

**HUMAN RESOURCES DEPARTMENT**

# Inter-Departmental Correspondence

**DATE:**  May 18, 2023

**TO:** Deferred Compensation Advisory Committee

**FROM:** Jay Castellano, Employee Benefits

**SUBJECT:** BUDGETED FUND BALANCE & RESERVE POLICY

RECOMMENDATION

Approve the attached Budgeted Fund Balance & Reserve Policy.

DISCUSSION

By policy, the Budgeted Fund Balance & Reserve Policy is reviewed and approved annually as part of the Deferred Compensation Advisory Committee’s annual budget process.

For 2023-24, the policy is recommended for approval with the minor edit shown on the next page. No changes are suggested from the version approved by the DCAC in May 2023.

**COUNTY OF SAN MATEO**

**DEFERRED COMPENSATION PROGRAM**

**POLICY**

**BUDGETED FUND BALANCE & RESERVE**

PURPOSE

To establish conventions for each year’s budget process for determining minimum and maximum amounts that should be budgeted beyond each year’s planned expenditures in the Deferred Compensation Trust Fund.

Each fiscal year begins and ends with a balance that reflects the cumulative difference between the trust fund’s revenues and expenditures. The amount of that fund balance can be managed, as necessary and appropriate, by increasing/decreasing revenues (i.e., administrative reimbursement rate) and/or increasing/decreasing expenditures (e.g., costs for consultants, staff, etc.).

This policy establishes conventions for determining each year’s budgeted fund balance so that revenues and expenditures can adjusted accordingly.

POLICY

As part of its process for determining revenues, rates and plan expenditures, the Deferred Compensation Advisory Committee (DCAC) shall maintain targeted reserves in the Deferred Compensation Trust Fund to pay for 1) the next request-for-proposals process and 2) unanticipated expenses.

* Reserve for Next Request for Proposals—As a matter of County procurement best practice, the term of vendor agreements is 3-5 years. In the deferred compensation program, the major vendor agreement is with the “bundled” provider (i.e., third-party administrator, investments provider and communication/education provider). And while longer agreements and relationships (and less disruption) are preferable, periodic request for proposals are a necessity as part of the DCAC’s fiduciary responsibility.

For the cost of those requests for proposals, $50,000 should be held in reserve.

After each request for proposals, this reserve should be replenished as soon as practicable, depending on subsequent years’ revenues and expenditures.

* Reserve for Unanticipated Expenses—This contingency reserve is for unanticipated expenditures, expenditure increases and/or revenue decreases. The convention for this reserve is 25% of that year’s budgeted expenditures. If this reserve is ever expended, it should be replenished as soon as practicable, depending on subsequent years’ revenues and expenditures.

**POLICY**

**BUDGETED FUND BALANCE & RESERVE**

* Unrestricted Fund Balance—The unrestricted fund balance is any amount of available assets in the Deferred Compensation Trust Fund beyond those needed to fund annual operating expenses and the reserves.

Ideally, the unrestricted fund balance will be minimally positive.

* + As all revenues into this fund are derived from participant accounts, excess unrestricted fund balance represents participant assets that are idle. The excess can be reduced by, for example, reducing the administrative reimbursement rate and revenues or by crediting participant accounts using a reasonable and fair methodology.
	+ A negative unrestricted fund balance means that expenditures and/or reserves are not fully funded. The balance can be increased by, for example, reducing expenses or increasing rates and revenues.

Mid-year revenue and expenditure budget changes will be avoided to minimize adverse impacts to plan participants.

Unrestricted assets must remain in the Deferred Compensation Trust Fund. As revenues to this fund are generated by charges to participants’ accounts, the assets belong to plan participants and cannot be transferred to any other County fund.

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| Reserve | Amount |
| Reserve for Next Request for Proposals | $50,000 |
| Reserve for Unanticipated Expenses | 25% of the fiscal year’s budgeted expenditures |
| Unrestricted Fund Balance | Amount of assets beyond those needed for budgeted expenses, unanticipated expenses and reserves. |

The DCAC will review and approve this policy as part of its budget approval process before July 1 of each fiscal year.

History

November 1, 2018 Approved

August 23, 2019 Approved

August 27, 2020 Approved

May 27, 2021 Approved

May 26, 2022 Approved

May 25, 2023