits.

(i) This section may be made applicable in any county that has adopted Article 5.5 (commencing with Section 31610), in which case the Supplemental Retiree Benefits Reserve shall be substituted for the excess earnings described in this section. This section also may be made applicable to any arrangement established under Article 8.6 (commencing with Section 31694).

SEC. 8. Section 31649.5 of the Government Code is amended to read:

31649.5. Notwithstanding Section 31649, any member who resigned, or obtained a leave of absence, to enter and did enter the Armed Forces of

the United States on a voluntary or involuntary basis and returned to county service within one year after separation therefrom, under honorable conditions, shall receive credit for service and prior service for all or any part of his or her military service, if, before retirement from the county, he or she contributes what he or she would have paid to the fund based on his or her compensation earnable pursuant to Section 31461 at the time he or she resigned or received the leave of absence, together with regular interest thereon, and if, when he or she contributes, the military service is not a basis for present or future military retirement pay.

SEC. 9. Section 31656 of the Government Code is amended to read:

31656. Nothing in this chapter shall be construed to prohibit any district established pursuant to Part 4 (commencing with Section 40000) of Division 10 of the Public Utilities Code, from extending retirement service credit pursuant to Section 40127 of the Public Utilities Code to any employee of the district who is on an authorized leave of absence to serve as an official of a recognized employee bargaining unit, under all of the following conditions:

(a) The employee agrees to pay the total contributions that would otherwise be paid if the employee were not on leave, as well as any additional costs which may accrue to the system as a result of this extension of coverage.

(b) The maximum service credit accumulated under this section shall not exceed 12 years.

(c) Employees covered under this section shall not be eligible for disability benefits under any public employees' retirement system in this state while on such leave of absence.

This section shall not be operative in any county until such time as the board of supervisors shall, by resolution adopted by majority vote, make the provisions of this section applicable in the county.

SEC. 10. Section 31671 of the Government Code is amended to read:

31671. (a) The amount of compensation that is taken into account in computing benefits payable to any person who first becomes a member of the retirement system on or after July 1, 1996, or January 1, 1996, for systems operating on a calendar basis, shall not exceed the limitations in Section 401(a)(17) of Title 26 of the United States Code upon public retirement systems, as that section may be amended from time to time and as that limit may be adjusted by the Commissioner of Internal Revenue for increases in cost of living. The determination of compensation for each 12-month period shall be subject to the annual compensation limit in effect for the calendar year in which the 12-month period begins. In a determination of average annual compensation over more than one 12-month period, the amount of compensation taken into account for each 12-month period shall be subject to the applicable annual compensation limit.

(b) The compensation limitations specified in Section 7522.10 shall also apply to a member who is subject to the provisions of the California Public Employees' Pension Reform Act of 2013 for all or any portion of his or her membership in the county retirement system.

SEC. 11. Section 31691 of the Government Code is amended to read:

31691. (a) The board of supervisors of any county by ordinance, or the governing body of any district under the County Employees Retirement Law, by ordinance or resolution, may provide for the contribution by the county or district from its funds and not from the retirement fund, toward the payment of all or a portion of the premiums on a policy or certificate of life insurance or disability insurance issued by an admitted insurer, or toward the payment of all or part of the consideration for any hospital service or medical service corporation, including any corporation lawfully operating under Section 9201 of the Corporations Code, contract, or for any combination thereof, for the benefit of any member heretofore or hereafter retired or his or her dependents. At least one of these plans shall include free choice of physician and surgeon.

(b) The benefits provided by this section are in addition to any other benefits provided by this chapter.

(c) The board of retirement may provide on behalf of a member who has retired, or an eligible surviving spouse who was married to the member for one year prior to the date of retirement of the member, or, if there is no such spouse, the surviving unmarried children of the member who are under 18 years of age, or under 22 years of age and full-time students, for the hospital and medical benefits enumerated in subdivision (a) from the earnings of the retirement fund that are in excess of the total interest credited to contributions and reserves plus 1 percent of the total assets of the retirement fund. The board may provide for the benefits enumerated from like sources when the board of supervisors or the governing body of a district has elected to provide these benefits to its active employees, even though the benefits are not provided to those who have retired from the service of the county or district. Hospital and medical benefits provided under this section shall be provided in compliance with Section 401(h) of Title 26 of the United States Code. They may also be provided in compliance with Section 31592.2.

(d) Except in a county of the first class, upon adoption by any county providing benefits pursuant to this section, that has adopted Article 5.5 (commencing with Section 31610), the Supplemental Retiree Benefits Reserve established pursuant to Section 31618 shall be substituted for the excess earnings described in subdivision (c).

SEC. 12. Section 31691.1 of the Government Code is amended to read:

31691.1. (a) In lieu of the benefits prescribed by Section 31691, the board of retirement may provide on behalf of a member who has retired, or an eligible surviving spouse who was married to the member prior to the date of retirement of the member, or, if there is no such spouse, the surviving unmarried children of the member who are under 18 years of age, or under 22 years of age and full-time students, for an equivalent increase in allowance from the earnings of the retirement fund that are in excess of the total interest credited to contributions and reserves plus 1 percent of the total assets of the retirement fund. Any benefit provided by this section shall be subject to Section 31692.

(b) Except in a county of the first class, upon adoption by any county providing benefits pursuant to this section that has adopted Article 5.5 (commencing with Section 31610), the board of retirement shall, instead, pay those benefits from the Supplemental Retiree Benefits Reserve established pursuant to Section 31618.

SEC. 13. Section 31694.6 is added to the Government Code, to read:

31694.6. (a) Notwithstanding any provision to the contrary in this article, if the Post-Employment Benefits Trust Account established under Section 31694 is established as a part of the retirement fund, then that account shall be established for the sole purpose of providing health benefits for retired members, their spouses, and dependents, and shall comply with all requirements, including the limitations on contributions, of Section 401(h) of Title 26 of the United States Code, as applicable.

(b) The board of supervisors or the board of retirement shall take any actions necessary or appropriate to ensure that the program provided by this section complies with all applicable federal and state income tax laws, including, but not limited to, establishing rules and procedures for establishing and maintaining an account under Section 401(h) of Title 26 of the United States Code.

(c) If the Post-Employment Benefits Trust Account is established under Section 31694, assets shall not be transferred or otherwise paid from the funds held by the retirement system for retirement benefits to a medical benefits account. Assets shall not be transferred or otherwise paid from a medical benefits account to the funds held by the retirement system for retirement benefits.

SEC. 14. Section 31696.3 of the Government Code is amended to read:

31696.3. (a) The board shall establish a trust fund designated as the Long-Term Care Fund for the purpose of the payment of the costs and administration of the long-term care plan. The Long-Term Care Fund shall be held for the exclusive benefit of enrollees and the payment of the costs and administration of the program.

(b) The board shall have exclusive control of the administration and investment of the Long-Term Care Fund, except that in a county having a board of investments, the board of investments shall have exclusive control of the investment of the fund. Funds in the Long-Term Care Fund shall be invested pursuant to the law governing the investment of the retirement fund.

(c) Income, of whatever nature, earned on the Long-Term Care Fund shall be credited to the fund.

(d) If the Long-Term Care Fund is intended to be a part of the retirement system trust fund, then the operation of the Long-Term Care Fund, including, but not limited to, its funding, governance, investment of assets, allocation of income, and payment of benefits, shall comply with the requirements of Section 401(h) of Title 26 of the United States Code, to the extent required by that title and related federal regulations. If the Long-Term Care Fund is intended to be separate from and not a part of the retirement system, then no assets attributable to that fund shall be commingled for investment or

any other purpose, with the assets of the retirement system and shall constitute a separate fund with a trust that is separate from the funds and trust of the retirement system to the extent commingling of assets for investment purposes satisfies the requirements of the federal tax laws. The board shall indicate, as a part of establishment of the Long-Term Care Fund, whether the separate fund is intended to be a part of, or separate from, the retirement system.

SEC. 15. Section 31698.5 is added to the Government Code, to read:

31698.5. If the vision care program is intended to be part of the retirement system trust fund, then the operation of the vision care program, including, but not limited to, its funding, governance, investment of assets, allocation of income, and payment of benefits, shall comply with the requirements of Section 401(h) of Title 26 of the United States Code, to the extent required by that title, and related federal regulations. If the vision care program is intended to be separate from and not a part of the retirement system, then no assets attributable to that program shall be commingled for investment, or any other purpose, with the assets of the retirement system. Assets attributable to the program shall constitute a separate fund with a trust that is separate from the funds and trust of the retirement system except to the extent that the commingling of assets for investment purposes satisfies the requirements of the federal tax laws. The sponsor of the vision care program shall indicate as part of the establishment of the program whether that separate fund is intended to be a part of, or separate from, the retirement system.

Plan Name: Ventura County Employees' Retirement Association **EIN:** 95-6380470 **Plan #:**

CODE § 401(a)(9)

REQUIRED MINIMUM DISTRIBUTION RULES

I. PROPOSED CORRECTION

The proposed correction is for VCERA to adopt the following model regulations.

**PROPOSED MODEL REGULATIONS FOR IRC SECTION 401(a)(9)
MINIMUM REQUIRED DISTRIBUTIONS**

SECTION I. GENERAL RULES

A. Purpose and Effective Date

In accordance with sections 31485.14, 31525 and 31706 of the California Government Code, the regulations set forth herein are effective as of _____ and reaffirm and clarify the existing practices of the Ventura County Employees Retirement Association (the "Association") with respect to the minimum distribution requirements under section 401(a)(9) of the Internal Revenue Code (the "Code").

These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern.

The Association may establish reasonable procedures for complying with the minimum distribution requirements under section 401(a)(9) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes.

B. Reasonable Good Faith Interpretation of Code

In accordance with section 823 of the Pension Protection Act of 2006 ("PPA"), these regulations are promulgated in accordance with a reasonable good faith interpretation of section 401(a)(9) of the Code, and the Treasury regulations thereunder, as applicable to a governmental plan within the meaning of section 414(d) of the Code. For purposes of section 401(a)(9), Code means the Code and applicable Treasury regulations as they apply under a reasonable good faith interpretation of section 401(a)(9).

C. Elections Under TEFRA § 242(b)(2)

Notwithstanding the other requirements of this regulation to the contrary, distributions may be made under a designation made before January 1, 1984, in accordance with section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act.

Capitalized terms used in this Regulation are defined in Section VI. Terms defined in the County Employees Retirement Law apply here unless otherwise stated.

SECTION II. TIME AND MANNER OF DISTRIBUTION

A. Required Beginning Date

The Member's entire interest will be distributed, or begin to be distributed, no later than the Member's Required Beginning Date.

B. Forms of Distribution

1. Periodic And Other Forms Of Payments

A Member's entire interest in the Association shall be distributed in the form of RMD Annuity payments that meet the requirements of paragraph 2 of this subsection or in the form of a single sum or an insurance company annuity contract that meets the requirements of paragraph 3.a of this subsection. Payments may be made in a combination of these forms of payment and may include lump sum refunds or withdrawals of Member contributions or death benefits as provided in the CERL provided that these forms comply with a reasonable good faith interpretation of Code section 401(a)(9).

2. General Rules Regarding RMD Annuities

If the Member's interest is to be paid in the form of an RMD Annuity, the RMD Annuity must meet the following requirements:

a. Periodic

RMD Annuities must be paid over equal payment intervals which may not be longer than one year.

b. Distribution Period

RMD Annuities will be paid over the life or lives of the Member and a beneficiary or over a period certain that does not exceed the maximum length of the period described in Section III or Section IV of this regulation.

c. Increases

RMD Annuities may not increase over time except in accordance with the rules in Section V.A.

d. Change in Period Paid

The period over which an RMD Annuity is paid can be changed only in accordance with Q&A-13 of section 1.401(a)(9)-6 of the Treasury regulations.

e. Commencement

Payment of the RMD Annuity must start no later than the Required Beginning Date.

3. Other Forms

a. Annuity Contract [Optional]

If the Member's interest is distributed in the form of an annuity contract purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code.

b. Individual Account

Any part of the Member's interest which is in the form of an individual account described in section 414(k) of the Code will be distributed in a manner satisfying the requirements of Section 401(a)(9) of the Code that apply to individual accounts.

C. Amount Required to be Distributed by Required Beginning Date and Later Payment Intervals.

The amount that must be distributed on or before the Member's Required Beginning Date is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the Member's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Member's Required Beginning Date. If the Member dies before distributions begin, the same rules apply with reference to the date distributions are required to begin under section IV.A.1 or IV.A.2.

SECTION III. RMD ANNUITY DISTRIBUTIONS BEGINNING DURING MEMBER'S LIFE

The following rules must be met to comply with the requirements of the Code and this regulation for RMD Annuities that begin during the Member's lifetime.

A. Single Life RMD Annuity

An RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime only, with no benefits paid to any other person, meets the requirements of the Code and this regulation.

B. Joint and Survivor RMD Annuity - Death of Member After Benefits Begin

If Member dies after RMD Annuity payments have commenced to the Member, then distributions must continue to be made over the remaining period over which distributions commenced in accordance with the schedule of payments made to the

Member. Reasonable delay for administration may occur, but in this case payments that should have been made in accordance with the original payment schedule must be made with the first resumed payment.

C. Joint and Survivor RMD Annuity With Spouse as the Sole Beneficiary

An RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime and the lifetime of the Member's surviving Spouse, with no benefits paid to any other person, meets the requirements of the Code and this regulation regardless of the difference in age of the Member and the Member's Spouse.

D. Joint and Survivor RMD Annuity When the Sole Beneficiary Is Not the Member's Spouse

1. Limit on Percentage of Member's RMD Annuity Paid to Non-Spouse Beneficiary

The survivor annuity percentage of an RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime and the lifetime of a beneficiary other than the Member's surviving Spouse must not at any time exceed the applicable percentage of the RMD Annuity payment during the Member's lifetime, using the table set forth in Treasury regulation section 1.401(a)(9)-6, Q&A-2(c)(2), as determined in the manner described in Q&A-2(c)(1). This Treasury Regulation requires that the RMD Annuity payable to the Member's beneficiary after the Member's death not exceed the percentage of the RMD Annuity payable to the Member during the Member's life specified in the table if the adjusted age difference between the Member and the beneficiary is more than 10 years.

2. Rule Regarding Children of Member

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b), and taking into account the vested rights in retirement benefits created by the California Constitution, if a survivor benefit is payable to a surviving child of the Member for a limited period of time (such as until the child reaches the age of 21), the survivor benefit shall be treated as payable solely to the surviving Spouse of the Member.

3. Rule Regarding Other Beneficiaries

Solely to the extent required by section 401(a)(9) of Title 26 of the United States Code and under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(c) {attached} and taking into account the vested rights in retirement benefits created by the California Constitution, if a survivor benefit is payable to a person other than a surviving Spouse of the Member (or surviving child under paragraph 2 of this subsection D), then the present value (if any) of any benefit that would be in excess of the amount that can be paid in accordance with such regulation shall be paid to such person in a lump sum payment no later than one year after such person becomes entitled to survivor benefits.

E. Period Certain RMD Annuity

1. Spouse is the Sole Beneficiary

If the Member's sole beneficiary is the Member's surviving Spouse, and the form of distribution is a period certain with no life annuity, the period certain may not exceed the joint life and last survivor expectancy of the Member and Spouse as determined in accordance with the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9, Q&A-3, of the Treasury Regulations, using the Member's and Spouse's ages as of the Member's and Spouse's birthdays in the calendar year that contains the Annuity Starting Date.

2. Spouse is Not the Sole Beneficiary

When the Member's surviving Spouse is not the sole beneficiary then the period certain may not exceed the period established under the Uniform Lifetime Table in Q&A-2 of Treasury regulations section 1.401(a)(9)-9 for the calendar year that contains the Annuity Starting Date. If the Member is younger than age 70 in that year, then the distribution period for the Member is the distribution period for age 70 increased by the difference between 70 and the age of the Member in the year of the Annuity Starting Date. Also see below regarding Designated Beneficiaries.

3. Rule Regarding Children of Member

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b), and taking into account the vested rights in retirement benefits created by the California Constitution, the period certain distribution rules shall not apply to survivor benefits payable to children of the Member but the rules of section III.D above shall apply.

4. Rule Regarding Other Beneficiaries

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b) {attached}, and taking into account the vested rights in retirement benefits created by the California Constitution, if a period certain survivor benefit is payable to a person other than a surviving Spouse of the Member, then the present value (if any) of any benefit that would be in excess of the amount that can be paid in accordance with such regulation shall be paid to such person in a lump sum payment no later than one year after such person becomes entitled to a survivor benefit.

SECTION IV. DISTRIBUTIONS WHEN MEMBER DIES BEFORE BENEFITS BEGIN

If a Member dies before distributions begin, distributions after the death of the Member must meet the following requirements:

A. When Distributions Must Begin

1. Spouse is the Sole Designated Beneficiary

If the Member's sole Designated Beneficiary is the Member's surviving Spouse, then, except as provided in paragraph 5 of this subsection A, distributions to the surviving Spouse must begin by December 31 of the calendar year immediately following the calendar year in which the Member died or, if later, by December 31 of the calendar year in which the Member would have reached age 70 1/2.

2. Spouse is not the Sole Designated Beneficiary

If the Member's sole Designated Beneficiary is not the Member's surviving Spouse, then, except as provided in paragraph 5 of this subsection A, distributions to the Designated Beneficiary must begin by December 31 of the calendar year immediately following the calendar year in which the Member died.

3. No Designated Beneficiary

If there is no Designated Beneficiary as of September 30 of the year following the year of the Member's death, then distributions of the Member's entire interest must be completed by December 31 of the calendar year that contains the fifth anniversary of the Member's death.

4. Death of Surviving Spouse Who Is the Sole Designated Beneficiary

If the Member's surviving Spouse is the Member's sole Designated Beneficiary and the surviving Spouse dies after the Member but before distributions to the surviving Spouse are required to begin, then this section IV.A, other than section IV.A.1 applies as if the surviving Spouse were the Member.

5. Election of Five Year Rule

A Designated Beneficiary may elect, at the time and in the manner determined by the Association, to have the five year rule of section IV.A.3 apply, but solely to the extent that the Designated Beneficiary may elect, under the CERL, a benefit which will be paid in the required time period.

B. When Distributions Are Considered to Begin

For purposes of this Section IV, unless Section IV.A.4 applies, distributions are considered to begin on the Member's Required Beginning Date. If Section IV.A.4 applies, distributions are considered to begin on the date distributions are required

to begin to the surviving Spouse under Section IV.A.1. If distributions under an RMD Annuity meeting the requirements of this regulation commence to the Member before the Member's Required Beginning Date (or to the Member's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Section IV.A.1), the date distributions are considered to begin is the date distributions actually commence.

C. Length of Distribution Period

1. Member Is Survived by a Designated Beneficiary

a. General Rule

If the Member is survived by a Designated Beneficiary, the Member's entire interest in the Association shall be distributed over the life of the Designated Beneficiary or over a period certain that does not exceed the period specified in C.1.b

b. Period Certain

The period certain in C.1.a may not exceed the Designated Beneficiary's life expectancy determined using the Single Life Table in Treasury regulations section 1.401(a)(9)-9, Q&A-1. If the Annuity Starting Date is in the first Distribution Calendar Year, the life expectancy shall be determined using the Designated Beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the Member's death. If the Annuity Starting Date is before the first Distribution Calendar Year, then the life expectancy is determined using the Designated Beneficiary's age in the calendar year that contains the Annuity Starting Date.

2. No Designated Beneficiary

If there is no Designated Beneficiary as of the September 30 of the year following the year of the Member's death, distribution of the Member's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

3. Death of Surviving Spouse Before Distributions To Spouse Begin

If the Member's surviving Spouse is the Member's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Section IV.C shall apply as if the surviving Spouse were the Member, except that the time that distributions are required to begin is determined without regard to Section IV.A.1.

SECTION V. SPECIAL RULES

A. RMD Annuity Payment Increases

RMD Annuity payments will either not increase over time or increase only as follows:

1. Cost of Living Adjustments

a. Annual COLA Increases

RMD Annuity payments may increase by an annual percentage that does not exceed the percentage increase in an eligible cost-of-living index, as defined in Q&A-14(b) of section 1.401(a)(9)-6 of the Treasury regulations, for a 12-month period ending in the year during which the increase occurs or a prior year.

b. Cumulative COLA Increases

RMD Annuity payments may increase by a percentage increase that occurs at specified times and does not exceed the cumulative total of annual percentage increases in an eligible cost-of-living index, as defined in the preceding paragraph since the Annuity Starting Date, or if later, the date of the most recent percentage increase.

c. Additional COLA Increases

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b) and taking into account the vested rights in retirement benefits created by the California Constitution, RMD Annuity payments may increase by a percentage or amount that is determined by the Association, in accordance with the CERL, to represent an appropriate amount to take account of cost of living increases affecting retirees or beneficiaries.

2. "Pop-Up's"

RMD Annuity Payments may increase to the extent of the reduction in the amount of the Member's payments to provide for a survivor benefit, but only if there is no longer a survivor benefit because the beneficiary whose life was being used to determine the distribution period dies or is no longer the Member's beneficiary pursuant to a domestic relations order under applicable state law.

3. Single Sum Distribution

RMD Annuity Payments may increase to the extent necessary to allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the Member's death or under a good faith

interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-14(a)(5) and taking into account the vested rights in retirement benefits created by the California Constitution, to allow a beneficiary to select a lump sum distribution of all or part of the Member's interest under the Association as provided in the CERL.

4. Plan Amendment

Benefits may increase if they result from an amendment to, or interpretation of, the County Employees Retirement Law, the California Government Code or any other applicable law governing benefits for Members or from an ordinance, resolution or regulation pursuant to such law.

5. Other Benefits

Benefits may increase (i) to the extent increases are permitted in accordance with paragraph (c) or (d) of Q&A-14 of section 1.401(a)(9)-6 of the Treasury regulations dealing with additional permitted increases for annuity payments under annuity contracts purchased from an insurance company and additional permitted increases for annuity payments from a qualified trust; (ii) pursuant to Article 5.5 of the CERL dealing with the Supplemental Retiree Benefit Reserve; (iii) pursuant to Section 31691.1 of the CERL; and (iv) pursuant to sections 31681.1 et. seq., and 31739 et. seq. of the CERL.

B. Additional Accruals After First Distribution Calendar Year

Any additional benefits accruing to the Member in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such benefit accrues.

C. Domestic Relations Orders

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b), and taking into account the vested rights in retirement benefits created by the California Constitution, if Article 8.4 of the CERL applies (relating to the establishment of separate accounts under domestic relations orders), then both the Member and the Member's former Spouse shall be deemed to be separate Members of the Association for purposes of these regulations and section 401(a)(9) of the Code.

D. Reciprocal Member

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b), and taking into account the vested rights in retirement benefits created by the California Constitution, if a deferred Member is a current employee and a member of another retirement system with which the Association has reciprocity under California law, then for purposes of determining the Required Beginning Date under the Association the Member shall be treated as a current employee of the Association and as such, as if he or she had not retired, even if he or she has attained age 70½.

E. Public Safety Member Killed In Line of Duty

Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b), and taking into account the vested rights in retirement benefits created by the California Constitution, any additional retirement benefits paid under CERL section 31787.5 to the surviving Spouse of a public safety Member killed in the line of duty shall not be limited by Code section 401(a)(9) because they shall be treated as incidental death benefits.

F. Rollovers

Amounts that are required minimum distributions cannot be rolled over to another qualified retirement plan or other tax-favored vehicle. The amount that cannot be rolled over shall be determined in accordance with Treasury regulations section 1.402(c)-2, Q&A-7.

G. Payments to Surviving Child Treated as Made to Surviving Spouse

Solely to the extent required by section 401(a)(9) of Title 26 of the United States Code and under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(c) and taking into account the vested rights in retirement benefits created by the California Constitution, for purposes of Code section 401(a)(9) and these regulations, payments to a Member's surviving child in accordance with the requirements of Q&A-15 of section 1.401(a)(9)-6 of the Treasury regulations shall be treated as if such payments had been made to the Member's surviving Spouse to the extent the payments become payable to the surviving Spouse upon the child's attainment of the age of majority, as determined in accordance with Q&A-15 of section 1.401(a)(9)-6 of the Treasury regulations, or upon the occurrence of such other event specified in Q&A-15 of section 1.401(a)(9)-6 of the Treasury regulations, or as otherwise specified in IRS guidance under section 401(a)(9) of the Code.

SECTION VI DEFINITIONS

A. Annuity Starting Date

"Annuity Starting Date" means the first day of the first period for which a retirement benefit is payable as an RMD Annuity or, in the case of a retirement benefit not payable in the form of an RMD Annuity, the first day on which all events have occurred which entitle the Member to payment.

B. Designated Beneficiary

"Designated Beneficiary" means the individual who is designated by the Member (or the Member's surviving Spouse) as the beneficiary of the Member's interest under the Association and who is the designated beneficiary under section 401(a)(9) of the Code and section 1.401(a)(9)-4 of the Treasury regulations. Accordingly, entities other than individuals, such as the Member's estate or a trust, cannot be a Designated Beneficiary of a Member's interest in the Association. However, the

individuals who are beneficiaries under a designated trust shall be treated as Designated Beneficiaries for purposes of determining the distribution period under this regulation and Code section 401(a)(9) if all of the applicable requirements of Treasury regulation section 1.401(a)(9)-4, Q&A-5(b) are met. If all of such applicable requirements are not met, then the distribution of the Member's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

C. Distribution Calendar Year

"Distribution Calendar Year" means a calendar year for which a minimum distribution is required. For distributions beginning before the Member's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Member's Required Beginning Date. For distributions beginning after the Member's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Section IV.A of this regulation.

D. Required Beginning Date

"Required Beginning Date" means April 1 of the calendar year following the later of the calendar year in which the Member attains age 70½ or the calendar year in which the Member retires.

E. RMD Annuity

"RMD Annuity" means, for purposes of the required minimum distribution rules in section 401(a)(9) of the Code, a distribution form providing for periodic payments for a specified period of time.

F. Spouse

In accordance with Federal law, "Spouse" means a person who is married under California law except to the extent that such person is not treated as married under the federal Defense of Marriage Act, 1 U.S.C. § 7 to the extent required under the Code and Treasury regulations applicable to the Association.

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A-8. If the employee's benefit is in the form of an individual account, the benefit used to determine the required minimum distribution for any distribution calendar year will be determined in accordance with A-1 of this section without regard to whether or not all of the employee's benefit is vested. If any portion of the employee's benefit is not vested, distributions will be treated as being paid from the vested portion of the benefit first. If, as of the end of a distribution calendar year (or as of the employee's required beginning date, in the case of the employee's first distribution calendar year), the total amount of the employee's vested benefit is less than the required minimum distribution for the calendar year, only the vested portion, if any, of the employee's benefit is required to be distributed by the end of the calendar year (or, if applicable, by the employee's required beginning date). However, the required minimum distribution for the subsequent distribution calendar year must be increased by the sum of amounts not distributed in prior calendar years because the employee's vested benefit was less than the required minimum distribution.

Q-9. Which amounts distributed from an individual account are taken into account in determining whether section 401(a)(9) is satisfied and which amounts are not taken into account in determining whether section 401(a)(9) is satisfied?

A-9. (a) *General rule.* Except as provided in paragraph (b), all amounts distributed from an individual account are distributions that are taken into account in determining whether section 401(a)(9) is satisfied, regardless of whether the amount is includible in income. Thus, for example, amounts that are excluded from income as recovery of investment in the contract under section 72 are taken into account for purposes of determining whether section 401(a)(9) is satisfied for a distribution calendar year. Similarly, amounts excluded from income as net unrealized appreciation on employer securities also are amounts distributed for purposes of determining if section 401(a)(9) is satisfied.

(b) *Exceptions.* The following amounts are not taken into account in deter-

mining whether the required minimum amount has been distributed for a calendar year:

(1) Elective deferrals (as defined in section 402(g)(3)) and employee contributions that, pursuant to rules prescribed by the Commissioner in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter), are returned to the employee (together with the income allocable thereto) in order to comply with the section 415 limitations.

(2) Corrective distributions of excess deferrals as described in § 1.402(g)-1(e)(3), together with the income allocable to these distributions.

(3) Corrective distributions of excess contributions under a qualified cash or deferred arrangement under section 401(k)(8) and excess aggregate contributions under section 401(m)(6), together with the income allocable to these distributions.

(4) Loans that are treated as deemed distributions pursuant to section 72(p).

(5) Dividends described in section 404(k) that are paid on employer securities. (Amounts paid to the plan that, pursuant to section 404(k)(2)(A)(iii)(II), are included in the account balance and subsequently distributed from the account lose their character as dividends.)

(6) The costs of life insurance coverage (P.S. 58 costs).

(7) Similar items designated by the Commissioner in revenue rulings, notices, and other guidance published in the Internal Revenue Bulletin. See § 601.601(d)(2)(ii)(b) of this chapter.

[T.D. 8987, 67 FR 18994, Apr. 17, 2002, as amended by T.D. 9130, 69 FR 33293, June 15, 2004; T.D. 9319, 72 FR 16894, Apr. 5, 2007]

§ 1.401(a)(9)-6 Required minimum distributions for defined benefit plans and annuity contracts.

Q-1. How must distributions under a defined benefit plan be paid in order to satisfy section 401(a)(9)?

A-1. (a) *General rules.* In order to satisfy section 401(a)(9), except as otherwise provided in this section, distributions of the employee's entire interest under a defined benefit plan must be paid in the form of periodic annuity payments for the employee's life (or

the joint lives of the employee and beneficiary) or over a period certain that does not exceed the maximum length of the period certain determined in accordance with A-3 of this section. The interval between payments for the annuity must be uniform over the entire distribution period and must not exceed one year. Once payments have commenced over a period, the period may only be changed in accordance with A-13 of this section. Life (or joint and survivor) annuity payments must satisfy the minimum distribution incidental benefit requirements of A-2 of this section. Except as otherwise provided in this section (such as permitted increases described in A-14 of this section), all payments (whether paid over an employee's life, joint lives, or a period certain) also must be non-increasing.

(b) *Life annuity with period certain.* The annuity may be a life annuity (or joint and survivor annuity) with a period certain if the life (or lives, if applicable) and period certain each meet the requirements of paragraph (a) of this A-1. For purposes of this section, if distributions are permitted to be made over the lives of the employee and the designated beneficiary, references to a life annuity include a joint and survivor annuity.

(c) *Annuity commencement.* (1) Annuity payments must commence on or before the employee's required beginning date (within the meaning of A-2 of § 1.401(a)(9)-2). The first payment, which must be made on or before the employee's required beginning date, must be the payment which is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Similarly, in the case of distributions commencing after death in accordance with section 401(a)(9)(B)(iii) and (iv), the first payment, which must be made on or before the date determined under A-3(a) or (b) (whichever is applicable) of § 1.401(a)(9)-3, must be the payment which is required for one payment interval. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All benefit accruals as of the

last day of the first distribution calendar year must be included in the calculation of the amount of annuity payments for payment intervals ending on or after the employee's required beginning date.

(2) This paragraph (c) is illustrated by the following example:

Example. A defined benefit plan (Plan X) provides monthly annuity payments of \$500 for the life of unmarried participants with a 10-year period certain. An unmarried, retired participant (A) in Plan X attains age 70½ in 2005. In order to meet the requirements of this paragraph, the first monthly payment of \$500 must be made on behalf of A on or before April 1, 2006, and the payments must continue to be made in monthly payments of \$500 thereafter for the life and 10-year period certain.

(d) *Single sum distributions.* In the case of a single sum distribution of an employee's entire accrued benefit during a distribution calendar year, the amount that is the required minimum distribution for the distribution calendar year (and thus not eligible for rollover under section 402(c)) is determined using either the rule in paragraph (d)(1) or the rule in paragraph (d)(2) of this A-1.

(1) The portion of the single sum distribution that is a required minimum distribution is determined by treating the single sum distribution as a distribution from an individual account plan and treating the amount of the single sum distribution as the employee's account balance as of the end of the relevant valuation calendar year. If the single sum distribution is being made in the calendar year containing the required beginning date and the required minimum distribution for the employee's first distribution calendar year has not been distributed, the portion of the single sum distribution that represents the required minimum distribution for the employee's first and second distribution calendar years is not eligible for rollover.

(2) The portion of the single sum distribution that is a required minimum distribution is permitted to be determined by expressing the employee's benefit as an annuity that would satisfy this section with an annuity starting date as of the first day of the distribution calendar year for which the required minimum distribution is

being determined, and treating one year of annuity payments as the required minimum distribution for that year, and not eligible for rollover. If the single sum distribution is being made in the calendar year containing the required beginning date and the required minimum distribution for the employee's first distribution calendar year has not been made, the benefit must be expressed as an annuity with an annuity starting date as of the first day of the first distribution calendar year and the payments for the first two distribution calendar years would be treated as required minimum distributions, and not eligible for rollover.

(e) *Death benefits.* The rule in paragraph (a) of this A-1, prohibiting increasing payments under an annuity applies to payments made upon the death of an employee. However, for purposes of this section, an ancillary death benefit described in this paragraph (e) may be disregarded in applying that rule. Such an ancillary death benefit is excluded in determining an employee's entire interest and the rules prohibiting increasing payments do not apply to such an ancillary death benefit. A death benefit with respect to an employee's benefit is an ancillary death benefit for purposes of this A-1 if—

(1) It is not paid as part of the employee's accrued benefit or under any optional form of the employee's benefit; and

(2) The death benefit, together with any other potential payments with respect to the employee's benefit that may be provided to a survivor, satisfy the incidental benefit requirement of § 1.401-1(b)(1)(i).

(f) *Additional guidance.* Additional guidance regarding how distributions under a defined benefit plan must be paid in order to satisfy section 401(a)(9) may be issued by the Commissioner in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin. See § 601.601(d)(2)(ii)(b) of this chapter.

Q-2. How must distributions in the form of a life (or joint and survivor) annuity be made in order to satisfy the minimum distribution incidental benefit (MDIB) requirement of section 401(a)(9)(G) and the distribution compo-

nent of the incidental benefit requirement of § 1.401-1(b)(1)(i)?

A-2. (a) *Life annuity for employee.* If the employee's benefit is paid in the form of a life annuity for the life of the employee satisfying section 401(a)(9) without regard to the MDIB requirement, the MDIB requirement of section 401(a)(9)(G) will be satisfied.

(b) *Joint and survivor annuity, spouse beneficiary.* If the employee's sole beneficiary, as of the annuity starting date for annuity payments, is the employee's spouse and the distributions satisfy section 401(a)(9) without regard to the MDIB requirement, the distributions to the employee will be deemed to satisfy the MDIB requirement of section 401(a)(9)(G). For example, if an employee's benefit is being distributed in the form of a joint and survivor annuity for the lives of the employee and the employee's spouse and the spouse is the sole beneficiary of the employee, the amount of the periodic payment payable to the spouse would not violate the MDIB requirement if it was 100 percent of the annuity payment payable to the employee, regardless of the difference in the ages between the employee and the employee's spouse.

(c) *Joint and survivor annuity, non-spouse beneficiary—(1) Explanation of rule.* If distributions commence under a distribution option that is in the form of a joint and survivor annuity for the joint lives of the employee and a beneficiary other than the employee's spouse, the minimum distribution incidental benefit requirement will not be satisfied as of the date distributions commence unless under the distribution option, the annuity payments to be made on and after the employee's required beginning date will satisfy the conditions of this paragraph (c). The periodic annuity payment payable to the survivor must not at any time on and after the employee's required beginning date exceed the applicable percentage of the annuity payment payable to the employee using the table in paragraph (c)(2) of this A-2. The applicable percentage is based on the adjusted employee/beneficiary age difference. The adjusted employee/beneficiary age difference is determined by first calculating the excess of the age of the employee over the age of the

beneficiary based on their ages on their birthdays in a calendar year. Then, if the employee is younger than age 70, the age difference determined in the previous sentence is reduced by the number of years that the employee is younger than age 70 on the employee's birthday in the calendar year that contains the annuity starting date. In the case of an annuity that provides for increasing payments, the requirement of this paragraph (c) will not be violated merely because benefit payments to the beneficiary increase, provided the increase is determined in the same manner for the employee and the beneficiary.

(2) Table.

Adjusted employee/beneficiary age difference	Applicable percentage
10 years or less	100
11	96
12	93
13	90
14	87
15	84
16	82
17	79
18	77
19	75
20	73
21	72
22	70
23	68
24	67
25	66
26	64
27	63
28	62
29	61
30	60
31	59
32	59
33	58
34	57
35	56
36	56
37	55
38	55
39	54
40	54
41	53
42	53
43	53
44 and greater	52

(3) Example. This paragraph (c) is illustrated by the following example:

Example. Distributions commence on January 1, 2003 to an employee (Z), born March 1, 1937, after retirement at age 65. Z's daughter (Y), born February 5, 1967, is Z's beneficiary. The distributions are in the form of a joint and survivor annuity for the lives of Z and Y with payments of \$500 a month to Z and upon Z's death of \$500 a month to Y, i.e., the projected monthly payment to Y is 100 percent

of the monthly amount payable to Z. Accordingly, under A-10 of this section, compliance with the rules of this section is determined as of the annuity starting date. The adjusted employee/beneficiary age difference is calculated by taking the excess of the employee's age over the beneficiary's age and subtracting the number of years the employee is younger than age 70. In this case, Z is 30 years older than Y and is commencing benefit 4 years before attaining age 70 so the adjusted employee-beneficiary age difference is 26 years. Under the table in the paragraph (c)(2) of this A-2, the applicable percentage for a 26-year adjusted employee/beneficiary age difference is 64 percent. As of January 1, 2003 (the annuity starting date) the plan does not satisfy the MDIB requirement because, as of such date, the distribution option provides that, as of Z's required beginning date, the monthly payment to Y upon Z's death will exceed 66 percent of Z's monthly payment.

(d) *Period certain and annuity features.* If a distribution form includes a period certain, the amount of the annuity payments payable to the beneficiary need not be reduced during the period certain, but in the case of a joint and survivor annuity with a period certain, the amount of the annuity payments payable to the beneficiary must satisfy paragraph (c) of this A-2 after the expiration of the period certain.

(e) *Deemed satisfaction of incidental benefit rule.* Except in the case of distributions with respect to an employee's benefit that include an ancillary death benefit described in paragraph A-1(e) of this section, to the extent the incidental benefit requirement of §1.401-1(b)(1)(i) requires a distribution, that requirement is deemed to be satisfied if distributions satisfy the minimum distribution incidental benefit requirement of this A-2. If the employee's benefits include an ancillary death benefit described in paragraph A-1(e) of this section, the benefits (including the ancillary death benefit) must be distributed in accordance with the incidental benefit requirement described in §1.401-1(b)(1)(i) and the benefits (excluding the ancillary death benefit) must also satisfy the minimum distribution incidental benefit requirement of this A-2.

Q-3. How long is a period certain under a defined benefit plan permitted to extend?

A-3. (a) *Distributions commencing during the employee's life.* The period certain for any annuity distributions commencing during the life of the employee with an annuity starting date on or after the employee's required beginning date generally is not permitted to exceed the applicable distribution period for the employee (determined in accordance with the Uniform Lifetime Table in A-2 of § 1.401(a)(9)-9) for the calendar year that contains the annuity starting date. See A-10 of this section for the rule for annuity payments with an annuity starting date before the required beginning date. However, if the employee's sole beneficiary is the employee's spouse, the period certain is permitted to be as long as the joint life and last survivor expectancy of the employee and the employee's spouse, if longer than the applicable distribution period for the employee, provided the period certain is not provided in conjunction with a life annuity under A-1(b) of this section.

(b) *Distributions commencing after the employee's death.* (1) If annuity distributions commence after the death of the employee under the life expectancy rule (under section 401(a)(9)(B)(iii) or (iv)), the period certain for any distributions commencing after death cannot exceed the applicable distribution period determined under A-5(b) of § 1.401(a)(9)-5 for the distribution calendar year that contains the annuity starting date.

(2) If the annuity starting date is in a calendar year before the first distribution calendar year, the period certain may not exceed the life expectancy of the designated beneficiary using the beneficiary's age in the year that contains the annuity starting date.

Q-4. Will a plan fail to satisfy section 401(a)(9) merely because distributions are made from an annuity contract which is purchased from an insurance company?

A-4. A plan will not fail to satisfy section 401(a)(9) merely because distributions are made from an annuity contract which is purchased with the employee's benefit by the plan from an insurance company, as long as the payments satisfy the requirements of this section. If the annuity contract is pur-

chased after the required beginning date, the first payment interval must begin on or before the purchase date and the payment required for one payment interval must be made no later than the end of such payment interval. If the payments actually made under the annuity contract do not meet the requirements of section 401(a)(9), the plan fails to satisfy section 401(a)(9). See also A-14 of this section permitting certain increases under annuity contracts.

Q-5. In the case of annuity distributions under a defined benefit plan, how must additional benefits that accrue after the employee's first distribution calendar year be distributed in order to satisfy section 401(a)(9)?

A-5. (a) In the case of annuity distributions under a defined benefit plan, if any additional benefits accrue in a calendar year after the employee's first distribution calendar year, distribution of the amount that accrues in the calendar year must commence in accordance with A-1 of this section beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.

(b) A plan will not fail to satisfy section 401(a)(9) merely because there is an administrative delay in the commencement of the distribution of the additional benefits accrued in a calendar year, provided that the actual payment of such amount commences as soon as practicable. However, payment must commence no later than the end of the first calendar year following the calendar year in which the additional benefit accrues, and the total amount paid during such first calendar year must be no less than the total amount that was required to be paid during that year under A-5(a) of this section.

Q-6. If a portion of an employee's benefit is not vested as of December 31 of a distribution calendar year, how is the determination of the required minimum distribution affected?

A-6. In the case of annuity distributions from a defined benefit plan, if any portion of the employee's benefit is not vested as of December 31 of a distribution calendar year, the portion that is not vested as of such date will be treated as not having accrued for purposes

of determining the required minimum distribution for that distribution calendar year. When an additional portion of the employee's benefit becomes vested, such portion will be treated as an additional accrual. See A-5 of this section for the rules for distributing benefits which accrue under a defined benefit plan after the employee's first distribution calendar year.

Q-7. If an employee (other than a 5-percent owner) retires after the calendar year in which the employee attains age 70½, for what period must the employee's accrued benefit under a defined benefit plan be actuarially increased?

A-7. (a) *Actuarial increase starting date.* If an employee (other than a 5-percent owner) retires after the calendar year in which the employee attains age 70½, in order to satisfy section 401(a)(9)(C)(iii), the employee's accrued benefit under a defined benefit plan must be actuarially increased to take into account any period after age 70½ in which the employee was not receiving any benefits under the plan. The actuarial increase required to satisfy section 401(a)(9)(C)(iii) must be provided for the period starting on the April 1 following the calendar year in which the employee attains age 70½, or January 1, 1997, if later.

(b) *Actuarial increase ending date.* The period for which the actuarial increase must be provided ends on the date on which benefits commence after retirement in an amount sufficient to satisfy section 401(a)(9).

(c) *Nonapplication to plan providing same required beginning date for all employees.* If, as permitted under A-2(e) of § 1.401(a)(9)-2, a plan provides that the required beginning date for purposes of section 401(a)(9) for all employees is April 1 of the calendar year following the calendar year in which the employee attains age 70½ (regardless of whether the employee is a 5-percent owner) and the plan makes distributions in an amount sufficient to satisfy section 401(a)(9) using that required beginning date, no actuarial increase is required under section 401(a)(9)(C)(iii).

(d) *Nonapplication to governmental and church plans.* The actuarial increase required under this A-7 does not apply to a governmental plan (within the mean-

ing of section 414(d)) or a church plan. For purposes of this paragraph, the term *church plan* means a plan maintained by a church for church employees, and the term *church* means any church (as defined in section 3121(w)(3)(A)) or qualified church-controlled organization (as defined in section 3121(w)(3)(B)).

Q-8. What amount of actuarial increase is required under section 401(a)(9)(C)(iii)?

A-8. In order to satisfy section 401(a)(9)(C)(iii), the retirement benefits payable with respect to an employee as of the end of the period for actuarial increases (described in A-7 of this section) must be no less than: the actuarial equivalent of the employee's retirement benefits that would have been payable as of the date the actuarial increase must commence under paragraph (a) of A-7 of this section if benefits had commenced on that date; plus the actuarial equivalent of any additional benefits accrued after that date; reduced by the actuarial equivalent of any distributions made with respect to the employee's retirement benefits after that date. Actuarial equivalence is determined using the plan's assumptions for determining actuarial equivalence for purposes of satisfying section 411.

Q-9. How does the actuarial increase required under section 401(a)(9)(C)(iii) relate to the actuarial increase required under section 411?

A-9. In order for any of an employee's accrued benefit to be nonforfeitable as required under section 411, a defined benefit plan must make an actuarial adjustment to an accrued benefit, the payment of which is deferred past normal retirement age. The only exception to this rule is that generally no actuarial adjustment is required to reflect the period during which a benefit is suspended as permitted under section 203(a)(3)(B) of the Employee Retirement Income Security Act of 1974 (ERISA) (88 Stat. 329). The actuarial increase required under section 401(a)(9)(C)(iii) for the period described in A-7 of this section is generally the same as, and not in addition to, the actuarial increase required for the same period under section 411 to reflect any delay in the payment of retirement

benefits after normal retirement age. However, unlike the actuarial increase required under section 411, the actuarial increase required under section 401(a)(9)(C)(iii) must be provided even during any period during which an employee's benefit has been suspended in accordance with ERISA section 203(a)(3)(B).

Q-10. What rule applies if distributions commence to an employee on a date before the employee's required beginning date over a period permitted under section 401(a)(9)(A)(ii) and the distribution form is an annuity under which distributions are made in accordance with the provisions of A-1 of this section?

A-10. (a) *General rule.* If distributions commence to an employee on a date before the employee's required beginning date over a period permitted under section 401(a)(9)(A)(ii) and the distribution form is an annuity under which distributions are made in accordance with the provisions of A-1 of this section, the annuity starting date will be treated as the required beginning date for purposes of applying the rules of this section and § 1.401(a)(9)-2. Thus, for example, the designated beneficiary distributions will be determined as of the annuity starting date. Similarly, if the employee dies after the annuity starting date but before the required beginning date determined under A-2 of § 1.401(a)(9)-2, after the employee's death, the remaining portion of the employee's interest must continue to be distributed in accordance with this section over the remaining period over which distributions commenced. The rules in § 1.401(a)(9)-3 and section 401(a)(9)(B)(ii) or (iii) and (iv) do not apply.

(b) *Period certain.* If, as of the employee's birthday in the year that contains the annuity starting date, the age of the employee is under 70, the following rule applies in applying the rule in paragraph (a) of A-3 of this section. The applicable distribution period for the employee is the distribution period for age 70, determined in accordance with the Uniform Lifetime Table in A-2 of § 1.401(a)(9)-9, plus the excess of 70 over the age of the employee as of the employee's birthday in the year that contains the annuity starting date.

(c) *Adjustment to employee/beneficiary age difference.* See A-2(c)(1) of this section for the determination of the adjusted employee/beneficiary age difference in the case of an employee whose age on the annuity starting date is less than 70.

Q-11. What rule applies if distributions commence to the surviving spouse of an employee over a period permitted under section 401(a)(9)(B)(iii)(II) before the date on which distributions are required to commence and the distribution form is an annuity under which distributions are made as of the date distributions commence in accordance with the provisions of A-1 of this section.

A-11. If distributions commence to the surviving spouse of an employee over a period permitted under section 401(a)(9)(B)(iii)(II) before the date on which distributions are required to commence and the distribution form is an annuity under which distributions are made as of the date distributions commence in accordance with the provisions of A-1 of this section, distributions will be considered to have begun on the actual commencement date for purposes of section 401(a)(9)(B)(iv)(II). Consequently, A-5 of § 1.401(a)(9)-3 and section 401(a)(9)(B)(ii) and (iii) will not apply upon the death of the surviving spouse as though the surviving spouse were the employee. Instead, the annuity distributions must continue to be made, in accordance with the provisions of A-1 of this section, over the remaining period over which distributions commenced.

Q-12. In the case of an annuity contract under an individual account plan that has not yet been annuitized, how is section 401(a)(9) satisfied with respect to the employee's or beneficiary's entire interest under the annuity contract for the period prior to the date annuity payments so commence?

A-12. (a) *General rule.* Prior to the date that an annuity contract under an individual account plan is annuitized, the interest of an employee or beneficiary under that contract is treated as an individual account for purposes of section 401(a)(9). Thus, the required minimum distribution for any year with respect to that interest is determined under § 1.401(a)(9)-5 rather than

this section. See A-1 of § 1.401(a)(9)-5 for rules relating to the satisfaction of section 401(a)(9) in the year that annuity payments commence and A-2(a)(3) of § 1.401(a)(9)-8.

(b) *Entire interest.* For purposes of applying the rules in § 1.401(a)(9)-5, the entire interest under the annuity contract as of December 31 of the relevant valuation calendar year is treated as the account balance for the valuation calendar year described in A-3 of § 1.401(a)(9)-5. The entire interest under an annuity contract is the dollar amount credited to the employee or beneficiary under the contract plus the actuarial present value of any additional benefits (such as survivor benefits in excess of the dollar amount credited to the employee or beneficiary) that will be provided under the contract. However, paragraph (c) of this A-12 describes certain additional benefits that may be disregarded in determining the employee's entire interest under the annuity contract. The actuarial present value of any additional benefits described under this A-12 is to be determined using reasonable actuarial assumptions, including reasonable assumptions as to future distributions, and without regard to an individual's health.

(c) *Exclusions.* (1) The actuarial present value of any additional benefits provided under an annuity contract described in paragraph (b) of this A-12 may be disregarded if the sum of the dollar amount credited to the employee or beneficiary under the contract and the actuarial present value of the additional benefits is no more than 120 percent of the dollar amount credited to the employee or beneficiary under the contract and the contract provides only for the following additional benefits:

(i) Additional benefits that, in the case of a distribution, are reduced by an amount sufficient to ensure that the ratio of such sum to the dollar amount credited does not increase as a result of the distribution, and

(ii) An additional benefit that is the right to receive a final payment upon death that does not exceed the excess of the premiums paid less the amount of prior distributions.

(2) If the only additional benefit provided under the contract is the additional benefit described in paragraph (c)(1)(ii) of this A-12, the additional benefit may be disregarded regardless of its value in relation to the dollar amount credited to the employee or beneficiary under the contract.

(3) The Commissioner in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter) may provide additional guidance on additional benefits that may be disregarded.

(d) *Examples.* The following examples, which use a 5 percent interest rate and the Mortality Table provided in Rev. Rul. 2001-62 (2001-2 C.B. 632), illustrate the application of the rules in this A-12:

Example 1. (1) G is the owner of a variable annuity contract (Contract S) under an individual account plan which has not been annuitized. Contract S provides a death benefit until the end of the calendar year in which the owner attains the age of 84 equal to the greater of the current Contract S notional account value (dollar amount credited to G under the contract) and the largest notional account value at any previous policy anniversary reduced proportionally for subsequent partial distributions (High Water Mark). Contract S provides a death benefit in calendar years after the calendar year in which the owner attains age 84 equal to the current notional account value. Contract S provides that assets within the contract may be invested in a Fixed Account at a guaranteed rate of 2 percent. Contract S provides no other additional benefits.

(ii) At the end of 2008, when G has an attained age of 78 and 9 months the notional account value of Contract S (after the distribution for 2008 of 4.93% of the notional account value as of December 31, 2007) is \$550,000, and the High Water Mark, before adjustment for any withdrawals from Contract S in 2008 is \$1,000,000. Thus, Contract S will provide additional benefits (i.e. the death benefits in excess of the notional account value) through 2014, the year S turns 84. The actuarial present value of these additional benefits at the end of 2008 is determined to be \$84,300 (15 percent of the notional account value). In making this determination, the following assumptions are made: on the average, deaths occur mid-year; the investment return on his notional account value is 2 percent per annum; and minimum required distributions (determined without regard to additional benefits under the Contract S) are made at the end of each year. The following

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table summarizes the actuarial methodology used in determining the actuarial present value of the additional benefit.

Year	Death benefit during year	End-of-year notional account before withdrawal	Average notional account	Withdrawal at end of year	End-of-year notional account after withdrawal
2008	\$1,000,000				\$550,000
2009	950,739	² \$561,000	³ \$555,500	⁴ \$28,205	532,795
2010	901,983	543,451	538,123	28,492	514,959
2011	853,749	525,258	520,109	28,769	496,490
2012	806,053	506,419	501,454	29,034	477,385
2013	758,916	486,933	482,159	29,267	457,645
2014	712,356	466,798	462,222	29,525	437,273

¹ \$1,000,000 death benefit reduced 4.93 percent for withdrawal during 2008.
² Notional account value at end of prior year (after distribution) increased by 2 percent return for year.
³ Average of \$550,000 notional account value at end of prior year (after distribution) and \$561,000 notional account value at end of current year (before distribution).
⁴ December 31, 2008 notional account (before distribution) divided by uniform lifetime table age 79 factor of 19.5.

Year	Survivorship to start of year	Interest discount to end of 2008	Mortality rate during year	Discounted additional benefits within year
2008				
2009	1.00000	.97590	⁵ .04426	17,070
2010	.95574	⁶ .92943	.04946	7 15,987
2011	⁸ .90847	.88517	.05519	14,807
2012	.85833	.84302	.06146	13,546
2013	.80558	.80288	.06788	12,150
2014	.75090	.76464	.07477	10,739
				\$84,300

⁵ One-quarter age 78 rate plus three-quarters age 79 rate.
⁶ Five percent discounted 18 months (1.05^{-1.5}).
⁷ Blended age 79/age 80 mortality rate (.04946) multiplied by the \$363,860 excess of death benefit over the average notional account value (901,983 less 538,123) multiplied by .95574 probability of survivorship to the start of 2010 multiplied by 18 month interest discount of .92943.
⁸ Survivorship to start of preceding year (.95574) multiplied by probability of survivorship during prior year (1-.04946).

(iii) Because Contract S provides that, in the case of a distribution, the value of the additional death benefit (which is the only additional benefit available under the contract) is reduced by an amount that is at least proportional to the reduction in the notional account value and, at age 78 and 9 months, the sum of the notional account value (dollar amount credited to the employee under the contract) and the actuarial present value of the additional death benefit is no more than 120 percent of the notional account value, the exclusion under paragraph (c)(2) of this A-12 is applicable for 2009. Therefore, for purposes of applying the rules

in §1.401(a)(9)-5, the entire interest under Contract S may be determined as the notional account value (i.e. without regard to the additional death benefit).

Example 2. (i) The facts are the same as in *Example 1* except that the notional account value is \$450,000 at the end of 2008. In this instance, the actuarial present value of the death benefit in excess of the notional account value in 2008 is determined to be \$108,669 (24 percent of the notional account value). The following table summarizes the actuarial methodology used in determining the actuarial present value of the additional benefit.

Year	Death benefit during year	End-of-year notional account before withdrawal	Average notional account	Withdrawal at end of year	End-of-year notional account after withdrawal
2008	\$1,000,000				\$450,000
2009	950,739	\$459,000	\$454,500	\$23,077	435,923
2010	901,983	444,642	440,282	23,311	421,330
2011	853,749	429,757	425,543	23,538	406,219
2012	806,053	414,343	410,281	23,755	390,588
2013	758,916	398,399	394,494	23,962	374,437

Year	Death benefit during year	End-of-year notional account before withdrawal	Average notional account	Withdrawal at end of year	End-of-year notional account after withdrawal
2014	712,358	381,926	376,181	24,157	357,768

Year	Survivorship to start of year	Interest discount to end of 2008	Mortality rate during year	Discounted additional benefits within year
2008				
2009	1.00000	.97590	.04426	\$21,432
2010	.95574	.92943	.04946	20,286
2011	.90847	.88517	.05519	19,004
2012	.85833	.84302	.06146	17,601
2013	.80558	.80288	.06788	15,999
2014	.75090	.76464	.07477	14,347
				\$108,669

(ii) Because the sum of the notional account balance and the actuarial present value of the additional death benefit is more than 120 percent of the notional account value, the exclusion under paragraph (b)(1) of this A-12 does not apply for 2009. Therefore, for purposes of applying the rules in § 1.401(a)(9)-5, the entire interest under Contract S must include the actuarial present value of the additional death benefit.

Q-13: When can an annuity payment period be changed?

A-13. (a) *In general.* An annuity payment period may be changed in accordance with the provisions set forth in paragraph (b) of this A-13 or in association with an annuity payment increase described in A-14 of this section.

(b) *Reannuitization.* If, in a stream of annuity payments that otherwise satisfies section 401(a)(9), the annuity payment period is changed and the annuity payments are modified in association with that change, this modification will not cause the distributions to fail to satisfy section 401(a)(9) provided the conditions set forth in paragraph (c) of this A-13 are satisfied, and either—

(1) The modification occurs at the time that the employee retires or in connection with a plan termination;

(2) The annuity payments prior to modification are annuity payments paid over a period certain without life contingencies; or

(3) The annuity payments after modification are paid under a qualified joint and survivor annuity over the joint lives of the employee and a designated

beneficiary, the employee's spouse is the sole designated beneficiary, and the modification occurs in connection with the employee becoming married to such spouse.

(c) *Conditions.* In order to modify a stream of annuity payments in accordance with paragraph (b) of this A-13, the following conditions must be satisfied—

(1) The future payments under the modified stream satisfy section 401(a)(9) and this section (determined by treating the date of the change as a new annuity starting date and the actuarial present value of the remaining payments prior to modification as the entire interest of the participant);

(2) For purposes of sections 415 and 417, the modification is treated as a new annuity starting date;

(3) After taking into account the modification, the annuity stream satisfies section 415 (determined at the original annuity starting date, using the interest rates and mortality tables applicable to such date); and

(4) The end point of the period certain, if any, for any modified payment period is not later than the end point available under section 401(a)(9) to the employee at the original annuity starting date.

(d) *Examples.* For the following examples in this A-13, assume that the Applicable Interest Rate throughout the period from 2005 through 2008 is 5 percent and throughout 2009 is 4 percent, the Applicable Mortality Table

throughout the period from 2005 to 2009 is the table provided in Rev. Rul. 2001-62 (2001-C.B. 632) and the section 415 limit in 2005 at age 70 for a straight life annuity is \$255,344:

Example 1. (i) A participant (D), who has 10 years of participation in a frozen defined benefit plan (Plan W), attains age 70½ in 2005. D is not retired and elects to receive distributions from Plan W in the form of a straight life (i.e. level payment) annuity with annual payments of \$240,000 per year beginning in 2005 at a date when D has an attained age of 70. Plan W offers non-retired employees in pay status the opportunity to modify their annuity payments due to an associated change in the payment period at retirement. Plan W treats the date of the change in payment period as a new annuity starting date for the purposes of sections 415 and 417. Thus, for example, the plan provides a new qualified and joint survivor annuity election and obtains spousal consent.

(ii) Plan W determines modifications of annuity payment amounts at retirement such that the present value of future new annuity payment amounts (taking into account the new associated payment period) is actuarially equivalent to the present value of future pre-modification annuity payments (taking into account the pre-modification annuity payment period). Actuarial equivalency for this purpose is determined using the Applicable Interest Rate and the Applicable Mortality Table as of the date of modification.

(iii) D retires in 2009 at the age of 74 and, after receiving four annual payments of \$240,000, elects to receive his remaining distributions from Plan W in the form of an immediate final lump sum payment (calculated at 4 percent interest) of \$2,399,809.

(iv) Because payment of retirement benefits in the form of an immediate final lump sum payment satisfies (in terms of form) section 401(a)(9), the condition under paragraph (c)(1) of this A-13 is met.

(v) Because Plan W treats a modification of an annuity payment stream at retirement as a new annuity starting date for purposes of sections 415 and 417, the condition under paragraph (c)(2) of this A-13 is met.

(vi) After taking into account the modification, the annuity stream determined as of the original annuity starting date consists of annual payments beginning at age 70 of \$240,000, \$240,000, \$240,000, \$240,000, and \$2,399,809. This benefit stream is actuarially equivalent to a straight life annuity at age 70 of \$250,182, an amount less than the section 415 limit determined at the original annuity starting date, using the interest and mortality rates applicable to such date. Thus, the condition under paragraph (c)(3) of this A-13 is met.

(vii) Thus, because a stream of annuity payments in the form of a straight life annu-

ity satisfies section 401(a)(9), and because each of the conditions under paragraph (c) of this A-13 are satisfied, the modification of annuity payments to D described in this example meets the requirements of this A-13.

Example 2. The facts are the same as in *Example 1* except that the straight life annuity payments are paid at a rate of \$250,000 per year and after D retires the lump sum payment at age 75 is \$2,499,801. Thus, after taking into account the modification, the annuity stream determined as of the original annuity starting date consists of annual payments beginning at age 70 of \$250,000, \$250,000, \$250,000, \$250,000, and \$2,499,801. This benefit stream is actuarially equivalent to a straight life annuity at age 70 of \$260,606, an amount greater than the section 415 limit determined at the original annuity starting date, using the interest and mortality rates applicable to such date. Thus, the lump sum payment to D fails to satisfy the condition under paragraph (c)(3) of this A-13. Therefore, the lump sum payment to D fails to meet the requirements of this A-13 and thus fails to satisfy the requirements of section 401(a)(9).

Example 3. (i) A participant (E), who has 10 years of participation in a frozen defined benefit plan (Plan X), attains age 70½ and retires in 2005 at a date when his attained age is 70. E was born in 1935. E elects to receive annual distributions from Plan X in the form of a 27 year period certain annuity (i.e., a 27 year annuity payment period without a life contingency) paid at a rate of \$37,000 per year beginning in 2005 with future payments increasing at a rate of 4 percent per year (i.e., the 2006 payment will be \$38,480, the 2007 payment will be \$40,019 and so on). Plan X offers participants in pay status whose annuity payments are in the form of a term-certain annuity the opportunity to modify their payment period at any time and treats such modifications as a new annuity starting date for the purposes of sections 415 and 417. Thus, for example, the plan provides a new qualified and joint survivor annuity election and obtains spousal consent.

(ii) Plan X determines modifications of annuity payment amounts such that the present value of future new annuity payment amounts (taking into account the new associated payment period) is actuarially equivalent to the present value of future pre-modification annuity payments (taking into account the pre-modification annuity payment period). Actuarial equivalency for this purpose is determined using 5 percent and the Applicable Mortality Table as of the date of modification.

(iii) In 2008, E, after receiving annual payments of \$37,000, \$38,480, and \$40,019, elects to receive his remaining distributions from Plan W in the form of a straight life annuity paid with annual payments of \$92,133 per year.

(iv) Because payment of retirement benefits in the form of a straight life annuity satisfies (in terms of form) section 401(a)(9), the condition under paragraph (c)(1) of this A-13 is met.

(v) Because Plan X treats a modification of an annuity payment stream at retirement as a new annuity starting date for purposes of sections 415 and 417, the condition under paragraph (c)(2) of this A-13 is met.

(vi) After taking into account the modification, the annuity stream determined as of the original annuity starting date consists of annual payments beginning at age 70 of \$37,000, \$38,480, \$40,019, and a straight life annuity beginning at age 73 of \$92,133. This benefit stream is equivalent to a straight life annuity at age 70 of \$82,539, an amount less than the section 415 limit determined at the original annuity starting date, using the interest and mortality rates applicable to such date. Thus, the condition under paragraph (c)(3) of this A-13 is met.

(vii) Thus, because a stream of annuity payments in the form of a straight life annuity satisfies section 401(a)(9), and because each of the conditions under paragraph (c) of this A-13 are satisfied, the modification of annuity payments to E described in this example meets the requirements of this A-13.

Q-14. Are annuity payments permitted to increase?

A-14. (a) *General rules.* Except as otherwise provided in this section, all annuity payments (whether paid over an employee's life, joint lives, or a period certain) must be nonincreasing or increase only in accordance with one or more of the following—

(1) With an annual percentage increase that does not exceed the percentage increase in an eligible cost-of-living index as defined in paragraph (b) of this A-14 for a 12-month period ending in the year during which the increase occurs or the prior year;

(2) With a percentage increase that occurs at specified times (*e.g.*, at specified ages) and does not exceed the cumulative total of annual percentage increases in an eligible cost-of-living index as defined in paragraph (b) of this A-14 since the annuity starting date, or if later, the date of the most recent percentage increase. However, in cases providing such a cumulative increase, an actuarial increase may not be provided to reflect the fact that increases were not provided in the interim years;

(3) To the extent of the reduction in the amount of the employee's payments to provide for a survivor benefit,

but only if there is no longer a survivor benefit because the beneficiary whose life was being used to determine the period described in section 401(a)(9)(A)(ii) over which payments were being made dies or is no longer the employee's beneficiary pursuant to a qualified domestic relations order within the meaning of section 414(p);

(4) To pay increased benefits that result from a plan amendment;

(5) To allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the employee's death; or

(6) To the extent increases are permitted in accordance with paragraph (c) or (d) of this A-14.

(b) (1) For purposes of this A-14, an eligible cost-of-living index means an index described in paragraphs (b)(2), (b)(3), or (b)(4) of this A-14.

(2) A consumer price index that is based on prices of all items (or all items excluding food and energy) and issued by the Bureau of Labor Statistics, including an index for a specific population (such as urban consumers or urban wage earners and clerical workers) and an index for a geographic area or areas (such as a given metropolitan area or state).

(3) A percentage adjustment based on a cost-of-living index described in paragraph (b)(2) of this A-14, or a fixed percentage if less. In any year when the cost-of-living index is lower than the fixed percentage, the fixed percentage may be treated as an increase in an eligible cost-of-living index, provided it does not exceed the sum of:

(i) The cost-of-living index for that year, and

(ii) The accumulated excess of the annual cost-of-living index from each prior year over the fixed annual percentage used in that year (reduced by any amount previously utilized under this paragraph (b)(3)(ii)).

(4) A percentage adjustment based on the increase in compensation for the position held by the employee at the time of retirement, and provided under either the terms of a governmental plan within the meaning of section 414(d) or under the terms of a non-governmental plan as in effect on April 17, 2002.

(c) *Additional permitted increases for annuity payments under annuity contracts purchased from insurance companies.* In the case of annuity payments paid from an annuity contract purchased from an insurance company, if the total future expected payments (determined in accordance with paragraph (e)(3) of this A-14) exceed the total value being annuitized (within the meaning of paragraph (e)(1) of this A-14), the payments under the annuity will not fail to satisfy the non-increasing payment requirement in A-1(a) of this section merely because the payments are increased in accordance with one or more of the following—

(1) By a constant percentage, applied not less frequently than annually;

(2) To provide a final payment upon the death of the employee that does not exceed the excess of the total value being annuitized (within the meaning of paragraph (e)(1) of this A-14) over the total of payments before the death of the employee;

(3) As a result of dividend payments or other payments that result from actuarial gains (within the meaning of paragraph (e)(2) of this A-14), but only if actuarial gain is measured no less frequently than annually and the resulting dividend payments or other payments are either paid no later than the year following the year for which the actuarial experience is measured or paid in the same form as the payment of the annuity over the remaining period of the annuity (beginning no later than the year following the year for which the actuarial experience is measured); and

(4) An acceleration of payments under the annuity (within the meaning of paragraph (e)(4) of this A-14).

(d) *Additional permitted increases for annuity payments from a qualified trust.* In the case of annuity payments paid under a defined benefit plan qualified under section 401(a) (other than annuity payments under an annuity contract purchased from an insurance company that satisfy paragraph (c) of this section), the payments under the annuity will not fail to satisfy the non-increasing payment requirement in A-1(a) of this section merely because the payments are increased in accordance with one of the following—

(1) By a constant percentage, applied not less frequently than annually, at a rate that is less than 5 percent per year;

(2) To provide a final payment upon the death of the employee that does not exceed the excess of the actuarial present value of the employee's accrued benefit (within the meaning of section 411(a)(7)) calculated as the annuity starting date using the applicable interest rate and the applicable mortality table under section 417(e) (or, if greater, the total amount of employee contributions) over the total of payments before the death of the employee; or

(3) As a result of dividend payments or other payments that result from actuarial gains (within the meaning of paragraph (e)(2) of this A-14), but only if—

(i) Actuarial gain is measured no less frequently than annually;

(ii) The resulting dividend payments or other payments are either paid no later than the year following the year for which the actuarial experience is measured or paid in the same form as the payment of the annuity over the remaining period of the annuity (beginning no later than the year following the year for which the actuarial experience is measured);

(iii) The actuarial gain taken into account is limited to actuarial gain from investment experience;

(iv) The assumed interest used to calculate such actuarial gains is not less than 3 percent; and

(v) The payments are not increasing by a constant percentage as described in paragraph (d)(1) of this A-14.

(e) *Definitions.* For purposes of this A-14, the following definitions apply—

(1) Total value being annuitized means—

(i) In the case of annuity payments under a section 403(a) annuity plan or under a deferred annuity purchased by a section 401(a) trust, the value of the employee's entire interest (within the meaning of A-12 of this section) being annuitized (valued as of the date annuity payments commence);

(ii) In the case of annuity payments under an immediate annuity contract purchased by a trust for a defined benefit plan qualified under section 401(a),

the amount of the premium used to purchase the contract; and

(iii) In the case of a defined contribution plan, the value of the employee's account balance used to purchase an immediate annuity under the contract.

(2) Actuarial gain means the difference between an amount determined using the actuarial assumptions (i.e., investment return, mortality, expense, and other similar assumptions) used to calculate the initial payments before adjustment for any increases and the amount determined under the actual experience with respect to those factors. Actuarial gain also includes differences between the amount determined using actuarial assumptions when an annuity was purchased or commenced and such amount determined using actuarial assumptions used in calculating payments at the time the actuarial gain is determined.

(3) Total future expected payments means the total future payments expected to be made under the annuity contract as of the date of the determination, calculated using the Single Life Table in A-1 of § 1.401(a)(9)-9 (or, if applicable, the Joint and Last Survivor Table in A-3 of in § 1.401(a)(9)-9) for annuitants who are still alive, without regard to any increases in annuity payments after the date of determination, and taking into account any remaining period certain.

(4) Acceleration of payments means a shortening of the payment period with respect to an annuity or a full or partial commutation of the future annuity payments. An increase in the payment amount will be treated as an acceleration of payments in the annuity only if the total future expected payments under the annuity (including the amount of any payment made as a result of the acceleration) is decreased as a result of the change in payment period.

(f) *Examples.* Paragraph (c) of this A-14 is illustrated by the following examples:

Example 1. Variable annuity. A retired participant (Z1) in defined contribution plan X attains age 70 on March 5, 2005, and thus, attains age 70½ in 2005. Z1 elects to purchase annuity Contract Y1 from Insurance Company W in 2005. Contract Y1 is a single life annuity contract with a 10-year period certain. Contract Y1 provides for an initial an-

nual payment calculated with an assumed interest rate (AIR) of 3 percent. Subsequent payments are determined by multiplying the prior year's payment by a fraction the numerator of which is 1 plus the actual return on the separate account assets underlying Contract Y1 since the preceding payment and the denominator of which is 1 plus the AIR during that period. The value of Z1's account balance in Plan X at the time of purchase is \$105,000, and the purchase price of Contract Y1 is \$105,000. Contract Y1 provides Z1 with an initial payment of \$7,200 at the time of purchase in 2005. The total future expected payments to Z1 under Contract Y1 are \$122,400, calculated as the initial payment of \$7,200 multiplied by the age 70 life expectancy of 17 provided in the Single Life Table in A-1 of § 1.401(a)(9)-9. Because the total future expected payments on the purchase date exceed the total value used to purchase Contract Y1 and payments may only increase as a result of actuarial gain, with such increases, beginning no later than the next year, paid in the same form as the payment of the annuity over the remaining period of the annuity, distributions received by Z1 from Contract Y1 meet the requirements under paragraph (c)(3) of this A-14.

Example 2. Participating annuity. A retired participant (Z2) in defined contribution plan X attains age 70 on May 1, 2005, and thus, attains age 70½ in 2005. Z2 elects to purchase annuity Contract Y2 from Insurance Company W in 2005. Contract Y2 is a participating single life annuity contract with a 10-year period certain. Contract Y2 provides for level annual payments with dividends paid in a lump sum in the year after the year for which the actuarial experience is measured or paid out levelly beginning in the year after the year for which the actuarial gain is measured over the remaining lifetime and period certain, i.e., the period certain ends at the same time as the original period certain. Dividends are determined annually by the Board of Directors of Company W based upon a comparison of actual actuarial experience to expected actuarial experience in the past year. The value of Z2's account balance in Plan X at the time of purchase is \$265,000, and the purchase price of Contract Y2 is \$265,000. Contract Y2 provides Z2 with an initial payment of \$16,000 in 2005. The total future expected payments to Z2 under Contract Y2 are calculated as the annual initial payment of \$16,000 multiplied by the age 70 life expectancy of 17 provided in the Single Life Table in A-1 of § 1.401(a)(9)-9 for a total of \$272,000. Because the total future expected payments on the purchase date exceeds the total value used to purchase Contract Y2 and payments may only increase as a result of actuarial gain, with such increases, beginning no later than the next year, paid in the same form as the payment of the annuity over the remaining period of the annuity,

distributions received by Z2 from Contract Y2 meet the requirements under paragraph (c)(3) of this A-14.

Example 3. Participating annuity with dividend accumulation. The facts are the same as in *Example 2* except that the annuity provides a dividend accumulation option under which Z2 may defer receipt of the dividends to a time selected by Z2. Because the dividend accumulation option permits dividends to be paid later than the end of the year following the year for which the actuarial experience is measured or as a stream of payments that only increase as a result of actuarial gain, with such increases beginning no later than the next year, paid in the same form as the payment of the annuity over the remaining period of the annuity in *Example 2*, the dividend accumulation option does not meet the requirements of paragraph (c)(3) of this A-14. Neither does the dividend accumulation option fit within any of the other increases described in paragraph (c) of this A-14. Accordingly, the dividend accumulation option causes the contract, and consequently any distributions from the contract, to fail to meet the requirements of this A-14 and thus fail to satisfy the requirements of section 401(a)(9).

Example 4. Participating annuity with dividends used to purchase additional death benefits. The facts are the same as in *Example 2* except that the annuity provides an option under which actuarial gain under the contract is used to provide additional death benefit protection for Z2. Because this option permits payments as a result of actuarial gain to be paid later than the end of the year following the year for which the actuarial experience is measured or as a stream of payments that only increase as a result of actuarial gain, with such increases beginning no later than the next year, paid in the same form as the payment of the annuity over the remaining period of the annuity in *Example 2*, the option does not meet the requirements of paragraph (c)(3) of this A-14. Neither does the option fit within any of the other increases described in paragraph (c) of this A-14. Accordingly, the addition of the option causes the contract, and consequently any distributions from the contract, to fail to meet the requirements of this A-14 and thus fail to satisfy the requirements of section 401(a)(9).

Example 5. Annuity with a fixed percentage increase. A retired participant (Z3) in defined contribution plan X attains age 70½ in 2005. Z3 elects to purchase annuity contract Y3 from Insurance Company W. Contract Y3 is a single life annuity contract with a 20-year period certain (which does not exceed the maximum period certain permitted under A-3(a) of this section) with fixed annual payments increasing 3 percent each year. The value of Z3's account balance in Plan X at the time of purchase is \$110,000, and the pur-

chase price of Contract Y3 is \$110,000. Contract Y3 provides Z3 with an initial payment of \$6,000 at the time of purchase in 2005. The total future expected payments to Z3 under Contract Y3 are \$120,000, calculated as the initial annual payment of \$6,000 multiplied by the period certain of 20 years. Because the total future expected payments on the purchase date exceed the total value used to purchase Contract Y3 and payments only increase as a constant percentage applied not less frequently than annually, distributions received by Z3 from Contract Y3 meet the requirements under paragraph (c)(1) of this A-14.

Example 6. Annuity with excessive increases. The facts are the same as in *Example 5* except that the initial payment is \$5,400 and the annual rate of increase is 4 percent. In this example, the total future expected payments are \$108,000, calculated as the initial payment of \$5,400 multiplied by the period certain of 20 years. Because the total future expected payments are less than the total value of \$110,000 used to purchase Contract Y3, distributions received by Z3 do not meet the requirements under paragraph (c) of this A-14 and thus fail to meet the requirements of section 401(a)(9).

Example 7. Annuity with full commutation feature. (1) A retired participant (Z4) in defined contribution Plan X attains age 78 in 2005. Z4 elects to purchase Contract Y4 from Insurance Company W. Contract Y4 provides for a single life annuity with a 10 year period certain (which does not exceed the maximum period certain permitted under A-3(a) of this section) with annual payments. Contract Y4 provides that Z4 may cancel Contract Y4 at any time before Z4 attains age 84, and receive, on his next payment due date, a final payment in an amount determined by multiplying the initial payment amount by a factor obtained from Table M of Contract Y4 using the Y4's age as of Y4's birthday in the calendar year of the final payment. The value of Z4's account balance in Plan X at the time of purchase is \$450,000, and the purchase price of Contract Y4 is \$450,000. Contract Y4 provides Z4 with an initial payment in 2005 of \$40,000. The factors in Table M are as follows:

Age at final payment	Factor
79	10.5
80	10.0
81	9.5
82	9.0
83	8.5
84	8.0

(ii) The total future expected payments to Z4 under Contract Y4 are \$456,000, calculated as the initial payment of 40,000 multiplied by the age 78 life expectancy of 11.4 provided in the Single Life Table in A-1 of § 1.401(a)(9)-9. Because the total future expected payments

on the purchase date exceed the total value being annuitized (i.e., the \$450,000 used to purchase Contract Y4), the permitted increases set forth in paragraph (c) of this A-14 are available. Furthermore, because the factors in Table M are less than the life expectancy of each of the ages in the Single Life Table provided in A-1 of § 1.401(a)(9)-9, the final payment is always less than the total future expected payments. Thus, the final payment is an acceleration of payments within the meaning of paragraph (c)(4) of this A-14.

(iii) As an illustration of the above, if Participant Z4 were to elect to cancel Contract Y4 on the day before he was to attain age 84, his contractual final payment would be \$320,000. This amount is determined as \$40,000 (the annual payment amount due under Contract Y4) multiplied by 8.0 (the factor in Table M for the next payment due date, age 84). The total future expected payments under Contract Y4 at age 84 before the final payment is \$324,000, calculated as the initial payment amount multiplied by 8.1, the age 84 life expectancy provided in the Single Life Table in A-1 of § 1.401(a)(9)-9. Because \$320,000 (the total future expected payments under the annuity contract, including the amount of the final payment) is less than \$324,000 (the total future expected payments under the annuity contract, determined before the election), the final payment is an acceleration of payments within the meaning of paragraph (c)(4) of this A-14.

Example 8. Annuity with partial commutation feature. (i) The facts are the same as in *Example 7* except that the annuity provides Z4 may request, at any time before Z4 attains age 84, an ad hoc payment on his next payment due date with future payments reduced by an amount equal to the ad hoc payment divided by the factor obtained from Table M (from *Example 7*) corresponding to Z4's age at the time of the ad hoc payment. Because, at each age, the factors in Table M are less than the corresponding life expectancies in the Single Life Table in A-1 of § 1.401(a)(9)-9, total future expected payments under Contract Y4 will decrease after an ad hoc payment. Thus, ad hoc distributions received by Z4 from Contract Y4 will satisfy the requirements under paragraph (c)(4) of this A-4.

(ii) As an illustration of paragraph (i) of this *Example 8*, if Z4 were to request, on the day before he was to attain age 84, an ad hoc payment of \$100,000 on his next payment due date, his recalculated annual payment amount would be reduced to \$27,500. This amount is determined as \$40,000 (the amount of Z4's next annual payment) reduced by \$12,500 (his \$100,000 ad hoc payment divided by the Table M factor at age 84 of 8.0). Thus, Z4's total future expected payments after the ad hoc payment (and including the ad hoc payment) are equal to \$322,750 (\$100,000 plus \$27,500 multiplied by the Single Life Table

value of 8.1). Note that this \$322,750 amount is less than the amount of Z4's total future expected payments before the ad hoc payment (\$324,000, determined as \$40,000 multiplied by 8.1), and the requirements under paragraph (c)(4) of this A-4 are satisfied.

Example 9. Annuity with excessive increases.

(i) A retired participant (Z5) in defined contribution plan X attains age 70½ in 2005. Z5 elects to purchase annuity Contract Y5 from Insurance Company W in 2005 with a premium of \$1,000,000. Contract Y5 is a single life annuity contract with a 20-year period certain. Contract Y5 provides for an initial payment of \$200,000, a second payment one year from the time of purchase of \$40,000, and 18 succeeding annual payments each increasing at a constant percentage rate of 4.5 percent from the preceding payment.

(ii) Contract Y5 fails to meet the requirements of section 401(a)(9) because the total future expected payments without regard to any increases in the annuity payment, calculated as \$200,000 in year one and \$40,000 in each of years two through twenty, is only \$960,000 (i.e., an amount that does not exceed the total value used to purchase the annuity).

Q-15: Are there special rules applicable to payments made under a defined benefit plan or annuity contract to a surviving child?

A-15: Yes, pursuant to section 401(a)(9)(F), payments under a defined benefit plan or annuity contract that are made to an employee's child until such child reaches the age of majority (or dies, if earlier) may be treated, for purposes of section 401(a)(9), as if such payments were made to the surviving spouse to the extent they become payable to the surviving spouse upon cessation of the payments to the child. For purposes of the preceding sentence, a child may be treated as having not reached the age of majority if the child has not completed a specified course of education and is under the age of 26. In addition, a child who is disabled within the meaning of section 72(m)(7) when the child reaches the age of majority may be treated as having not reached the age of majority so long as the child continues to be disabled. Thus, when payments described in this paragraph A-15 become payable to the surviving spouse because the child attains the age of majority, recovers from a disabling illness, dies, or completes a specified course of education, there is not an increase in benefits under A-1 of this section. Likewise, the age of child

receiving such payments is not taken into consideration for purposes of the minimum incidental benefit requirement of A-2 of this section.

Q-16: What are the rules for determining required minimum distributions for defined benefit plans and annuity contracts for calendar years 2003, 2004, and 2005?

A-16: A distribution from a defined benefit plan or annuity contract for calendar years 2003, 2004, and 2005 will not fail to satisfy section 401(a)(9) merely because the payments do not satisfy A-1 through A-15 of this section, provided the payments satisfy section 401(a)(9) based on a reasonable and good faith interpretation of the provisions of section 401(a)(9).

[T.D. 9130, 69 FR 33293, June 15, 2004; 69 FR 68077, Nov. 23, 2004; T.D. 9459, 74 FR 45994, Sept. 8, 2009]

§ 1.401(a)(9)-7 Rollovers and transfers.

Q-1. If an amount is distributed by one plan (distributing plan) and is rolled over to another plan, is the required minimum distribution under the distributing plan affected by the rollover?

A-1. No, if an amount is distributed by one plan and is rolled over to another plan, the amount distributed is still treated as a distribution by the distributing plan for purposes of section 401(a)(9), notwithstanding the rollover. See A-1 of § 1.402(c)-2 for the definition of a rollover and A-7 of § 1.402(c)-2 for rules for determining the portion of any distribution that is not eligible for rollover because it is a required minimum distribution.

Q-2. If an amount is distributed by one plan (distributing plan) and is rolled over to another plan (receiving plan), how are the benefit and the required minimum distribution under the receiving plan affected?

A-2. If an amount is distributed by one plan (distributing plan) and is rolled over to another plan (receiving plan), the benefit of the employee under the receiving plan is increased by the amount rolled over for purposes of determining the required minimum distribution for the calendar year immediately following the calendar year in which the amount rolled over is distributed. If the amount rolled over is

received after the last valuation date in the calendar year under the receiving plan, the benefit of the employee as of such valuation date, adjusted in accordance with A-3 of § 1.401(a)(9)-5, will be increased by the rollover amount valued as of the date of receipt. In addition, if the amount rolled over is received in a different calendar year from the calendar year in which it is distributed, the amount rolled over is deemed to have been received by the receiving plan in the calendar year in which it was distributed.

Q-3. In the case of a transfer of an amount of an employee's benefit from one plan (transferor plan) to another plan (transferee plan), are there any special rules for satisfying section 401(a)(9) or determining the employee's benefit under the transferor plan?

A-3. (a) In the case of a transfer of an amount of an employee's benefit from one plan (transferor plan) to another (transferee plan), the transfer is not treated as a distribution by the transferor plan for purposes of section 401(a)(9). Instead, the benefit of the employee under the transferor plan is decreased by the amount transferred. However, if any portion of an employee's benefit is transferred in a distribution calendar year with respect to that employee, in order to satisfy section 401(a)(9), the transferor plan must determine the amount of the required minimum distribution with respect to that employee for the calendar year of the transfer using the employee's benefit under the transferor plan before the transfer. Additionally, if any portion of an employee's benefit is transferred in the employee's second distribution calendar year but on or before the employee's required beginning date, in order to satisfy section 401(a)(9), the transferor plan must determine the amount of the minimum distribution requirement for the employee's first distribution calendar year based on the employee's benefit under the transferor plan before the transfer. The transferor plan may satisfy the minimum distribution requirement for the calendar year of the transfer (and the prior year if applicable) by segregating the amount which must be distributed from the employee's benefit and not transferring that

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CODE § 401(a)(17)

COMPENSATION LIMIT

**PROPOSED MODEL REGULATIONS FOR IRC SECTION 401(a)(17)
COMPENSATION LIMIT**

SECTION I. PURPOSE AND SCOPE

In accordance with section 31525 and section 31671 of the California Government Code, the regulations set forth herein are effective as of [____], and reaffirm and clarify the existing practices of the [____] County Employees Retirement Association (the "Association") with respect to the limit on annual compensation under section 401(a)(17) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 401(a)(17).

These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern.

The Association may establish reasonable procedures for complying with the limit on annual compensation under section 401(a)(17) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes.

Terms defined in the County Employees Retirement Law apply here unless otherwise stated.

SECTION II. LIMITATION ON ANNUAL COMPENSATION EARNABLE

A. In General

1. Annual Compensation Earnable Limit

The annual amount of compensation that is taken into account in determining all benefits provided by the Association to affected Members for any year, which is referred to in the County Employees' Retirement Law of 1937 and in these Regulations as "Compensation Earnable", shall be limited to the amount allowed by Code section 401(a)(17) adjusted in accordance with the Code for increases in the cost of living. This limit has been increased by cost of living adjustments to \$245,000 for 2009 and 2010. This limit is called the Annual Compensation Earnable Limit in these regulations.

2. Members Affected By the Annual Limit

a. Not Applicable to Pre-July 1, 1996 Members

The Annual Compensation Earnable Limit does not apply to any individual who first became a Member prior to July 1, 1996.

b. Applies to New Members On and After July 1, 1996

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In accordance with Government Code section 31671, the Annual Compensation Earnable Limit shall apply to all individuals who first become Members on or after July 1, 1996.

c. Date First Becomes a Member

An individual first becomes a Member on the date that a Member first became a Member in the Association, regardless of whether the Member terminated and resumed participation at a later date.

B. Operational Rules, In General

This section applies to members who are not grandfathered under section A,2,a.

1. Limited Compensation Earnable

All Compensation Earnable that would be taken into account for determining benefits provided by the Association without regard to these regulations is subject to the Annual Compensation Earnable Limit. Such Compensation Earnable is not limited to salary or to base salary.

2. Benefits Affected by the Limit

The Annual Compensation Earnable Limit applies to the determination of all benefits provided by the Association including pensions, annuities, retirement allowances, death benefits, disability benefits, refunds and withdrawals that are determined by member contributions (including such contributions that are "picked up" by the employer) and earnings thereon.

3. Compensation Earnable from More Than One Employer

If Compensation Earnable from more than one employer that participates in the Association is taken into account in determining a Member's benefits, the Annual Compensation Earnable Limit shall apply separately to the Compensation Earnable from each employer. For example, if the Compensation Earnable Limit is \$245,000 for the year and the Member has Compensation Earnable of \$200,000 from one participating employer and \$100,000 from another participating employer, the unreduced total Compensation Earnable from each employer may be taken into account. The Annual Compensation Earnable Limit does not apply to the aggregate of Compensation Earnable earned from all employers that participate in the Association.

4. Proration for Short Plan Year

If a plan year consists of fewer than 12 months, the Annual Compensation Earnable Limit is an amount equal to the otherwise applicable Annual Compensation Earnable Limit multiplied by a fraction, the numerator of which is the number of months in the short plan year, and the denominator of which is 12. No proration is required for participation of less than a full plan year.

5. Reciprocity and New Membership in the Association

An individual who becomes a Member of the Association on or after July 1, 1996, and who has reciprocity with another public sector retirement plan nevertheless is a new Member of the Association. Membership before July 1, 1996 in another retirement plan with which the Association has reciprocity does not create pre-July 1, 1996 Association membership for purposes of the Annual Compensation Earnable Limit.

6. Reciprocity and Prior Membership In the Association

A person who was a grandfathered Member of the Association prior to July 1, 1996 under section A,2,a, who terminated employment with an employer that participated in the Association, remains a Member of the Association prior to July 1, 1996. Therefore, if the Member established reciprocity between another public sector retirement plan and the Association any higher Compensation Earnable that is earned under the other plan shall be taken into account by the Association in accordance with the rules of reciprocity and that Compensation Earnable shall not be limited by the Annual Compensation Earnable Limit.

7. Relationship Between Section 415 Limit and Compensation Earnable Limit

The limits of Code section 415 and Code section 401(a)(17) are separate and independent. Each limit is operated according to its own rules and applies separately. Therefore, the Annual Compensation Earnable Limit may apply to a Member and the Code section 415 limit may not apply. Similarly, the Code section 415 limit may apply to a Member and the Annual Compensation Earnable Limit may not apply. Also, both of these limits may apply to the same Member.

8. Clarification Concerning Member Contributions

Because Member contributions are the basis for benefits provided by the Association, Member contributions shall not be made by taking into account Compensation Earnable in excess of the Annual Compensation Earnable Limit. Therefore, for example, under Government Code sections 31676.01, 31676.1, 31676.11, 31676.12, 31676.13, 31676.14, 31676.15, 31676.16, 31676.17, 31676.18, and 31676.19, total Compensation Earnable, including Compensation Earnable in excess of the Annual Compensation Earnable Limit, may be taken into account for purposes of computing the *rate* of Member contributions but may not be taken into account in determining the *amount* of Member contributions.

9. General Plan Year Rule for Determining the Limit

If Compensation Earnable for any prior plan year is taken into account in determining a Member's benefits for the current plan year, the Compensation Earnable for such prior plan year is subject to the applicable Annual Compensation Earnable Limit in effect for that prior plan year. In addition, in determining benefits for plan years beginning on or after January 1, 2002, the Annual Compensation Earnable Limit in effect for plan years beginning before that date is \$200,000.

SECTION III. PLAN YEAR AND COST OF LIVING ADJUSTMENTS

A. Annual Adjustment for Cost-of-Living Increases

The Annual Compensation Earnable Limit may be adjusted annually by the Internal Revenue Service for cost of living changes in accordance with the Code.

B. General Rule--Application of Limit to a Plan Year

In general, the Annual Compensation Earnable Limit is applied to the Compensation Earnable for the plan year on which accruals of benefits from the Association are based.

C. Plan Year Compensation Earnable

1. General Rule

To the extent that the Association determines Compensation Earnable for benefit accruals for a plan year based on Compensation Earnable for the plan year, then the Annual Compensation Earnable Limit that applies for that plan year is the limit in effect for the calendar year in which the plan year begins.

Since the Association's plan year corresponds to the fiscal year beginning on the first day of July, the Compensation Earnable used to determine all benefit accruals for each plan year is limited to the Annual Compensation Earnable Limit in effect as of January 1 of the calendar year in which the plan year begins.¹

2. Member Contributions

Since the Association's plan year is the fiscal year beginning on the first day of July, Compensation Earnable used to determine Member contributions for each plan year shall be limited to the Annual Compensation Earnable Limit in effect as of January 1, of the calendar year in which the plan year begins.

¹ If the Association uses a fiscal year as its plan year, Option 2 should be used in the regulations.

D. Examples

1. Example - Retirement Allowance²

Option 1: The retirement allowance provided by the Association is based on the highest 12 consecutive months of Compensation Earnable ending within the plan year. The Annual Compensation Earnable Limit was \$225,000 for the 2007 calendar year and \$230,000 for the 2008 calendar year. A Member retires in May, 2008. The Member's highest 12 consecutive months of Compensation Earnable is for the period May 1, 2007 through April 30, 2008. The annual Compensation Earnable used to for determining this Member's benefits for the 2008 year is limited to \$225,000, not \$230,000, because this is the limit in effect for the calendar year in which the 12-consecutive month period began.³

Option 2: The retirement allowance provided by the Association is based on the highest 36 consecutive months of Compensation Earnable ending within the plan year. The Annual Compensation Earnable Limit was \$220,000 for 2006, \$225,000 for 2007, and \$230,000 for 2008. A Member retires in May 2009. The Member has \$300,000 per year (\$25,000 per month) of Compensation Earnable during the Member's highest 36 consecutive months of Compensation Earnable for the period May 1, 2006 through April 30, 2009. The Association may not base the Member's benefits for 2009 on annual Compensation Earnable in excess of \$225,000, the average of the limits in effect for each of the three 12-consecutive month periods: the May 1, 2006 through April 30, 2007 period is capped at \$220,000, the 2006 limit; the May 1, 2007 through April 30, 2008 is capped at \$225,000, the 2007 limit; and the May 1, 2008 through April 30, 2009 is capped at \$230,000, the 2008 limit. The average of these capped amounts is the Annual Compensation Earnable Limit for determining benefits for the 2009 plan year for a member who retires in May, 2009 because that is the limit for the calendar year in which the member's average compensation earnable begins.⁴

2. Example: Member Contributions

The refund or withdrawal benefits from Member contributions are accrued on an annual basis. The Annual Compensation Earnable Limit was \$220,000 for the 2006 calendar year; \$225,000 for the 2007 calendar year; and \$230,000 for the 2008 calendar year.

² Each Association should pick the example or examples that apply to it.

³ If the Association bases the retirement allowance on the highest 12 consecutive months of Compensation Earnable, then Option 1 should be used in the regulation.

⁴ If the Association bases the retirement allowance on the highest 36 consecutive months of Compensation Earnable, then Option 2 should be used in the regulation.

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Since the Association's plan year corresponds to the fiscal year, the Annual Compensation Earnable Limit was \$220,000 for the entire plan year beginning [July] 1, 2006 and ending [June] 30, 2007; \$225,000 for the entire plan year beginning [July] 1, 2007 and ending [June] 30, 2008; and \$230,000 for the entire plan year beginning [July] 1, 2008 and ending [June] 30, 2009.

Plan Name: _____ County Employees' Retirement Association **EIN:** _____ **Plan #:**

CODE § 401(a)(31) & 402(c)

ROLLOVERS

PROPOSED MODEL REGULATIONS FOR IRC SECTION 402(c) ROLLOVERS

SECTION I. PURPOSE AND SCOPE

In accordance with section 31485.15 and section 31525 of the California Government Code, the regulations set forth herein are effective as of [____], and reaffirm and clarify the existing practices of the [____] County Employees Retirement Association (the "Association") with respect to rollovers into and out of the Association in accordance with the Internal Revenue Code (the "Code"). For these regulations, Code includes the Treasury regulations issued under the Code.

These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern.

The Association may establish any reasonable procedures for paying rollover distributions or accepting rollover contributions that it deems necessary or desirable for complying with applicable tax laws or for administrative purposes.

Terms defined in the County Employees Retirement Law apply here unless otherwise stated.

SECTION II. ROLLOVER DISTRIBUTIONS FROM THE ASSOCIATION

A. Rollovers

1. Direct Rollover

A "Direct Rollover" is that portion of an Eligible Rollover Distribution that the Association pays directly to an Eligible Retirement Plan, and may also be referred to as a trustee-to-trustee transfer to an Eligible Retirement Plan, at the direction of an Eligible Individual.

2. Indirect Rollover

An "Indirect Rollover" is that portion of an Eligible Rollover Distribution that the Association pays directly to an Eligible Individual.

B. Eligible Individuals

1. Eligible Individual

Only an "Eligible Individual" may elect a Direct Rollover. An "Eligible Individual" is:

a. Terminated From Employment

A Member who has terminated employment from the County (or other agency covered by the Association) and who is eligible to withdraw his or her accumulated Member contributions under the Association;

b. Surviving Spouse

A deceased Member's surviving Spouse;

c. Alternate Payee

A Member's or former Member's Spouse or former Spouse who is the alternate payee under a domestic relations order, as defined in Code section 414(p), with regard to the interest of the Spouse or former Spouse; and

d. Non-Spouse Beneficiary

A deceased Member's non-spouse beneficiary who is a "designated beneficiary" under Code section 401(a)(9)(E), subject to the nonspouse beneficiary provisions in Section II.G.

2. Spouse

In accordance with federal law, a "Spouse" is a person who is married under California law except to the extent that such person is not treated as married under the federal Defense of Marriage Act, 1 U.S.C. § 7 to the extent required under the Code and Treasury regulations applicable to the Association.

C. Payments that Can and Cannot be Rolled Over

1. Eligible Rollover Distribution Required

The Association will pay a Direct Rollover on behalf of an Eligible Individual only if the payment is an "Eligible Rollover Distribution."

2. Eligible Rollover Distribution Defined

An "Eligible Rollover Distribution" is any distribution to an Eligible Individual of all or any portion of the amount credited to the Eligible Individual under the Association. These amounts may include (a) refunds of Member contributions plus accumulated interest, or (b) one-time lump sum death benefit payments.

3. After-Tax Portion

The portion of a distribution that consists of after-tax Member contributions may be rolled over if the after-tax funds are transferred in a direct trustee-to-trustee transfer to (a) a qualified trust or (b) an annuity contract described in Code Section 403(b). After-tax Member contributions may also be rolled over to an individual retirement account or annuity described in Code Section 408(a) or (b). The qualified trust or annuity contract must separately account

for the transferred after-tax amounts, and must also separately account for the earnings on the after-tax amounts.

4. Exclusions From Eligible Rollover Distributions

An Eligible Rollover Distribution does not include the following kinds of payments:

a. Periodic Payments

Payments that are part of a series of substantially equal periodic payments (i) made at least once per year over the life (or life expectancy) of the Eligible Individual or the life (or life expectancy) of the Eligible Individual and his or her designated beneficiary, or (ii) made for a period of 10 years or more; or

b. Required Distributions

Payments that are "required minimum distributions" under Code Section 401(a)(9).

D. Eligible Retirement Plans

1. Payment to Eligible Retirement Plan

The Association will pay an Eligible Rollover Distribution directly to an "Eligible Retirement Plan."

2. Eligible Retirement Plan Defined

An "Eligible Retirement Plan" is:

- a.** An annuity plan described in Code Section 403(a);
- b.** An annuity contract described in Code Section 403(b);
- c.** A governmental eligible deferred compensation plan described in Code Section 457(b) that agrees to separately account for amounts transferred into such plan from the Association;
- d.** An individual retirement annuity described in Code Section 408(a);
- e.** An individual retirement account described in Code Section 408(b);
- f.** A Roth IRA described in Code Section 408A; or
- g.** A qualified trust described in Code section 401(a) (including defined benefit pension plans and defined contribution plans such as 401(k) plans, profit sharing plans, and money purchase plans).

3. Certain Exclusions

An Eligible Retirement Plan does not include, and a rollover cannot be made to, a SIMPLE IRA or a Coverdell Education Savings Account.

E. Direct Rollovers

1. Withholding and Direct Rollovers

The Association will not withhold any federal or state income taxes from a Direct Rollover. The only exception is that the Association will withhold federal or state income taxes from a Direct Rollover to a Roth IRA if the Eligible Individual requests that withholding on a form and in the manner prescribed by the Association.

2. Administrative Requirements, In General

An Eligible Individual who requests a Direct Rollover must complete a distribution form in the manner and form that the Association prescribes. The Association may require the Eligible Individual to provide any reasonable information and/or documentation for purposes of administering the Direct Rollover in accordance with the Code.

3. Rollover Check

The Eligible Individual must provide the Association with the name of the Eligible Retirement Plan to which the rollover check will be made payable for his or her benefit. If the Eligible Individual so chooses, the Association will provide this rollover check directly to the Eligible Individual who will be responsible for delivering the check to the recipient IRA or plan.

4. Eligible Individual's Responsibility Re Recipient Plan

The Eligible Individual is responsible for ensuring that any Eligible Retirement Plan that he or she has designated to receive the Eligible Individual's distribution from the Association in a Direct Rollover is an Eligible Retirement Plan that will accept and receive the rollover on his or her behalf in accordance with the applicable tax rules.

5. Time of Payment

The Association will pay a Direct Rollover on behalf of an Eligible Individual as soon as is reasonably and administratively practicable in accordance with its withdrawal and/or death benefit payment processes.

F. Indirect Rollovers

1. Choice of Indirect Rollover

An Eligible Individual, other than a nonspouse beneficiary, may also choose to receive a rollover payment as an Indirect Rollover.

2. Indirect Rollover Withholding

An Indirect Rollover is subject to 20% federal income tax withholding and any applicable state withholding. The Association will withhold and deduct these taxes on behalf of the Eligible Individual as prescribed by federal and applicable state law.

3. Eligible Individual's Responsibility Re Recipient Plan

It is the responsibility of the Eligible Individual to roll over all or some portion of his or her Indirect Rollover payment to an IRA or eligible employer plan within 60 days if he or she wants the payment to qualify as a rollover for tax purposes. If an Eligible Individual wants to roll over 100% of the payment, the Eligible Individual must replace the 20% that was withheld for federal income taxes (and any applicable state withholding) with other money.

G. Direct Rollover of a Non-Spousal Distribution

1. Trustee-To-Trustee Transfer Required

A rollover on behalf of a non-spouse beneficiary must be a direct or trustee-to-trustee transfer and may not be paid in the form of an Indirect Rollover.

2. Non-Spouse Beneficiaries Who May Rollover and Rollover to Inherited IRA Only

A non-spouse beneficiary who is a "designated beneficiary" under Code Section 401(a)(9)(E) may roll over all or any portion of the non-spouse beneficiary's Eligible Rollover Distribution to an IRA that is established by the non-spouse beneficiary for purposes of receiving the distribution and that is treated as an "inherited IRA" under the Code. The IRA must be established in a manner that identifies it as an IRA with respect to a deceased individual and it must identify the deceased individual and the beneficiary (for example, "Tom Smith as beneficiary of John Smith").

3. Trust as Beneficiary

If the non-spouse beneficiary is a trust, the Association may make a Direct Rollover to an IRA on behalf of the trust, provided the beneficiaries of the trust satisfy the requirements to be designated beneficiaries within the meaning of Code Section 401(a)(9)(E). The IRA on behalf of the trust must be established in a manner that identifies it as an IRA with respect to a deceased individual and it must identify the deceased individual and the trust beneficiary (for example, "The Smith Family Trust as beneficiary of John Smith").

H. Notice Requirements

1. 402(f) Notice From Association

The Association will provide the tax notice required under Code Section 402(f) to each Eligible Individual who requests a withdrawal from the Association.¹

2. Time Periods

The Association will not process any withdrawals from the Association until 30 days after the date such notice is received by the Eligible Individual requesting the withdrawal. If, however, the Eligible Individual waives this 30-day period on a form and in the manner prescribed by the Association, the Association may process the withdrawal before the 30-day period expires.

SECTION III. ROLLOVER CONTRIBUTIONS TO THE ASSOCIATION [OPTIONAL]²

Adoption of regulations providing for the acceptance of certain rollover contributions as determined below does not create any continuing entitlement for Eligible Members to make rollover contributions to the Association in the future and the right to make rollover contributions to the Association may be amended or terminated at any time and for any reason.

If the Association has determined to permit any rollover contributions, the Association will permit Eligible Members to make a rollover contribution to the Association subject to the limitations and conditions described in this Section III.

A. General Rules

1. Eligible Member

An "Eligible Member" is (1) an active Member of the Association, or (2) an Association Member that has elected a deferred retirement.

2. Rollovers Allowed

The Association will permit an Eligible Member to make a rollover contribution to the Association for (a) a purchase of service credit, or (b) a redeposit of previously withdrawn funds plus accumulated interest.

3. Separate Accounting

The Association will separately account for all rollover contributions.

4. Certification to Association By Member

¹ Note that the 402(f) notice is only required to be given to distributees of an eligible rollover distribution, not to all Eligible Individuals who request a withdrawal. This is the way that the new IRS model 402(f) notice has been drafted. Of course this may not be pragmatic.

² The Association is not required to accept rollover contributions and rollovers can be accepted from some, but not all eligible plans. Each Association will need to specify which, if any, rollover contributions it will accept.

Only eligible rollover distributions as defined by Code Section 402(c)(4) can be contributed to the Association. In addition to any requirements under subsections B, C, and D below, each Eligible Member making a rollover contribution to the Association must certify in writing that the rollover contribution is an eligible rollover distribution under the Code. The Association will not accept rollovers of any after-tax contributions or any rollover that is an indirect rollover.

5. Elections and Association Discretion

An Eligible Member must make an election to purchase service credit or redeposit previously withdrawn contributions with a rollover contribution in the manner and form that is prescribed by the Association. The Association has final discretionary authority to determine whether any required information or documentation is satisfactory and whether the Association will accept an Eligible Member's rollover contribution.

6. Correction of Errors

If the Association accepts a rollover contribution that it later determines was not eligible to be rolled over to the Association, the Association will distribute, as soon as administratively possible, the amount of the rollover contribution back to the Eligible Member, plus accumulated interest.

B. Rollovers from Qualified Plans

1. Acceptance of Rollover

The Association may accept a rollover from another plan that is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a).

2. Required Information from Member

The Eligible Member must provide one of the following to the Association demonstrating that the source of the rollover contribution is a qualified plan: (a) a copy of the plan's most recent favorable determination letter from the Internal Revenue Service stating that the plan is tax-qualified and a written certification from the plan's administrator that the plan continues to be tax-qualified, or (b) a written and signed certification from the plan's administrator that the source of the eligible rollover distribution is a qualified plan under Code Section 401(a).

3. Additional Information Required

[**OPTION ONE**] The Eligible Member must provide the following additional information to the Association demonstrating that no portion of the rollover contribution contains after-tax contributions:

- a. A statement signed under penalty of perjury by the Eligible Member certifying that the rollover contribution contains no after-tax contributions or earnings; or

Plan Name: _____ County Employees' Retirement Association EIN: _____ Plan #: _____

- b. A signed certification from the transferring plan's administrator that the rollover contribution contains no after-tax contributions or earnings.

OR

[OPTION TWO] The Eligible Member must provide a statement signed by the Eligible Member under penalty of perjury certifying that the rollover contribution contains no after-tax contributions or earnings.

OR

[OPTION THREE] The Eligible Member must provide a signed certification from the transferring plan's administrator that the rollover contribution contains no after-tax contributions or earnings.

If an Eligible Member does not provide such information, the Association will not accept the rollover.

C. Rollovers from an IRA

1. Acceptance of Rollover

The Association may accept a rollover from an individual retirement account or annuity (IRA) described in Code Section 408(a) or Code Section 408(b).

2. Required Information

The Eligible Member must provide the Association with a written statement from the transferring IRA custodian providing that the source of the rollover contribution is an IRA that meets the requirements of Code section 408(a) or 408(b).

3. Additional Information Required

[OPTION ONE] The Eligible Member must provide the following additional information to the Association demonstrating that no portion of the rollover contribution contains after-tax contributions:

- a. A statement signed under penalty of perjury by the Eligible Member certifying that the IRA contains no after-tax contributions or earnings; or
- b. If the Eligible Member cannot so certify, a signed certification from an accountant or tax advisor providing the amount of pre-tax contributions and after-tax contributions in the IRA. The Association will only accept a rollover contribution from the IRA in the amount of the pre-tax contributions and earnings.

OR

Plan Name: _____ County Employees' Retirement Association EIN: _____ Plan #: _____

[OPTION TWO] The Eligible Member must provide a statement signed by the Eligible Member under penalty of perjury certifying that the IRA contains no after-tax contributions or earnings.

OR

[OPTION THREE] The Eligible Member must provide a signed certification from an accountant or tax advisor providing the amount of pre-tax contributions and after-tax contributions in the IRA. The Association will only accept a rollover contribution from the IRA in the amount of the pre-tax contributions and earnings.

If an Eligible Member does not provide such information, the Association will not accept the rollover.

D. Rollovers from Other Plans: 457(b) and 403(b)

1. The Association may accept rollover contributions from an eligible plan under Code section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (a "governmental 457(b) plan"), and an annuity contract described in Code section 403(b).
2. The Eligible Member must provide one of the following to the Association demonstrating that the source of the rollover contribution is an eligible governmental 457(b) plan or a Code section 403(b) plan: (a) a copy of the transferring plan's most recent private letter ruling from the Internal Revenue Service stating that the transferring plan qualifies as an eligible governmental 457(b) plan or a Code section 403(b) plan, as applicable, and a signed certification from the transferring plan's administrator that the transferring plan continues to be so qualified, or (b) a signed certification from the transferring plan's administrator that the rollover distribution source is an eligible governmental 457(b) plan or a Code section 403(b) plan, as applicable.

If an Eligible Member does not provide such information, the Association will not accept the rollover.

E. Rollover Contributions Made by Indirect Rollover

A rollover contribution to the Association may be made by a direct rollover or may be made by an indirect rollover no later than the 60th day after the Eligible Member receives the eligible rollover distribution in cash from his or her eligible retirement plan. In addition to providing the applicable documentation above in Sections III.B-D, Eligible Members making a rollover contribution with an indirect rollover must provide evidence satisfactory to the Association that the Eligible Member received the distribution within the required 60-day period.

Plan Name: _____ County Employees' Retirement Association **EIN:** _____ **Plan #:** _____

CODE § 401(h)

MEDICAL BENEFITS

**PROPOSED MODEL REGULATIONS FOR IRC SECTION 401(h)
MEDICAL BENEFITS ACCOUNTS**

SECTION I. GENERAL RULES

A. Purpose and Effective Date

In accordance with sections 31691 and 31694 of the California Government Code, the regulations set forth herein are effective as of _____ and reaffirm and clarify the existing practices of the [_____] County Employees Retirement Association (the "Association") with respect to the requirements under section 401(h) of the Internal Revenue Code (the "Code").

These regulations are intended to be in accordance with the Code and the applicable Treasury Regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern.

The Association may establish reasonable procedures for complying with the requirements under section 401(h) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes.

SECTION II. COMPLIANCE WITH THE TAX CODE SECTION 401(h) REQUIREMENTS

A. General Rule

All retiree medical benefit payments made by the system will comply with all applicable federal laws, including Code § 401(h). To the extent there may be a conflict between these regulations and Code § 401(h) or the Treasury Regulations issued thereunder, the Code and Treasury Regulations shall govern.

B. Compliance with Provisions of the Code

1. The retirement system must specify the medical benefits which will be available and must set out the amount that will be paid for those benefits.
2. Medical benefits must be subordinate to the retirement benefits, when added to any life insurance benefits. Contributions shall be limited to the extent necessary to ensure that the retiree health benefits are subordinate to the retirement benefits provided by the system as required by Code § 401(h).
3. A separate account must be maintained for contributions to fund the medical benefits.
4. Amounts credited to the 401(h) account may be invested with other system funds set aside for retirement purposes, without identification of which investments are allocable to each account. However, earnings on each account shall be allocated to each in a reasonable manner.

5. Amounts contributed for medical benefits must be reasonable and ascertainable. The county will, at the time it makes a contribution to the system, designate in writing to the system that portion of the contribution allocable to the 401(h) account to be used solely for health benefits.
6. No part of the medical benefits account may be used for or diverted to any purpose other than providing medical benefits and paying necessary or appropriate expenses for the administration of the medical benefits account.
7. No retiree health benefits provided under the 401(h) account will discriminate in favor of highly compensated employees.
8. Any amounts remaining in the medical benefits account after satisfaction of all medical benefits liabilities for all members, spouses and dependents must be returned to the employer.
9. If any member's interest in the medical benefits account is forfeited prior to plan termination, an amount equal to the forfeiture must reduce employer contributions to fund the account.
10. Separate accounts are not required for key employees because no member of the system is a key employee under the definitions of the Code.

C. Compliance with the CERL

1. In accordance with Section 31592.4 of the CERL, amounts may be credited from the excess earnings of the system that are available at the end of the fiscal year to a county advance reserves account which is used to pay annuity benefits (but not to pay health benefits), and such amounts will be treated as contributions by the county to the system. Amounts shall be credited to the county advance reserves from the system excess earnings only to the extent that in the immediately succeeding fiscal year the county transfers equal dollar amounts to the 401(h) account. In this way, both the requirements of the Code and the CERL will be met so retirees can receive tax-free health benefits.
2. To the extent required by the CERL, the 401(h) account shall be deemed to be a county advance reserves account

SECTION III. DEFINITION OF COUNTY ADVANCE RESERVE

County advance reserve means the account which records contributions to the system made by the county and additions to and subtractions from that account. For purposes of this regulation county advance reserve includes a similar reserve, if any, held for a district that contributes to the system. A county advance reserve account records a portion of all of the assets held by the system solely to provide for retirement benefits (including disability, death and other ancillary benefits) of all Members and to provide for reasonable administrative expenses, along with other accounts that record assets used solely for these purposes including but not limited to Member contribution accounts and other reserve accounts. A transfer between any of these accounts is a transfer for

Plan Name: _____ County Employees' Retirement Association **EIN:** _____ **Plan #:**

recording purposes only and is not a transfer between accounts that are used for retirement benefits and for any other purpose.

Plan Name: _____ County Employees' Retirement Association EIN: _____ Plan #:

CODE § 415

ANNUAL LIMITS

PROPOSED MODEL REGULATIONS FOR IRC SECTION 415(b)

LIMITS ON ANNUAL BENEFITS

SECTION I. PURPOSE AND SCOPE

In accordance with section 31525 and section 31899 et. seq. of the California Government Code, the regulations set forth herein are effective as of [_____], and reaffirm and clarify the existing practices of the [_____] County Employees Retirement Association (the "Association") with respect to the limits on benefits under section 415(b) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 415(b). To the extent there is a conflict between these regulations and the Code, the Code governs.

The Association may establish reasonable procedures for complying with the limits on benefits under section 415(b) of the Code that it deems necessary or advisable for complying with applicable tax laws or for administrative purposes.

Capitalized terms used in this Regulation are defined in Section VII. Terms defined in the County Employees Retirement Law apply here unless otherwise stated.

SECTION II. ANNUAL BENEFIT LIMIT

A. Annual Benefit Limit, In General

1. Annual Limit

Unless the alternative limit described in subsection E of this Section applies, the Annual Benefit payable to a Member under the Association at any time shall not exceed \$195,000 (for 2009 and 2010 or such other dollar limit specified under section 415(b)(1)(A) of the Code), automatically adjusted under § 415(d) of the Code, effective January 1 of each year, as provided by the Internal Revenue Service

2. Maximum Payment

If the benefit the Member would otherwise be paid in a Limitation Year would be in excess of the limit in A.1, the benefit shall be limited to a benefit that does not exceed the limit.

3. COLA Adjustment

In the case of a Member who has had a severance from employment with the Employer, the Annual Benefit Limit applicable to the Member in any Limitation Year beginning after the date of severance shall be automatically adjusted under § 415(d) of the Code.

4. Multiple Annuity Starting Dates

- a. For a Member who has or will have distributions commencing at more than one Annuity Starting Date, the Annual Benefit shall be determined as of each such Annuity Starting Date (and shall satisfy the limitations of these regulations as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other Annuity Starting Dates.
- b. For this purpose, the determination of whether a new starting date has occurred shall be made in accordance with section 1.415(b)-1(b)(1)(iii)(B) and (C) of the Treasury regulations.

5. Actuarial Adjustment For Forms Of Benefit

Except as provided in paragraph 6 of this Section II.A, if the Member's benefit is payable in a form other than a Straight Life Annuity, then solely for purposes of applying the limits of Code section 415 and of this regulation, the actuarially equivalent Straight Life Annuity shall be determined in accordance with paragraph a or b below, whichever is applicable.

- a. Annuities. If the Member's benefit is payable in the form of a non-decreasing life annuity or other form of benefit described in Treasury regulation section 1.417(e)-1(d)(6) (e.g., other than a lump sum, installments, a decreasing annuity or a term certain), then the actuarially equivalent Straight Life Annuity is determined using:
 - i. The Applicable Mortality Table; and
 - ii. An interest rate that is not less than the greater of:
 - A. 5%; or
 - B. The Applicable Interest Rate.
- b. Lump sums, installments, etc. If the Member's benefit is payable in the form of a lump sum, installments, a decreasing annuity, term certain or other form of benefit not described in Treasury regulations section 1.417(e)-1(d)(6), then the Straight Life Annuity that is actuarially equivalent to the Member's form of benefit shall be determined using:
 - i. The Applicable Mortality Table; and
 - ii. An interest rate that is not less than the greatest of:
 - A. 5.5%;
 - B. The interest rate that produces a benefit of not more than 105% of the benefit that

would be produced if the Applicable Interest Rate were used; or

C. The Applicable Interest Rate.

6. No Actuarial Adjustment (Or Limitation) Required For Certain Benefits.

In determining the Annual Benefit, no actuarial adjustment to the benefit shall be made for the following benefits or benefit forms:

- a. Qualified joint and survivor annuity. Survivor benefits payable to a surviving spouse under a joint and survivor annuity that would qualify as a qualified joint and survivor annuity defined in section 417(b) of the Code. If benefits are paid partly in the form of a qualified joint and survivor annuity and partly in some other form (such as a single sum distribution), the rule of this paragraph applies only to the survivor annuity payments under the portion of the benefit that is paid in the form of a qualified joint and survivor annuity.
- b. Benefits that are not "retirement benefits". Benefits that are not directly related to retirement benefits (such as pre-retirement qualified disability benefits, preretirement incidental death benefits, and postretirement medical benefits). Additionally, these benefits shall not be subject to the Annual Benefit Limit.
- c. Certain automatic benefit increases. Benefits that meet the following requirements: (i) the Association provides for automatic periodic increases such as a form of benefit that automatically increases the benefit paid according to a specified percentage or objective index (but not a benefit that is increased on an ad hoc basis or a basis that is separately determined by action of the board of retirement or the board of supervisors of a county) and (ii) the form of benefit complies with Code section 415(b) without regard to the automatic benefit increase.

In no event shall the amount payable to the Member under the form of benefit in any Limitation Year be greater than the Annual Benefit Limit applicable at the Annuity Starting Date increased by the amounts provided in Code section 415(d). Also if the form of benefit without regard to the automatic benefit increase is not a Straight Life Annuity, then the Annual Benefit at the Annuity Starting Date is determined by converting the form of benefit to an actuarially equivalent Straight Life Annuity, as provided in section II.B.1 of this regulation.

7. Rules for Determining Annual Benefit.

- a. Social Security Supplements, Etc. The determination of the Annual Benefit shall take into account social security supplements described in § 411(a)(9) of the Code and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant § 1.411(d)-4, Q&A-3(c), of the Treasury regulations.
- b. Member Contributions. The determination of the Annual Benefit shall disregard benefits attributable to member contributions or rollover contributions. Benefits attributable to member contributions do not include any benefits that are made on a pre-tax basis such as pickups under Code section 414(h)(2) or such as member contributions that are actually paid by the member's employer.
- c. Rollovers. The amount of any benefits attributable to member contributions and to rollover contributions shall be determined in accordance with Code section 415.
- d. Voluntary Contributions. Member contributions that are defined as "voluntary" contributions under Code section 415 (such as certain contribution under California Government Code section 31627) are not subject to the limits of this regulation but are subject to the limits of Code section 415(c) concerning defined contribution plans.

B. Reduction for Less Than 10 Years of Participation

1. Reduction

If the Member has less than 10 Years of Participation in the Association, the Annual Benefit Limit shall be multiplied by a fraction -- (i) the numerator of which is the number of years (or part thereof, but not less than one year) of participation in the Association, and (ii) the denominator of which is 10.

2. Counting Years of Participation

The Member is credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (i) the Member is credited with at least the number of hours of service or period of service for benefit accrual purposes, required under the terms of the Association in order to accrue a benefit for the accrual computation period, and (ii) the Member is included as a Member under the eligibility provisions of the Association for at least one day of the accrual computation period. If these two conditions are met, the portion of a Year of Participation credited to the Member shall equal the portion of a year of benefit accrual service credited to the Member for such accrual computation period. A Member who is permanently and totally disabled within the meaning of § 415(c)(3)(C)(i) of the Code for an accrual computation period shall receive a Year of Participation with respect to that

period. In no event shall more than one Year of Participation be credited for any 12-month period. For example, if under the Association, a Member receives 1/10 of a year of benefit accrual service for an accrual computation period for each 200 hours of service, and the Member is credited with 1,000 hours of service for the period, the Member is credited with 1/2 year of participation for purposes of this subsection.

3. Disability and Death Benefits

The reduction described in paragraph 1 of this subsection shall not apply to disability benefits or death benefits as provided in the Code.

C. Reduction for Commencement Before Age 62 For Certain Members

1. No Reduction For Certain Safety Members

The adjustment described in this subsection shall not apply if the Member's benefit is based on at least 15 years as a full-time employee of any police or fire department of an Employer that maintains the Association or as a member of the armed forces of the United States. Such police or fire department must be organized to provide police protection, firefighting services or emergency medical services for any area within the jurisdiction of such Employer.

2. Reduction For Benefits Commencing Before Age 62

If the Member's benefits commence before the Member attains age 62, the Annual Benefit Limit is equal to the lesser of:

- a. The Annual Benefit Limit reduced in accordance with Code section 415(b) to its actuarial equivalent using:
 - i. The Applicable Mortality Table; and
 - ii. A 5% interest rate; or
- b. The Annual Benefit Limit multiplied by the ratio of the immediately commencing Straight Life Annuity under the Association at the Member's Annuity Starting Date to the annual amount of the Straight Life Annuity under the Association commencing at age 62, both determined without applying the limitations of this regulation.

3. Probability of Death

No adjustment will be made to the annual benefit limit to reflect the probability of death between the Annuity Starting Date and age 62 unless the Member's benefit is forfeited at death before the Annuity Starting Date.

4. Death and Disability

The adjustment described in paragraph 1 of this subsection shall not apply to disability benefits or death benefits.

D. Increase for Commencement After Age 65

1. Increase For Benefits Commencing After 65

If the Member's benefits commence after the Member attains age 65, the Annual Benefit Limit is equal to the lesser of:

- a. The Annual Benefit Limit increased in accordance with Code section 415(b) to its actuarial equivalent using:
 - i. The Applicable Mortality Table; and
 - ii. A 5% interest rate; or
- b. The Annual Benefit Limit multiplied by the ratio of the annual amount of the adjusted immediately commencing Straight Life Annuity under the Association at the Member's Annuity Starting Date to the annual amount of the adjusted immediately commencing Straight Life Annuity under the Association at age 65, both determined without applying the limitations of this regulation. For this purpose, the adjusted immediately commencing Straight Life Annuity under the Association at the Member's Annuity Starting Date is the annual amount of such annuity payable to the Member, computed disregarding the Member's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing Straight Life Annuity under the Association at age 65 is the annual amount of such annuity that would be payable under the Association to a hypothetical Member who is age 65 and has the same accrued benefit as the Member.

2. Probability of Death

No adjustment will be made to the Annual Benefit Limit to reflect the probability of death between age 65 and the Annuity Starting Date unless the Member's benefit is forfeited at death before the Annuity Starting Date.

E. Minimum Benefit Permitted

The benefit otherwise accrued or payable to a Member under the Association is treated as not exceeding the Annual Benefit Limit if:

1. Minimum Benefit Limit Allowed

The sum of the retirement benefits payable under any form of benefit with respect to the Member for the Limitation Year or for any prior Limitation

Year under the Association and all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Member's Employer does not exceed \$10,000 multiplied by a fraction – (i) the numerator of which is the Member's number of years (or part thereof, but not less than one year) of service (not to exceed 10) with the Member's Employer or an Affiliated Employer, and (ii) the denominator of which is 10; and

2. Condition

The Member has never participated in any qualified defined contribution plan maintained by the Member's Employer or an Affiliated Employer.

SECTION III. PARTICIPATION IN MULTIPLE DEFINED BENEFIT PLANS

A. Application of Limit to Aggregate Benefits

If the Member is, or has ever been, a participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Member's Employer, the sum of the participant's Annual Benefits from all such plans may not exceed the Annual Benefit Limit.

B. Multiple Plan Benefit Limit Coordination

Where the Member's employer-provided benefits under all such defined benefit plans (determined as of the same age) would exceed the Annual Benefit Limit applicable at that age, the benefits accrued under all such other plans shall be reduced first in order to avoid exceeding the limit and shall be reduced under the Association only to the extent that the reduction under such other plans is insufficient to avoid exceeding the limit.¹

SECTION IV. MULTIPLE EMPLOYER PLAN

Benefits attributable to the Member attributable to all of the Employers participating in the Association are taken into account for purposes of applying the Annual Benefit Limit.

SECTION V. GRANDFATHER RULES

A. Annual Benefit Limit Equals Accrued Benefit

Notwithstanding anything herein to the contrary, the Annual Benefit Limit with respect to a Qualified Member shall not be less than the accrued benefit of the Qualified Member under the Association determined without regard to any amendment made after October 14, 1987.

B. Qualified Participant

¹ Optionally, benefits can be (i) reduced in proportion to the total benefits accrued under each such plan, or (ii) reduced under the Association before being reduced under such other plans.

Plan Name: _____ County Employees' Retirement Association **EIN:** _____ **Plan #:** _____

For purposes of this section, the term "Qualified Member" means a Member who first became a Member in the Association before January 1, 1990.

C. Election

Pursuant to Section 31899 et. seq. of the California Government Code the election to has been made to have this Section apply.

SECTION VI. PURCHASE OF PERMISSIVE SERVICE CREDIT

A. General Rule

If a Member makes one or more contributions to the Association to purchase Permissive Service Credit under the Association, then the requirements of this regulation will be treated as met only if:

1. The requirements of this regulation are met, determined by treating the accrued benefit derived from all such contributions as an Annual Benefit for purposes of this regulation; or
2. The requirements of the Association's regulation governing the limits on annual additions applicable to defined contribution plans are met by treating all such contributions as annual additions.

B. Permissive Service Credit

1. Permissive Service Credit Defined

For purposes of this Section, "Permissive Service Credit" means credit:

- a. recognized by the Association for purposes of calculating a Member's benefit under the Association;
- b. which such Member has not received under the Association; and
- c. which the Member may receive only by making a voluntary additional contribution in an amount determined under the Association, which does not exceed the amount necessary to fund the benefit attributable to the service credit purchased.

Permissive Service Credit also includes service credit for periods for which there is no performance of service and, notwithstanding subparagraph b of this paragraph, may include service credited in order to provide an increased benefit for service credit which a Member is receiving under the Association.

2. Limitation on Nonqualified Service Credit

The Association will fail to satisfy the requirements of this regulation if

- a. More than 5 years of Nonqualified Service Credit is taken into account for purposes of this Section; or
- b. Any Nonqualified Service Credit is taken into account under this Section before the Member has at least 5 Years of Participation under the Association.

3. Nonqualified Service Credit

For purposes of paragraph 2 of this subsection, the term "Nonqualified Service Credit" means permissive service credit other than that allowed with respect to:

- a. Service (including parental, medical, sabbatical, and similar leave) as an employee of the government of the United States, an State or political subdivision thereof, or any agency or instrumentality of any of the foregoing (other than military service or service for credit which was obtained as a result of repayment described in subsection C of this Section);
- b. Service (including parental, medical, sabbatical, and similar leave) as an employee (other than as an employee described in subparagraph (a) of this paragraph) of an educational organization described in Code section 170(b)(1)(A)(ii) which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), or a comparable level of education, as determined under the applicable law of the jurisdiction in which the service was performed,
- c. Service as an employee of an association of employees who are described in subparagraph (a) of this paragraph; or
- d. military service (other than qualified military service under Code section 414(u)) recognized by the Association.

In the case of service described in subparagraphs a, b or c of this paragraph, such service will be nonqualified service if recognition of such service would cause a Member to receive a retirement benefit for the same period of service under more than one plan.

4. Trustee-to-Trustee Transfers

In the case of a trustee-to-trustee transfer to the Association to which Code section 403(b)(13)(A) or 457(e)(17)(A) applies, (without regard to whether the transfer is made from a plan that is maintained by the same Employer):

- a. the limitations of paragraph 2 of this subsection shall not apply in determining whether the transfer is for the purchase of Permissive Service Credit; and

- b. the distribution rules applicable under the Code to the Association shall apply to such amounts and any benefits attributable to such amounts.

C. Repayment of Cashouts

In the case of any repayment of contributions (including interest) to the Association with respect to an amount previously refunded upon a forfeiture of service credit under the association or under another governmental plan maintained by a state or local government employer with in the State of California, any such repayment shall not be taken into account for purposes of this regulation.

SECTION VII. DEFINITIONS

A. Annual Benefit

“Annual Benefit” means a benefit that is payable annually in the form of a Straight Life Annuity. Except as provided in Section II.A.5, where a benefit is payable in a form other than a Straight Life Annuity, the benefit shall be adjusted (solely for purposes of applying the limits of Code section 415 and of this regulation) pursuant to Section II.A.7 to an actuarially equivalent Straight Life Annuity that begins at the same time as such other form of benefit and is payable on the first day of each month.

B. Annual Benefit Limit

“Annual Benefit Limit” means the limit described in Section II.A.1 of this regulation.

C. Annuity

“Annuity” for purposes of this regulation does not mean “annuity” as defined in the County Employee Retirement Law but instead means a retirement benefit that is payable by the Association, as provided in section 415 of the Code.

D. Annuity Starting Date

“Annuity Starting Date” means the first day of the first period for which a retirement benefit is payable as an annuity or, in the case of a retirement benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Member to payment under the Association.

E. Applicable Interest Rate

“Applicable Interest Rate” means the “applicable interest rate” defined in section 417(e)(3)(C) of the Code and shall be such rate of interest determined as of the third month preceding the stability period, which shall be the calendar year containing the Annuity Starting Date for the distribution and for which the Applicable Interest Rate shall remain constant.

F. Applicable Mortality Table

“Applicable Mortality Table” means the “applicable mortality table” defined in section 417(e)(3)(B) of the Code.

G. Employer

“Employer” means the participating County or District that participates in the Association and employs the Member. The term “Employer” also includes any Affiliated Employer. Solely to the extent provided in the Code with respect to public agencies, the term “Affiliated Employer” means all members of a controlled group of an Employer.

H. Limitation Year

“Limitation Year” means the calendar year.

I. Straight Life Annuity

“Straight Life Annuity” means an Annuity payable in equal installments for the life of the member and terminating on the Member’s death.

PROPOSED MODEL REGULATIONS FOR IRC SECTION 415(c)

DEFINED CONTRIBUTION LIMITS

SECTION I. PURPOSE AND SCOPE

In accordance with section 31525 and section 31899 et. seq. of the California Government Code, the regulations set forth herein are effective as of [____], and reaffirm and clarify the existing practices of the [____] County Employees Retirement Association (the "Association") with respect to the limits on annual additions under section 415(c) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 415(c). To the extent there is a conflict between these regulations and the Code, the Code governs.

The Association may establish reasonable procedures for complying with the limits on annual additions under section 415(c) of the Code that it deems necessary or advisable for complying with applicable tax laws or for administrative purposes.

Capitalized terms used in this Regulation are defined in Section III. Terms defined in the County Employees Retirement Law apply here unless otherwise stated.

SECTION II. ANNUAL ADDITIONS LIMITATION

A. Annual Additions Limit, In General

Notwithstanding anything to the contrary contained in the Plan, the total Annual Additions allocated to a Member's Account under the Association, when added to the Annual Additions allocated to the Member's accounts under all other Aggregated Plans maintained by the Employer or an Affiliate for any Limitation Year, shall not exceed the Maximum Permissible Amount; provided, however, that the limit described in III.G.2 shall not apply to an individual medical benefit account (as defined in section 415(l) of the Code).

SECTION III. DEFINITIONS

Solely for purposes of this regulation, the following definitions shall apply:

A. Account

"Account" means the separate Member account provided under the Association for benefits that are separate and apart from the retirement benefits (annuity and pension) otherwise provided under the County Employees Retirement Law.

B. Affiliate

Solely to the extent provided in the Code with respect to public agencies, the term "Affiliate" means all members of a controlled group of an Employer.

C. Aggregated Plan

Plan Name: _____ **County Employees' Retirement Association** **EIN:** _____ **Plan #:** _____

“Aggregated Plan” means any defined contribution plan which is aggregated with the Association pursuant to Section III of this regulation.

D. Annual Additions

“Annual Additions” means the sum of the following amounts credited to a Member’s Accounts under the Plan and any Aggregated Plans for the Limitation Year:

1. Employer contributions allocated to the member’s Account that is separate and apart from any pension or annuity benefits provided under the County Employees Retirement Law;
2. Employee contributions (after-tax), including mandatory contributions (as defined in section 411(c)(2)(C) of the Code and Treasury regulations issued thereunder), as well as voluntary employee contributions used to purchase permissive service credit (as Defined in Code section 415(n)(3)) if an election is made to treat those amounts as Annual Additions in the year contributed pursuant to Code section 415(n)(1).
3. Forfeitures;
4. Amounts allocated to the Member’s individual medical account (within the meaning of section 415(l)(2) of the Code), which is part of a pension or annuity plan maintained by the Employer or Affiliate, except that such amounts are not included in Annual Additions for purposes of applying the 100% of compensation limit.

The term “Annual Additions” excludes:

1. Repayments of cash-outs as described in Code section 415(k)(3) (for example, to purchase restoration of an accrued benefit that was lost when employee contributions were previously cashed out) for the limitation year in which the restoration occurs;
2. Catch-up contributions made in accordance with Code section 414(v);
3. Restorative payment described in Treasury regulations section 1.415(c)-1(b)(2)(ii)(C);
4. Excess deferrals that are distributed in accordance with Treasury regulations section 1.402(g)-1(e)(2) or (3);
5. Rollover contributions (as described in Sections 401(a)(31), 402(c)(1), 403(a)(4), 403(b)(8), 408(d) and 457(e)(16) of the Code);
6. Loan repayments;
7. Employee contributions to a qualified cost-of-living arrangement described in Code section 415(k)(2)(B);

8. Employee contributions picked up by the Employer under Code section 414(h)(2);
9. Make-up contributions attributable to a period of qualified military service, as defined in Code section 414(u), with respect to the year in which the contribution is made (but not with respect to the year to which the contribution relates); and
10. Employee contributions to purchase permissive service credit (as defined in Code section 415(n)(3)) if an election is made to treat to treat the accrued benefit derived from all such contributions as an annual benefit subject to the limits of Code section 415(b).

E. Employer

“Employer” means the participating County or District that participates in the Association and employs the Member.

F. Limitation Year

“Limitation Year” means the calendar year.²

G. Maximum Permissible Amount

“Maximum Permissible Amount” means the lesser of:

1. \$49,000 (for 2009 and 2010), as adjusted for increases in the cost-of-living under section 415(d) of the Code; or
2. 100 percent of the Member’s Total Compensation for the Limitation Year.

H. Severance From Employment

“Severance From Employment” means the Member ceases to be an employee of the Employer. An Member does not have a Severance From Employment if, in connection with a change of employment, the Member’s new employer maintains the plan with respect to the Member.

I. Total Compensation

“Total Compensation” means all items of remuneration described in paragraph (1) and excludes all items of remuneration described in paragraph (2), below.

1. Items Included

Total Compensation includes all of the following items of remuneration for services:

² The Association may elect a different consecutive 12-month period.

- a. A Member's wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer and any Affiliate to the extent that the amounts are includible in gross income (or to the extent that amounts would have been includible in gross income but for an election under Code section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b)). These amounts include, but are not limited to, bonuses, fringe benefits, and reimbursements, or other expense allowances under a nonaccountable plan, as described in Treasury regulations section 1.62-2(c);
- b. Amounts described in Code section 104(a)(3), 105(a), or 105(h), but only to the extent that these amounts are includible in the gross income of the Member;
- c. Amounts paid or reimbursed by the Employer or an Affiliate for moving expenses incurred by a Member, but only to the extent that at the time of the payment it is reasonable to believe that these amounts are not deductible by the Member under Code section 217;
- d. The amount includible in the gross income of an Member upon making the election described in Code section 83(b);
- e. Amounts that are includible in the gross income of a Member under the rules of Code section 409A or Code section 457(f)(1)(A), or because the amounts are constructively received by the Member; and
- f. An amount that is excludable under Code section 106 that is not available to a Member in cash in lieu of group health coverage because the Member is unable to certify that he or she has other health coverage; provided, however, that the Employer does not request or collect information regarding the Member's other health coverage as part of the enrollment process for the health plan.

2. Items Excluded

The following items are excluded from Total Compensation:

- a. Employer contributions (other than elective contributions described in Code section 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) to a deferred compensation plan (including a simplified employee pension described in Code section 408(k) or a simple retirement account described in Code section 408(p), and whether or not qualified) to the extent such contributions are not includable in the Member's gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a deferred compensation

plan (whether or not qualified) other than amounts received during the year by a Member pursuant to a nonqualified unfunded deferred compensation plan to the extent includible in gross income;

- b. Other amounts that receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are excludible from the gross income of the Member, and are not salary reduction amounts that are described in Code section 125);
- c. Other items of remuneration that are similar to any of the items listed in a and b, above.

3. Timing

- a. In order to be taken into account for a Limitation Year, Total Compensation must be paid or made available (or, if earlier, includible in the gross income of the Member) during the Limitation Year. For this purpose, compensation is treated as paid on a date if it is actually paid on that date or it would have been paid on that date but for an election under Code section 125, 132(f)(4), 401(k), 403(b), 408(k), 408(p)(2)(A)(i), or 457(b)).³
- b. In order to be taken into account for a Limitation Year, Total Compensation must be paid or treated as paid to the Member prior to the Member's Severance From Employment with the Employer; provided, however, that Total Compensation includes amounts paid to the Member by the later of 2½ months after Severance From Employment or the end of the Limitation Year⁴ if the amounts are regular compensation for services during the Member's regular working hours, compensation for services outside the Member's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar compensation that absent a Severance From Employment would have been paid to the Member while the Member continued in employment with the Employer.⁵

³ Association may provide that Total Compensation for a Limitation Year includes amounts earned during the Limitation Year but not paid during the Limitation Year solely because of the timing of pay periods and pay dates if: (i) these amounts are paid during the first few weeks of the next Limitation Year; (ii) the amounts are included on a uniform and consistent basis with respect to all similarly situated employees; and (iii) no compensation is included in more than one Limitation Year.

⁴ If the Association has elected a Limitation Year that is not based on the calendar year, it may provide for the substitution of the calendar year for the limitation year for this purpose.

⁵ The Association may also provide that the following amounts are includable in Total Compensation if paid by the later of 2½ months after severance from employment or the end of the Limitation Year if the amounts would have been included in Total Compensation if paid prior to Severance from Employment: (i) accrued bona fide sick, vacation or other leave is included in Total Compensation if the Member would have been able to use the leave had employment continued, and (ii) payment pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

- c. Total Compensation does not include amounts paid after Severance From Employment that are severance pay, unfunded nonqualified deferred compensation, or any other payment that is not described in the preceding paragraph, even if paid within 2½ months, except for:
 - i. Payments to an individual who does not currently perform services for the Employer by reason of Qualified Military Service to the extent that these payments do not exceed the amounts that the individual would have received if the individual had continued to perform services for the Employer rather than entering Qualified Military Service; and
 - ii. Payments to a Member who is permanently and totally disabled; provided, however that salary continuation applies to all Members who are permanently and totally disabled for a fixed or determinable period. For this purpose, a Member is permanently and totally disabled only if the Member is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than 12 months.

4. Limit

A Member's Total Compensation shall not include compensation in excess of the limitation of Code section 401(a)(17) that is in effect for the calendar year in which such Limitation Year begins.

SECTION III. AGGREGATION WITH OTHER DEFINED CONTRIBUTION PLANS

All defined contribution plans (as defined in section 1.415(c)-1(a)(2) of the Treasury regulations and whether or not terminated) maintained by the Employer or an Affiliate shall be aggregated with the Association, and all plans so aggregated shall be considered as one plan in applying the limitations of this regulation.

SECTION IV. COORDINATION WITH OTHER DEFINED CONTRIBUTION PLANS

In the event that a Member participates in another defined contribution plan of the Employer or of an Affiliate that is a tax-qualified defined contribution plan, contributions or allocations that would otherwise be made on behalf of the Member to the other plan shall first be reduced to the extent necessary to avoid exceeding the limitations of this regulation.⁶

⁶The regulation could alternatively provide that allocations will first be reduced under the Association.

Plan Name: _____ County Employees' Retirement Association **EIN:** _____ **Plan #:** _____

SECTION V. CORRECTION

Any excess Annual Additions shall be corrected using the methods specified in section 6.06 and Appendix A.08 of Revenue Procedure 2008-50 or any subsequent guidance promulgated by the Secretary of the Treasury describing the procedures for correcting excess Annual Additions under the Employee Plans Compliance Resolution System ("EPCRS") or its successor.

Plan Name: _____ County Employees' Retirement Association **EIN:** _____ **Plan #:**

DISTRIBUTION RESTRICTIONS

PROPOSED MODEL REGULATIONS FOR IRC SECTION 401(a)

RETURN TO WORK AND SEPARATION FROM SERVICE

For purposes of employment with the county or a district after retirement for service a Member who has not attained normal retirement age shall have a bona fide separation from service to the extent required by section 401(a) of Title 26 of the United States Code. A bona fide separation from service is defined as follows:

1. The member has not entered into any predetermined agreement (either written or unwritten) with the county or a district prior to retirement to return to work for the employer after retirement, regardless of the length of the separation.
2. The member must have at least a _____ calendar day separation from service prior to entering into an agreement to return, prior to returning, to employment with the county or district while retired.
3. The member may be employed by the county or district prior to the time in sections 1 and 2 for emergency situations as defined in Government Code section 8558.

[Note: Needs to be Updated for PEPRA.]

Plan Name: _____ **County Employees' Retirement Association** **EIN:** _____ **Plan #:** _____

CODE § 401(a)(36)

NORMAL RETIREMENT AGE

PROPOSED MODEL REGULATIONS FOR IRC SECTION 401(a)

SEVERAL ISSUES ADDRESSED

SECTION I. PURPOSE AND SCOPE

In accordance with section 31525 of the California Government Code, the regulations set forth herein are effective as of [_____] and reaffirm and clarify the existing practices of the [_____] County Employees Retirement Association (the "Association").

SECTION VI. NORMAL RETIREMENT AGE

1. Normal Retirement Age for general members is _____, or if later, the date at which a member is otherwise eligible to receive retirement benefits from the system. Normal retirement age is not later than age 70.
2. Normal Retirement Age for safety members is _____, or if later, the date at which a member is otherwise eligible to receive retirement benefits from the system. Normal retirement age is not later than age 70.
3. These normal retirement ages are based on [choose one or more: the finding by the [Association's] actuary of actual ages at retirement. the formula age which is a benefit of _____% at age _____. the earliest age at which a Member could retire, which is the age at which a substantial number of Members do retire. *what else?*]
4. The Board may change the normal retirement age determined herein to the extent required to comply with section 401(a) of Title 26 of the United States Code or for any other reasons determined by the Board. The normal retirement age determined herein does not create any "vested rights" under California or federal law including but not limited to the contracts clause of the California Constitution.