Tulare County Employees' Retirement Association

Pension Progress

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FY 2018 Investment Results

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"Synchronized global growth" has been a key narrative for much of the past fiscal year, leading to a favorable environment for investments traditionally viewed as higher risk. More recently, however, that story is being tested as economies worldwide have displayed disparate performance. While the narrative is broadly still intact, global growth has moderated with some regions outpacing others. In the Eurozone for example, many economies in the region missed expectations in several areas including GDP growth, retail sales, and industrial production. This is casting some doubt over the vitality of European recovery story. Labor markets tightened broadly, in-line with an environment of positive economic expansion. However, joblessness in some Eurozone countries such as Italy, Spain, and Greece, remains stubbornly high. Within emerging market economies, several of the larger economies reported favorable key indicators. However, stocks and other investments in these regions have posted disappointing returns, as a result of U.S. dollar strength and contagion concerns arising from smaller countries like Argentina and Turkey, which face political as well as economic concerns.

Here in the U.S., the economy has displayed relative strength in several ways. First, real GDP grew at an annualized quarterly rate of 4.1% in the second quarter of 2018, marking the strongest quarterly annualized growth rate since 2014. Also, the rate of inflation picked up reaching 2.3% year-over-year, which is just above the Fed's objective target. In addition, the Fed raised rates for the second time this year, to a target range of 1.8% to 2.0%. Further, the labor market has shown continuous improvement, as headline unemployment pushed lower to 4.0%. Despite such a low unemployment figure that many observers would interpret as full employment, there may still be some room to run since the entire labor force is not captured in traditional unemployment measures. For example, looking at the number of Americans employed illustrates a different picture since a larger portion of the population remains unemployed relative to the period just before the financial crisis 10 years ago.

In terms of performance, TCERA finished the fiscal year on a high note, returning 7.5% after investment management fees, beating the policy benchmark and the actuarial assumed rate of return. This was an improvement over the trailing 3-year and 5-year periods of 5.7% and 6.9%, respectively. TCERA's US equity allocation was the strongest contributor to overall return, returning 16.6% for the fiscal year. Domestic fixed income was also a contributing factor on a relative basis. Although this component of the Plan was nearly flat, returning just 0.1% for the period, it exceeded its benchmark of -0.4%. Higher US interest rates made for a challenging environment for bondholders, but TCERA's managers were able to eke out slightly positive returns despite the headwind. Commodities and Private Equity are smaller exposures within the larger investment portfolio but still helped overall performance, as the asset classes returned 13.2% and 17.1%, respectively. While international and global equities posted returns of 6.0% and 8.0%, both asset classes underperformed their respective benchmarks, which detracted from relative results.

TCERA continues to diligently evaluate its investment strategy and review new and potential investment opportunities. Recently, the TCERA trustees replaced an international equity manager in order to improve expected excess returns for the allocation. In addition, the Plan added a contingent commitment to private credit, which will activate if credit markets become challenged, providing an opportunity to benefit in a down-market environment. While overall economic fundamentals are positive for the time being, significant risks remain, and it is important to avoid complacency in the disciplined pursuit of the Plan's long-term investment objectives.

Retirement Board Special Election Results and Upcoming Elections

The TCERA Board of Retirement recently held a special election for a Trustee seat vacated due to the retirement of Board member C. Frank Embrey. **John Mauro** was chosen by active TCERA members to fill one of the General plan member seats for the remainder of the term that will end on December 31, 2019.

As reported in the last edition of the *Pension Progress*, TCERA is currently holding regular elections for Retirement Board members who represent active General and Safety employees. Because current Board member, Roland Hill, is the only person who filed for the remaining General member trustee seat, he will be considered as re-elected for a new term of office that begins in January 2019 and end in December of 2021.

Safety members also have an election coming up to select their representatives. TCERA members who are classified as Safety employees (those whose primary duties include law enforcement or fire suppression) will be selecting their Regular representative to the Retirement Board and, depending who runs for the seat, an Alternate Member who serves in the absence of the Regular Trustee. Both of these individuals will take their seats for terms that begin in January of next year and end in December of 2021.

All qualified TCERA members are encouraged to cast votes for their appropriate elected TCERA trustees. Choosing responsible individuals as trustees to participate in the decisions and administration of the retirement plan helps to ensure that your pension plan remains secure and is able to meet the retirement needs of both current and future members.

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. *(Continued on last page.)*

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 about 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 only 3-6 months 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. Another option is for you to sign up for "My TCERA" that will allow you on-line access to your TCERA account and to do benefit 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.

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Understanding Reciprocity *(Continued from 2nd page.)*

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 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.

1937 ACT COUNTY PLANS: Alameda; Contra Costa; Fresno; Imperial; Kern; Los Angeles; Marin; Mendocino; Merced; Orange; Sacramento; San Bernardino; San Diego; San Joaquin; San Mateo; Santa Barbara; Sonoma; Stanislaus; Tulare; and Ventura.