Tulare County Employees' Retirement Association

Pension Progress

Phone: (559) 713-2900 www.tcera.org

Keeping Members Informed Volume 18, No. 1 March, 2017

2016 Investment Results

By: Verus Investments (TCERA's Investment Consultant)

The results of U.S. presidential election shocked many and polarized the nation. Initial news of the president elect caused the markets to plunge during the overnight hours. By the next day the markets recovered and since then, the domestic stock market finished 2016 on an optimistic note with expectations of a more pro-business regulatory environment and the possibility of large-scale fiscal stimulus. This outlook is echoed by the consumer sentiment figures where are up hitting its highest level since January 2004 as the University of Michigan sentiment survey reached 98.2 in December.

Also moving up during the quarter was the U.S. Dollar which grew stronger and appreciated 6.4% against a basket of major currencies. A stronger dollar has two effects for investors. One effect is from a purchasing perspective. The stronger dollar creates greater purchasing power when acquiring assets outside the U.S. The other effect is from an asset holding perspective. International assets held over the appreciation cycle face a headwind since returns are eroded after translation back to the US dollar.

The U.S. Treasury 10-year yield went up as well. Several factors led to the rise in the 10-year yield and the Fed's rate increase in December was a major driver. The Fed also signaled three potential rate hikes in the coming year. Another factor was inflation which ticked upwards largely on oil price increases and higher rents. While higher yields are a step in the right direction back to interest rate normalcy, this uptick had a negative impact on bond prices during period as the Bloomberg Barclays Aggregate fell -2.5% during the 4th quarter of 2016. On the other hand, stocks responded well to this environment as the S&P 500 returned 3.8% and small-cap stocks, represented by the Russell 2000, returned 8.8% over the same period.

The Plan performed well during the first half of the current fiscal year returning 4.5% after investment management fees, outperforming the policy benchmark. Over the trailing 3-year and 5-year periods, the Plan averaged 3.0% and 7.3% respectively. The largest contributors to performance were equities and real estate. The domestic equity component of the portfolio returned 9.8% net of fees for the first six months of the fiscal year while international equities returned 5.9%. Real estate has cooled off a little following several years of double-digit performance, but still provided a solid return of 3.9% during the period. Lastly, despite bonds being down -2.5% mostly due to increasing rates, TCERA's bond portfolio managed to produce a positive return finishing the first half of the fiscal year up 0.5%. This performance can be attributed to the use of several diversifying investments within the broader fixed income portfolio such as high yield bonds and global bonds.

Over the course of the last year, the Plan has been diligently improving its investment strategy. First, the Plan hired a new hedge fund manager to bring the portfolio up to policy targets. Second, the Plan implemented two new private equity mangers to increase return potential. Third, a new private credit allocation was made at the policy level and a manager was hired to fulfill that assignment. While the tone is positive and the outlook is optimistic, it is important to avoid complacency and remain disciplined to the long-term strategy detailed in the Plan's investment policy.

Knowing Your Retirement Payment Options

TCERA members are sometimes surprised to learn that there are a number of benefit options for you to choose from when you make the decision to retire. Each of the different payment options will impact the basic retirement allowance that you receive, so you should consider them carefully. Here's a brief review of the retirement benefit options available to you:

Unmodified Option – (It's called the "Unmodified Option" because it is the one originally allowed for under the law that governs the retirement plan.) This option provides the maximum monthly allowance payable to you for your lifetime, and will also pay a 60% continuance to your qualified surviving spouse (or registered domestic partner) following your death. If you have no spouse (or registered domestic partner) eligible for a continuance at your death, your beneficiary will receive a lump sum payment of your accumulated contributions less the sum of the actual monthly retirement allowance payments received by you. Under specific circumstances, you can may be able to name a post-retirement spouse (or registered domestic partner) who can then qualify for a pension continuance following your death. (Contact TCERA for the details of how this works.)

Option 1 - This benefit payment modification provides for a slightly reduced monthly retirement allowance, payable throughout your life, with the provision that your accumulated contributions, less the sum of the annuity portion of the payments received by you, will be paid upon your death to your beneficiary. Under this option, the retired member may change his/her designated beneficiary.

Option 2 - This option provides for a reduced monthly retirement allowance to you for your lifetime with 100% of the allowance continued after your death to your qualified beneficiary for their lifetime. If your named beneficiary dies before you, a new beneficiary may NOT be designated and the allowance under this option will be continued only through your life. (Note: that the IRS Code restricts the amount that can be paid to your survivor depending on the age difference between you and your beneficiary.)

Option 3 - This option provides for a reduced monthly retirement allowance paid to you for your lifetime with 50% of the allowance continued after your death to your qualified beneficiary for your beneficiary's lifetime. If your named beneficiary dies before you, a new beneficiary may NOT be designated and the allowance under this option will be continued only through your life.

Option 4 - This option allows you to name MULTIPLE beneficiaries who will each receive a lifetime continuance following your death. Electing this option requires that an actuarial study be completed to determine how much of a reduction you must take on your allowance AND that the Retirement Board approves your election of Option 4 in advance of your retirement date. If one or more of the beneficiaries dies before you, a replacement beneficiary may NOT be designated and the reduction you received on your allowance will continue until you pass away.

Please note that the benefit payment option elected by you may also have significant tax implications. You are encouraged to speak with a qualified tax advisor prior to finalizing your decision. If you have questions regarding the benefit options available to you, please contact the Retirement Office at (559) 713-2900.

TCERA Responds to Frequently Asked Questions

Can I use my defined contribution account balance to buy-back service time for Retirement?

Yes. Rollovers from your Defined Contribution plan, IRA, 403B, and 401K programs can be accepted by TCERA for the purchase of qualified years of service under the Retirement Association. Other acceptable methods of payment include lump-sum payments and post- taxed biweekly deductions from your pay. For more details regarding the accepted methods of making payments and for periods of service that qualify for purchase, contact the Retirement Office. *(Continued on last page.)*

Retiree COLA Increases Approved

The Board of Retirement has recently approved a recommendation to provide a cost-of-living-adjustment (COLA) for all retired members of the Tulare County Employees' Retirement Association (TCERA). The increase is effective April 1st which means that retirees will **first see the increase on their pension checks dated April 30, 2017.** Due to the rise in the Consumer Price Index (CPI) for the period ending December 31, 2016, this year's COLA will again vary depending on each retiree's membership tier and date of retirement. The percentage of increase is as follows:

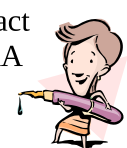
Tier I members retired on or before 4/1/1982:	**3%**
Tier I members retired from 4/2/1982 through 4/1/2017:	**2%**
All other members retired through 4/1/2017:	**2%**

Because the change in the CPI was equal to 2%, some Tier I retirees may also see a decrease to their Supplemental COLA amounts granted by the Board of Retirement. The Supplemental COLA helps to keep pension purchasing power at no less than 85% of each member' original retirement allowance. As rising inflation erodes the strength of the retirement benefit, the Supplemental COLA is applied and acts as a cushion to soften the reduction in purchasing power. As indicated above, the Supplemental COLA is only applied to those pensions that have lost more than 15% of their original purchasing power.

Retirees should also remember that all benefits paid from the Supplemental Retiree Benefit Reserve, including Supplemental COLA amounts, are **not** guaranteed. Supplemental benefits can be reduced or terminated at any time by action of the Board of Retirement. In addition, supplemental cash benefits paid from the SRBR by TCERA **do not** receive the COLA increase. Should you have questions as to how your new monthly amount will be calculated, feel free to contact the Retirement Office for information.

Keep Your Beneficiary Info Current!

Both **active and retired** members of TCERA are reminded to keep close track of the information related to your named beneficiary. The beneficiary form completed for the TCERA retirement plan provides our office with the name of the person that is to be paid your retirement funds in the event of your death. The person(s) named as your beneficiary may be entitled to receive a single lump-sum payment or could qualify for a lifetime pension depending upon their relation to you, the length of your service under the retirement plan, or, if you're retired, the benefit option chosen by you. As a result, keeping your beneficiary record current with TCERA is very important. Key events that should make a plan member think about updating her/his beneficiary information include: marriage, divorce, birth/adoption of a child, and death of a beneficiary.



Even if you do not wish to change the name of your beneficiary, keeping current the contact information pertaining to that person (address, telephone number, etc.) is critical in order for TCERA staff to reach your survivor in a timely manner when it becomes necessary to do so. We recommend that at least annually you check to make sure that your beneficiary data filed with TCERA is accurate. Keep in mind that TCERA is separate from other employee benefit offices and that beneficiary forms filed with other offices of your employer **will not** be accepted by TCERA.

It is also important to remember that, due to the Community Property laws of California, your spouse (and in some cases your minor children) may have rights to your pension benefits that supercede others you have named as beneficiaries. Feel free to contact the Retirement Office at (559) 713-2900 should you have questions regarding your beneficiary. You can also request a "Change of Beneficiary" form from our office or download it from TCERA's website at **www.tcera.org**.

Tulare County Employees' Retirement Association
136 N. Akers Street
Visalia CA 93291

Phone: (559) 713-2900
Fax: (559) 730-2631

TCERA Responds to Frequently Asked Questions

Can I receive a loan on the amount I have in my TCERA account?

No. The provisions of the California Government Code sections governing the TCERA plan do not permit us to make loans from the amount a member holds in her/his retirement account. While loans are permissible to employees who participate in the County's Defined Contribution program, the same is NOT true for TCERA.

Does it matter how much money I have in my personal retirement account when I retire?

In many ways, no. TCERA uses a formula to calculate your monthly pension allowance at retirement. This formula is based upon your membership type (General or Safety and Tier) your age at retirement, your years of retirement service credit with TCERA and your final average salary. Your contributions are important in that they help to fund the monthly pension benefit you will receive, but your contributions DO NOT play a role in determining the amount of your monthly retirement allowance.

I've never really understood what it means to have a "Defined Benefit" retirement plan. Why is it important to me?

Under a Defined Benefit type of retirement system (like TCERA), a formula is used to calculate the plan members' retirement allowances. The more generous the formula, the higher the retirement benefits for plan members. TCERA uses four major components in calculating your retirement allowance: your final average salary, your membership type and tier, your years of retirement service and your age at retirement. The higher the value for any one or a combination of the components in the formula, the higher your monthly retirement benefit will be. A Defined Benefit retirement program is designed to pay the pension benefit for the life of the retiree – another important feature of the TCERA plan.