

TULARE COUNTY DEFINED CONTRIBUTION ADMINISTRATIVE EXPENSE REIMBURSEMENT ALLOWANCE RESERVE POLICY

APPROVED: June 24, 2024

The Administrative Expense Reimbursement Allowance Reserve is an account also known as the Defined Contribution Forfeiture Account whose assets are held in an interest-bearing investment option with the defined contribution vendor on behalf of the participants of the defined contribution plan (voluntary plan). The revenues and expenses of the account 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 Forfeiture Account 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 three components:

- ◆ Contingency/Stabilization Reserve
- ◆ Reserve For Major Plan Changes & Requests for Proposals
- ◆ Reserve for a "mock" IRS compliance audit

The \$25,000 Contingency/Stabilization Reserve is designed to absorb unanticipated expenses without sacrificing other planned expenses and without dramatically changing the account'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. The staff committee believes \$25,000 is a reasonable reserve as it is approximately a quarter of the annual budgeted expenditures.

The \$24,500 Major Plan Changes & RFP Reserve is based on current RFP expenses of \$24,500. Once expended, this reserve would be replenished in time for the next planned RFP or expenditure for plan changes approved by the staff committee. For example, if all \$24,500 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 \$4,900 per year.

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 three 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

Account balance in excess of the approved reserve level will be returned to the Plan participants at the end of the fiscal year.

SUMMARY

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

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The County of Tulare Defined Contribution Committee shall adopt its reserve levels each year in the following format. In addition to an annual review in the context of the annual budget, the Reserve Policy shall be reviewed at least once every four (4) years.

Reserve	Amount
Contingency/Stabilization Reserve	\$25,000 Approximately a quarter of the year's budgeted expenditures designed to absorb unanticipated expenses without sacrificing other expenses and revenues.
Reserve for Major Plan Changes & Requests for Proposals	\$24,500 This amount will be expended when appropriate, and then replenished in time for the next planned expenditure.
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.