Tulare County Employees' Retirement Association

Pension Progress

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Market Volatility Hampers Returns

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The beginning of 2016 was a turbulent period for investors, as the S&P 500 fell 5% in January, making it one of the worst yearly starts on record. Despite the volatility, markets were resilient and overcame these losses. Eventually, the S&P 500 would continue to slowly rise until the Brexit referendum, Britain's vote to exit the European Union, rattled global markets in late June.

What made Brexit such a headlining event was that prior to the actual vote on whether the U.K. should leave or remain with the European Union, the majority of experts, pundits, and market participants all expected the U.K. would remain. However, when the actual result to withdraw from the E.U. was announced the markets reacted negatively and suddenly fell from the surprise outcome. It was not long after this sharp downturn late in the month of June that equity markets again demonstrated strong resilience, as they had earlier in the year and fully recovered from these losses. Some indexes even reached new highs, including the S&P 500.

In addition to recovering stock prices, government bonds have enjoyed attractive returns through the first half of the year, as yields have reached historic lows many developed nations around the globe. In fact, a third of government bonds are now characterized by negative yields. Unfortunately, these low yields are pushing some investors into riskier assets to meet return objectives. Further complicating the situation, government bonds of developed nations are typically low risk or "risk-free" which creates a low starting point for riskier assets that earn a premium over this "risk-free" rate. As a result of this lower starting point, prospective return expectations for risk assets are depressed.

Combined, these events created a challenging environment for investors like TCERA, as the investment portfolio returned -1.6% after investment manager fees for the fiscal year. Over the last three-year period, the Plan averaged a 5.1% annual return, while the trailing five-year period also returned 5.1% on an average annualized basis.

Real estate has been a substantial contributor to the Plan as that component of the portfolio returned 11.6% over the fiscal year. However, the strong relative returns in Real Estate, were not strong enough to overcome weakness in the Plan's Alternative Assets and International Equities, which returned -8.2% and -9.8%, respectively. On a more promising note, the Plan's commodities managers and the water strategy have bounced back and delivered returns between 11-13% over the first half of the calendar year.

In the face of macroeconomic distractions over the short-term, it is important to focus on the long run and remain disciplined to the long-term strategy laid out in the Plan's investment policy. We continue to monitor the market for dislocations, which may provide investment opportunities for the Plan. So far since the beginning of 2016, the Plan has implemented a new hedge fund manager to bring that portfolio allocation up to policy targets. Additionally, two new private equity managers were hired to increase the portfolio's return potential and the addition of a 5% allocation to private credit is planned for the latter half of the calendar year.

~ Preparing for Your Retirement ~

Preparing for retirement requires planning in a number of areas. The staff role at TCERA is to assist our members in making sure that once you've made the decision to retire you can do so with a feeling of confidence. In preparing for your retirement date, here are a number of considerations that you should make:

- **Gather together important documents.** TCERA will need to see the original or certified copy of your birth certificate (or valid passport, naturalization papers, or Form DD2-14). If you are married we will also need to see original or certified copies of both your marriage license and your spouse's birth certificate (or other documents as listed above). In addition we will need to make a copy of your driver's license and Social Security card. If your retirement date is getting close, please start getting these documents together now. You must provide these documents in order to complete your application for retirement.

- **Attend one of the TCERA sponsored pre-retirement seminars.** TCERA offers a variety of pre-retirement and educational seminars. One is for persons who are 1-5 years from retirement. This is for those members who are just starting to think about retiring and still have time to make adjustments prior to the big day. Speakers at the seminar include TCERA staff, staff members from the Social Security Administration, representatives from the Health Insurance Counseling & Advocacy Program (HICAP) and from the Tulare County Defined Contribution program (Empower). Each speaker will give you information on how to better plan for retiring successfully.

Another seminar is for those individuals who are less than 1 year from retirement. This seminar focuses more on the actual mechanics of retiring. Again, speakers from TCERA, Deferred Comp and SSA are present. Also included are representatives from the County's Retiree Health Care program and HICAP.

- **Selecting your retirement date.** A variety of factors should be considered in determining the best time for you to retire. We suggest that you request an estimate of your pension allowance to be prepared when considering a retirement date. An estimate calculation, which includes your different retirement payment options, can be requested by completing a "Request for Estimate" form and returning it to TCERA. The form is available at TCERA's website (**www.tcera.org**) or can be sent to you by TCERA staff. Each form allows you to request up to three different retirement estimates.

Many people choose to retire immediately following the start of a new calendar year. This is because they expect large pay-offs in vacation and/or sick leave balances followed by a drop in regular income due to their retirement. The tax burden for handling retirement in this manner can be less since the lower annual retirement income helps to cushion the extra amounts received due to the vacation and sick leave payouts.

Most members choose to retire on or as close to April 1st as they can. Keep in mind that your effective date of retirement is the first day in which you will be in retired payment status. By timing your retirement to be as close to April 1st as possible (without going beyond the 1st of April) you will be entitled to receive any applicable retirement COLA for that calendar year.

TCERA offers its members the opportunity to speak with our staff in order to assist you with selecting a retirement date, choosing the best retirement payment option for you, calculating the amount of tax withholding, setting-up direct deposit of your pension checks and many other issues that need to be decided when you retire. Please feel free to contact our office at (559) 713-2900 if you would like to make an appointment to meet with a Retirement Specialist.

Understanding Reciprocity

The Tulare County Employees' Retirement Association, or TCERA, is a retirement program established under the provisions of the County Employees' Retirement Law of 1937 (the '37 Act, or CERL). A total of 20 counties in California have adopted the '37 Act and, as a result, have what is referred to as a reciprocal agreement between each other.

Under reciprocity a member of TCERA can move to another employer that is part of a reciprocal retirement program without losing all of the benefits earned under the original plan. When a member of TCERA terminates active employment, he/she will be given several options of how to handle her/his funds. If the person qualifies for retirement they can retire and begin receiving a monthly retirement allowance payable for life. They can also elect to take their funds in cash or roll them over into an Individual Retirement Account (IRA) or other qualified retirement program. An additional option, however, is to seek employment under a reciprocal retirement system and elect reciprocity. Electing reciprocity allows service earned with one plan to be used in helping a member meet the minimum service requirements for retirement benefits under the new plan. Establishing reciprocity between two or more qualified plans can also reduce the contribution rates required from the employee and, in some cases, will place the individual into a higher retirement benefit tier.

How Does Reciprocity Work? A member who wishes to establish reciprocity must begin membership in the new retirement system within 6 (six) months of leaving their former plan. The member must also agree to leave his/ her funds on deposit with the first plan while employed under the new retirement plan. The funds left on deposit continue to earn interest but are not available for withdrawal until the member terminates employment with his/her new employer. Assuming that the member works long enough to retire under the new plan, she/he will apply for retirement benefits from both plans **using the same effective date of retirement.** The two plans share salary information and use the higher salary information earned with one of the plans to calculate the person's monthly retirement benefit. Each plan may have a different benefit formula but the shared salary information allows a member to be out active membership from their original retirement plan for many years and still receive a greater retirement allowance due to higher salary earnings.

Illustration: *John Doe is a Tulare County employee who became a TCERA member after working with the County of Orange for 7 years. Because Orange and Tulare are both '37 Act counties, John was given the option to elect reciprocity when he terminated active employment with Orange County. He elected to do so and started his employment at Tulare within the required six-month time frame.*

After three years of employment he had a total of 10 years of combined service (7 with Orange County and 3 with Tulare County). He met the minimum service requirement to be eligible for regular retirement. John was not yet old enough to retire, however, nor was he personally ready to do so. He continued to work for Tulare County for an additional 20 years and then made the decision to retire at age 65.

John will retire with a total or 30 years of service earned with two retirement plans (7 with Orange and 23 with Tulare). When he files his applications for retirement he must do so with each of the two plans. Upon receiving his applications, the two retirement systems will compare salary information and calculate a monthly benefit based upon his highest earnings with one of the two plans. John's allowance from Orange County will be based upon the 7 years of service he earned under that plan. The allowance he receives from Tulare will be based upon the 23 years of service he earned under TCERA. Assuming that John's salary was higher under Tulare County, the Orange County plan will use that information to calculate John's retirement. This is true even though John has not been an active member of that plan for 23 years!

Members of the plan help to pay for future retirement benefits through biweekly retirement contributions deducted from their paychecks. The amount of the deduction taken is determined by the member's **tier, membership type and entry age into the retirement plan**. The younger an individual's retirement entry age, the lower their retirement contribution rate will be. Another advantage to electing reciprocity is that when an individual enters TCERA from a reciprocal plan the *(Continued on last page.)*

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Understanding Reciprocity *(continued)*

Retirement Office will adjust the member's entry age to match the entry age of their original plan. This lowers the amount of deductions taken from their pay without decreasing the level of retirement benefits they will eventually earn.

Reciprocity can be established between two or more plans which carry reciprocal agreements. This gives many public employees within California the advantage of moving from employer to employer without having to start earning retirement benefits all over again as employment changes. As stated above, the twenty '37 Act counties all have a reciprocal agreement. Recognizing the importance of allowing retirement benefits to be as "portable" as possible, reciprocal agreements have also been made with other retirement programs in California. Some of these include CalPERS, the City of Los Angeles, the City of San Diego, County of San Luis Obispo, City and County of San Francisco and the State Teachers' Retirement System (STRS).

While terminating employment involves a major decision, how to handle your future retirement benefits is also very important. The Retirement Office is available to discuss your options in order to help you reach an informed decision. Contact us with any questions you may have concerning reciprocity.

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