

TULARE COUNTY DEFINED CONTRIBUTION ADMINISTRATIVE EXPENSE  
REIMBURSEMENT ALLOWANCE RESERVE POLICY

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APPROVED: June 11, 2012

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The Administrative Expense Reimbursement Allowance is an account whose assets are held in an interest bearing account with the defined contribution vendor on behalf of the participants of the defined contribution plan (voluntary plan). The revenues and expenses of the fund and the plan must be used for the exclusive benefit of the plan participants.

In addition to expenditures already anticipated in the budget, the committee recommends that the Defined Contribution Committee establish a reasonable level of reserves in the Defined Contribution Fund for unanticipated expenses and for certain major though intermittent expenses.

Policy

The attached Reserve Policy represents a "level of comfort" considering the nature of the plan, the magnitude of the assets and the types of expenses that might be incurred in the administration of the plan. The recommended policy consists of four components:

- ◆ Contingency/Stabilization Reserve equal to at least 25% of the fiscal year's budgeted expenditures. Note: Any funds lapsed from the operating budget will be held in this component until they are used for the benefit of the participants.
- ◆ \$121,072 Reserve For Major Plan Changes & Requests for Proposals.
- ◆ \$3,250 Reserve for 457 University training of Committee members, staff and other stakeholders on an as needed basis.
- ◆ \$20,000 Reserve for a "mock" IRS compliance audit on an as needed basis to maintain a high level of fiduciary responsibility.

The Contingency/Stabilization Reserve is designed to absorb unanticipated expenses without sacrificing other planned expenses and without dramatically changing the fund's revenue stream (paid by the providers and the participants). By definition, the natures of these expenses are unknown at this time. Given that, the staff committee proposes that this level of reserve is an adequate level without being excessive. For 2012/2013, the 25% equates to \$14,625.

The \$121,072 Major Plan Changes & RFP Reserve is based on past RFP expenses of \$60,000 and allows for additional transition expenses that might be associated with any plan changes approved by the Defined Contribution Committee. Once expended, this reserve would be replenished in time for the next planned RFP. For example, if all \$60,000 is expended in the next RFP, and that RFP results in a five-year agreement with the provider, this reserve would be replenished over the course of the next five years at the rate of \$12,000 per year.

The \$3,250 for 457 University allows the Committee to have the training when needed for new Committee members, alternates and/or staff. It also allows present Committee members and others to attend refresher training. The nature of the 457 University allows it to be open to any stakeholder (participant) in the County's Defined Contribution Plan if the Defined Contribution Committee approves to have others than members, alternates and staff at the training. An alternative would be to offer two one-day sessions. One would be for the Committee members, alternates and staff so sensitive issues could be openly discussed. The other session would be open to any plan participant.

A reserve of \$20,000 for a "mock" compliance audit allows the Defined Contribution Committee the latitude to request such an audit when the Committee believes it would be prudent to take such action. Once expended, this reserve would be replenished over a two to four year time span. This would depend upon the results of audit.

In addition to these four components of the reserve, the reserve policy recommends that the policy itself be reviewed and updated as necessary and appropriate at least every four years.

#### Excess Funding of the Reserve

Fund balance in excess of the approved reserve level will be returned to the Plan participants.

#### SUMMARY

A prudent and reasonable level of reserves for both unanticipated expenses and for certain major intermittent expenses must be established. The Defined Contribution Fund currently had the fund balance for the recommended level of reserves.

## DEFERRED COMPENSATION FUND RESERVE POLICY

The County of Tulare Deferred Compensation Committee will maintain reserves in the Administrative Expense Reimbursement Allowance Account for the following purposes and in the following amounts:

Reserve	Amount
Contingency/Stabilization Reserve	At least 25% of the budget year's budgeted expenditures, i.e., based on the 2010/11 proposed budget, the minimum reserve level should be \$14,625.
Reserve for Major Plan Changes & Requests for Proposals	\$64,625 This amount will be expended when appropriate, and then replenished in time for the next planned expenditure.
Reserve for 457 University	\$3,250 This training is for Committee members, staff and other stakeholders on a as need basis. This is for one session. Additional sessions would increase the expense.
Reserve for Audit	\$20,000 This amount will allow the Committee to request a "mock" IRS compliance audit when necessary, then replenish in time for the next planned expenditure.

In addition to an annual review in the context of the annual budget, there will be a dedicated review of the Deferred Compensation Committee's Reserve Policy at least once every four (4) years.