Tulare County Employees' Retirement Association

# Pension Progress

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

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## 2018 Investment Results

*By: Verus Investments*

Economic conditions around the world have weakened somewhat, but global growth continues, and indicators here in the U.S. remain positive for the time being. Real GDP reached 3.0% year-over-year in the most recent quarter, which was the fastest pace of growth in more than three years. Inflation fell from 2.3% to 1.9% during the quarter but remains relatively stable near the Fed's target of 2.0%. The labor market is historically strong with headline unemployment at 3.9%, and employment participation within the core age range between 25 and 54 rose from 81.8% to 82.3%. The tight labor market is beginning to translate to meaningful wage gains, as wage growth hit a cyclical high of 3.3% from the previous year. Also benefitting from a tight labor market and decent wage growth is consumer spending, which rose 2.8% year-over-year and remains a core driver of recent economic expansion.

While current economic conditions appear stable and positive, investment markets discount future conditions, and in the fourth quarter of 2018, the US equity market suffered a significant pullback. The S&P 500 fell nearly 20% before recovering somewhat during the last week of the year, ultimately closing out the fourth quarter down 13.5%, the worst quarter for the S&P since 2008. Several factors led to the poor performance. First, many companies communicated profit warnings and downward revisions to earnings, which created an overall bearish outlook. In addition, ongoing uncertainty surrounding U.S. and China trade talks have weighed on markets. Although negotiations continued, there was scant progress through the end of the year. Further, economists have been predicting the positive effects of tax cuts have peaked and will begin to tail off throughout the coming year. Finally, markets expressed concern the Fed may become too restrictive too quickly.

Although markets were volatile and TCERA's plan finished the year down 2.9%, the Plan benefitted from diversification and was down much less than its peers, earning a rank in the top 16th percentile among large public defined benefit plans. The Plan's Private Assets were the leading contributor over the calendar year. Private equity returned 18.1%; private credit returned 11.6%; and Real Estate returned 8.8% over 2018. Public market equity struggled, as US equity was down 5.4%, and international equity was down 14.5% over the same period. Domestic fixed income and global fixed income beat their benchmarks for 2018, but didn't add much to overall returns, as those asset classes were up 0.1% and 1.9%, respectively.

Fortunately, the start of 2019 has seen a strong recovery in global equity markets, as many of the concerns in the fourth quarter of last year have abated somewhat. The resulting rebound since the beginning of the year nearly erased the losses from the previous quarter. The S&P 500 is up 11.5% year to date through the end of February. International stocks of developed nations measured by the MSCI EAFE are up 9.3% and Emerging Markets stocks (MSCI EM) are up 9.0% through the first two months of the year.

The Plan continues to diligently evaluate its investment strategy and review new and potential investment opportunities. Recently, the Board of Trustees approved revisions to the current investment policy and has decided to add emerging markets debt, value-added real estate, and real estate debt to the investment portfolio. Implementing these assets is expected to take the balance of 2019 and may possibly require part of 2020 to complete the process. Adding these asset classes should provide a diversification benefit and enhance risk-adjusted returns in pursuit of the Plan's long-term investment objectives.

## New Administrator to Take the Helm at TCERA

After over 21 years of service as the TCERA Retirement Administrator, **Dave Kehler** announced this past October that he would be retiring from County service. His final day with TCERA was March 29, 2019.

Following Dave's decision, the TCERA trustees discussed his replacement and needed very little time in finding a successor. TCERA Board Chair, **Roland Hill**, announced in November of 2018 that **Leanne Malison** has been named the new TCERA Retirement Administrator taking Dave's place immediately following his retirement.

Ms. Malison is no stranger to TCERA nor many of the plan's members. She has served as the TCERA Assistant Retirement Administrator since March of 2006 and prior to that was an appointed trustee on the TCERA Board dating back to 1995. Her association with the plan spans nearly 25 years in these varying capacities.

Leanne graduated Summa Cum Laude with a Bachelor of Arts degree in English/Biology from California Lutheran University. Prior to joining the TCERA staff, she was the Firm Administrator for Pine, Pedroncelli & Aguilar, CPA firm. She has been a Registered Representative and Investment Advisor for Genworth Financial Securities and Genworth Financial Advisors Corp. Leanne has also held a variety of positions within the banking industry. She has been involved in community service, serving as Chair of the Resource Development Committee for the Boys & Girls Club of Tulare County and is very active in her church. TCERA's Board of Retirement is confident that her combination of experience in public, private, and community service make Leanne well qualified to take on the role of TCERA's next Retirement Administrator.

While we will miss Dave, and congratulate him on his retirement, TCERA is also looking forward to starting this new chapter in service to our plan members, plan sponsors, and the citizens of Tulare County.

## 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 adjustment on their pension checks dated April 30, 2019.** Due to the rise in the Consumer Price Index (CPI) for the period ending December 31, 2018, this year's COLA will result in an increase that depends on each retiree's membership tier. This year's COLA amounts are as follows:

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| **All Tier I members retired on or before 4/1/2019** | **3%** |
| **All Tier II, III and IV members retired on or before 4/1/2019** | **2%** |

Because the change in the CPI was greater than 2%, those retirees eligible, will also see an increase 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's 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.

# Inflation: A Sleeping Dragon

While stories of dragons may seem to be the subject matter for myths and fairy-tales, are you aware that there is a modern-day dragon that threatens your retirement security and purchasing power? It is called: **inflation** and it is a destructive force that can ruin one's ability to retire securely and to retain a dignified retirement lifestyle.

Predicting inflation is difficult, but understanding its impact on your finances is not. Essentially, when the inflation rate increases, the value of your dollars decreases, meaning that you can buy less goods and services than you could before the inflation rate rose. If the cost of goods and services continues to inflate for an extended period of time, you will need more and more dollars just to pay for those things that you are currently able to purchase. For retirees, who are generally on fixed monthly incomes, the impact of several years of high inflation can be very difficult. Data provided by the Tulare County Employees' Retirement Association indicates that members who retired from TCERA between 1981 and 1989 have seen the purchasing power of their monthly pensions decline from between 21 to 55 percent. This decline in buying power has occurred in spite of annual cost-of-living-adjustments (COLA) that were awarded to TCERA retirees over this same span! Fortunately, rates of inflation have been rather low over the last 20 years. TCERA members who retired between 1993 and 2018 have seen no more than a 10% decline in purchasing power over that period. The problem with inflation - as with any dragon - is that while it may have been sleeping for a period of time, it is always lurking and may raise its ugly head without real or sufficient warning. What then can the average person do to combat this menace? Following are a few suggestions that can help us to keep the inflation dragon at bay:

1) Pay down debt. Keep in mind that your highest years of income are likely to occur while you are still working. As best as you can, pay off debt, including your mortgage, ***before*** retirement. Doing so will allow you to maximize your dollars at fighting those issues (such as inflation and health care costs) that hit you as a retiree. If you are retired, attempt to avoid excessive credit card and long-term debts.

2) Invest with inflation in mind. While we all may like the security of fixed income investment vehicles, they may not always provide a return that is high enough to keep pace with a rise in inflation. Consider allocating at least some of your retirement savings to higher yielding bonds as well as some to stocks. Investing for your future does not stop just because you are retired. Taking a defensive posture is wise, but make sure that your projected investment returns also factor in a possible increase in inflation.

3) Prepare in advance. Carefully consider all of your options for planning a successful retirement. If you are an active Tulare County or Superior Courts employee, think about participating in the Defined Contribution (457) program offered by Tulare County. Remember the County is offering "free" money to County employees in the form of a partial match for the contributions you make to the Defined Contribution program. Why not use your employer's help in cutting the inflation dragon down to size! **(For more information, contact our *Empower Retirement* representative, Stephanie Henry, at 559-967-2280).**

None of us may be able to keep the inflation dragon down forever, but by taking the proper steps to plan along the way, we may at least be able to starve him enough to make our retirement years comfortable ones. Do not delay. Take steps to plan your retirement future now and keep the inflation dragon in the dungeon where he belongs!

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# 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. Your 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 supersede 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.**