Tulare County Employees' Retirement Association

Pension Progress

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A Word from your Retirement Administrator…

National Retirement Security Week – October 20-26, 2019

National Retirement Security Week is October 20-26, 2019. This event offers us a reminder of the importance of retirement planning. This quarter's Pension Progress includes two important articles that shed some light on the status of your retirement plan.

The first article is an update from TCERA's Investment Consultant. Scott Whalen from Verus Investments provides an overview of TCERA's investment performance for the fiscal year ended June 30, 2019 and the market conditions that affected performance. Although investment returns do not specifically play a part in the calculation of your defined benefit plan pension with TCERA, these returns do affect the interest your account receives before you retire and impacts the contributions that are required of TCERA plan sponsors. In the long term, investment performance could affect employee contributions as well, should the TCERA Board of Retirement elect to make changes to its long term assumption rate for the plan.

The second article is from the Chairman of the Tulare County Defined Contribution Committee. Whether or not you have elected to participate in the County's deferred compensation plan (457 Plan), this article should be of interest as it provides insight on the impact of market volatility on an investment portfolio. You may ask what this article has to do with TCERA. One of TCERA's goals is to make our members aware that retirement planning is essential in order for our members to achieve their goals in retirement. Along with your TCERA defined benefit plan pension and Social Security, your personal savings and/or separate retirement accounts are an integral part of your total retirement plan. How you approach the investment of those funds will have a significant impact on the security of your future (or current) retirement.

As you think about National Retirement Security Week, I encourage you to take an active interest in your retirement. Take a closer look at your deferred compensation account or other retirement savings accounts. Enroll in the "My TCERA" web portal so you can quickly access information regarding your TCERA Retirement account, including running your own retirement estimates. There's also a retirement modeler and a savings calculator to help you with your retirement planning. Contact the retirement office if you're not already enrolled. Search out investment and retirement related education. Take this opportunity to review your total retirement plan and check up on your progress in achieving your goals. Maybe you're already there. If so, congratulations! If not, take advantage of all the tools at your disposal to make those dreams a reality.

Leanne Malison
Retirement Administrator

TCERA INVESTMENT UPDATE

The US economy has been growing slowly and steadily since the Global Financial Crisis ended more than 10 years ago, and in July this year, the current expansion became the longest US expansion on record, surpassing the previous record of 120 months set in March 2001. While talk of recession remains at the forefront of economic news, the US economy continues to plug away. As of June 30, unemployment remained well below 4%, reaching a level of strength not seen since the 1960s, as wages have grown steadily over the past five years. At 2.1%, the annual inflation rate remains in a range most economists (and the Fed) consider healthy. In addition, economic growth, as measured by gross domestic product, grew at 2.0% in the second quarter from a year ago. All these metrics imply a “goldilocks” economy that is running at a sustainable pace.

However, there are also signs giving many economists and market participants pause. First and foremost is something known as an inverted yield curve. This is a condition in bond markets characterized by rates on longer term debt falling below rates on shorter term debt. In the past, this condition has served as a prelude to an economic downturn, and it recently occurred for the first time since 2007, as the yield on the 10-year Treasury note briefly dropped below that of the 2-year note. In addition, other predictive indicators such as Purchasing Manager Indices and business and consumer sentiment have recently peaked and are moving lower. Finally, global political and economic risk, including trade disputes, Britain’s pending departure from the European Union, and increased tension between the US and many of its traditional enemies have market watchers paying close attention.

Even if we do enter into a recession, however, it is not anticipated to be nearly as severe as the last one experienced more than 10 years ago. Overall, the US consumer is in a much better position to weather an economic downturn, as are banks and corporations, and much of the excesses one typically sees this late in an economic cycle have not materialized this time around.

Over the past year, risk markets have been driven by three primary factors; US/China trade tensions, the Fed’s willingness to ease monetary policy, and corporate earnings projections. Uncertainty surrounding each of these factors has recently led to higher market volatility, with markets most recently focusing on trade tensions.

Despite more recent volatility described above, TCERA earned 9.8% on a net-of-fee basis over the six-months ending June 30 and 6% for the full year ending June 30, a period which included a significant downturn in the fourth quarter of 2018 when the plan lost 5.6%. Based, on its conservative positioning relative to peers, one would expect the Plan to do better in difficult markets and lag in strong up markets. These expectations were met as the Plan ranked in the top decile among public plans in the difficult fourth quarter of 2018 but only did slightly above median for the full year ending June 30.

The Plan continues to diligently evaluate its investment strategy and review new and potential investment opportunities. Late last year, the Board of Trustees approved revisions to the current investment policy and added emerging market debt, value-added real estate, and real estate debt to the investment portfolio. Work on the first two additions has been completed, and the Board is in the middle of implementing the third, which is expected to be completed later this year. In addition, as part of its ongoing pursuit of opportunities to improve the investment portfolio, the Board recently decided to remove the hedge fund and commodities allocations. In total, these adjustments will reduce portfolio complexity and concurrent investment management fees without impacting the Plan’s expected return and risk.

Scott Whalen
Verus Investments

VOLATILITY AND YOUR 457 PLAN

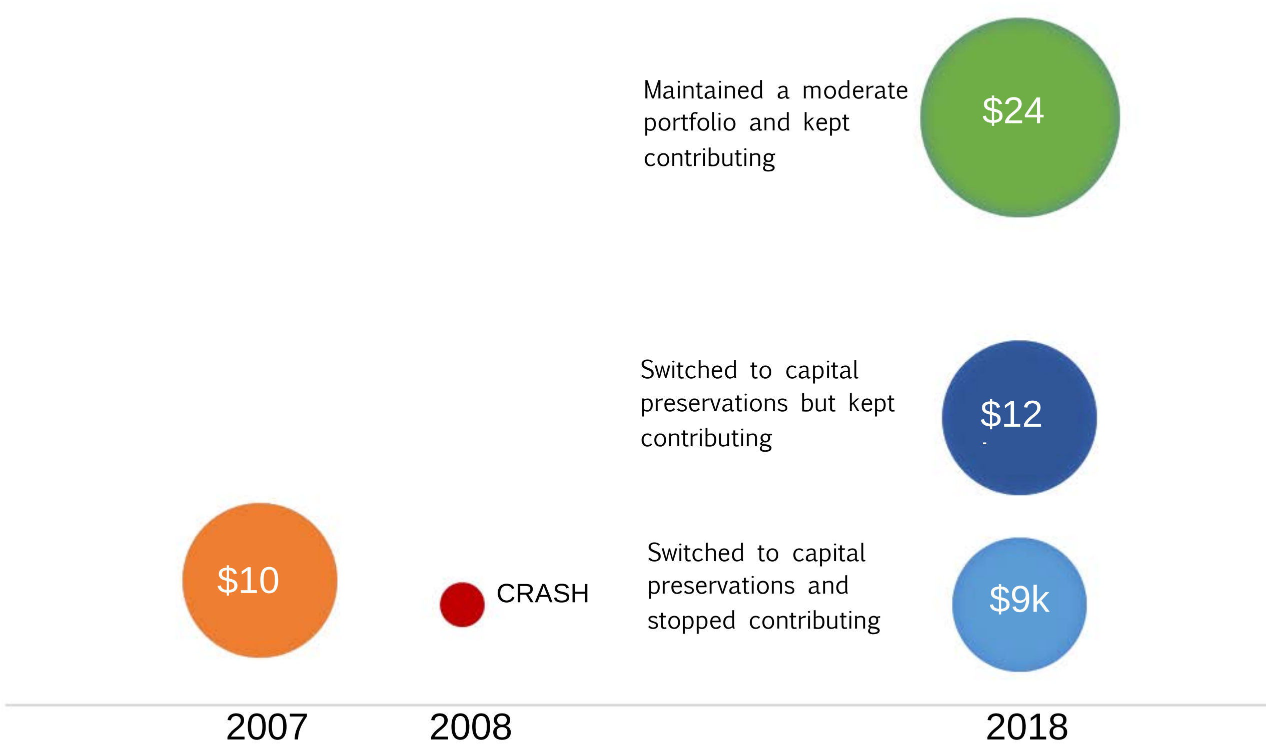
I have a bad habit. It's one that, though I try, I have not been able to break. It is a fairly benign habit. It doesn't stop me from doing my job or caring for my family. Though it does cause unneeded stress. I confess to constantly checking my defined contribution balance also known as a 457 account. The 457 Plan includes the voluntary contributions employees make to a retirement savings account that is directed by the employee. The Plan is a supplement to your retirement income and is completely separate from the County's pension plan.

I spend my work life in the world of finance and investments. As a result I'm constantly bombarded with information regarding the economy and the markets. When I hear good news about the economy I'm eager to know how my balance will be affected. When I hear bad news about the markets I'm anxious to know the impact on my account. The key is what I actually do with that information. Do I cut and run or do I continue to make consistent contributions to the plan? History says stay the course.

In 2008 we experienced what has been termed the "Great Recession." In one day the Dow Jones Industrial Average fell almost 778 points. It was the largest point drop in history. It probably wasn't a good day to check my balance. Of course I did check. What I did not do was adjust my contributions, which proved to be a good decision.

The three scenarios below show the impact of three different decisions made after the crash of 2008: 1) stopping contributions to a 457 plan and moving the existing balance to a capital preservation portfolio, 2) continuing contributions but switching to a capital preservation portfolio, and 3) continuing contributions and maintaining a moderate portfolio. *(Continued on last page.)*

Here's how three different reactions to market volatility could impact your savings:



FOR ILLUSTRATIVE PURPOSES ONLY. Source: Morningstar© DirectSM. Moderate portfolio is 60% S&P 500, 30% Bloomberg Bar Cap Agg Bond and 10% T-bills. Capital preservations are T-bills. Rates of return may vary. The index returns are for illustrative purposes only and are not intended to be an indication of fund performance.

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VOLATILITY AND YOUR 457 PLAN

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Based on the assumptions, continuing the course would have resulted in the original $10,000 balance more than doubling in the 10 years. The choice to stop contributing and moving to a more conservative capital preservation portfolio would have resulted in a loss. The lesson is not to panic, but stay the course.

Though the economy continues to grow and unemployment remains historically low, there has been an uptick in negative press recently about the global economy. Don't panic and stick with the plan. If you had missed the 10 best days of the domestic large-cap stock market in the last 20 years you would have seen your total return go from 6.46% to -.35%.

Though I may be over-excited to review the progress of my 457 balance, I have never been tempted to stop contributing or to dramatically change my investment portfolio. In the long-run the key is to consistently contribute to your 457 portfolio. That is a habit I heartily endorse.

Cass Cook
Chairman, Tulare County Defined Contribution Committee