Tulare County Employees' Retirement Association

Pension Progress

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Over the last decade, much has been written and discussed about the cost of supporting public employee pensions. Defined Benefit retirement plans have been attacked by some as being outrageously expensive and defended by others as being the best method for helping employees to receive a secure level of retirement income. This issue of the "Pension Progress" updates previous information we have shared with members on this topic and focuses on the financing side of the Defined Benefit retirement plan debate. It is our hope that this information will help our readers to understand the very important question of…

Who Pays for My Retirement?

There are three major sources of funding for the TCERA retirement program. Each of these has unique characteristics and responsibilities. This article will look at each of these sources separately, starting with:

The Plan Sponsors

The Plan Sponsors, or employers, play a key roll in funding the benefits offered by the retirement system. It is the Plan Sponsors (**not** the Retirement Board) that determine what the benefit levels will be for employees who come to work for the County and the other agencies that belong to TCERA. The Plan Sponsors are also legally obligated under the laws in California that govern our plan to make sufficient retirement contributions to meet the retirement benefit promises earned by employees. This is an important point, because under a defined benefit retirement plan, the basic retirement benefits offered by the plan are paid for the **life** of the person who earned them as well as for the life of any beneficiary who receives a monthly survivor's pension. The Plan Sponsor must carefully weigh, therefore, the costs of providing a retirement plan that will help to both attract and retain quality employees against the potential expense of having to pay for these benefits for many years (even decades) into the future. And, as has been pointed out many times, the "Plan Sponsor" of any government pension plan really means individual taxpayers. As a result, policy makers must balance the public's need for services with an ability to provide a package of benefits that will attract people to work for a government agency.

Contrary to what many TCERA members believe, the Plan Sponsors are **not required** to pay some sort of "matching" amount into the retirement fund that is equal to what employees pay. In fact, the amount paid by the employers, and the manner in which contributions are made, can be very different for each employer than for the individual employees. For many years the County has made its entire annual contribution in one lump sum at the beginning of the fiscal year. The County also attempts to show each employee the amount that it has contributed per individual by dividing the employer's annual contribution by the number of pay periods and salary paid to the employee. Each employee's biweekly pay-stub shows the amount the County has calculated as its contribution into the retirement fund for that person per pay period. These employer contributions are not, however, made directly into each person's separate retirement account. Rather, Plan Sonsor contributions are made into the retirement fund as a whole in order to help finance the future pensions of those employees who **eventually retire from TCERA.** Employees who terminate employment and request refunds receive their own contributions and interest **only**. They get no credit for what the employer paid into the plan. *(continued on next page)*

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For those who do retire from TCERA,the Plan Sponsors' required contributions represent a promise that you will receive a lifetime basic retirement allowance.

Of course, if you are an employee reading this article, you know that you also make contributions into the retirement system. Let's turn now to a discussion of the second source of retirement plan funding…

The Employees

As any member of TCERA is aware, retirement contributions are taken from employees. But not all employees contribute into the plan at the same rate. Why? There are several reasons that determine the rate of contributions an individual will pay into the plan. The key factors include the following:

Membership type – Members of TCERA fall into one of two types: Safety and General. Simply stated, Safety members are those individuals whose primary job duties include law enforcement or fire suppression. General members are everyone else. Safety members have higher benefit formulas than do General members, but they also pay higher rates of retirement contributions than do their General member counterparts. (The Plan Sponsor also pays a higher employer rate for Safety members than what is paid for General members.)

Tier – The Board of Supervisors has approved different tiers of benefits for members of the TCERA plan. Membership in a particular tier is dependent upon when the person joined TCERA and **not** necessarily when the County or other plan sponsor first employed them. Leaving the plan and withdrawing your funds means that you will be in a later tier should you return to membership at a future date. (But you have the option of "buying back" your previous service credit and tier if you decide to do so.) Tier I members have the highest level of retirement benefits. Tier I members are those people who joined TCERA on or before December 31, 1979. You are a Tier II member is you joined the plan from January 1, 1980 through December 31, 1989 and a Tier III member if you joined TCERA on January 1, 1990 or later. Due to changes that have been made to the TCERA plan, Tier II and Tier III members have the **same** benefit formula and there is no longer any real difference between these two groups of TCERA plan members. Effective January 1, 2013 – as a result of the California Public Employees' Pension Reform Act – Tier 4 was added for those persons hired after that date who do not have reciprocal membership with another qualified California public pension system.

Age at entry – The laws governing TCERA are written with the expectation that plan members will contribute funds into the plan to pay for a portion of their retirements based upon an average age at retirement. This feature of the plan helps to determine individual member contribution rates because a person who is younger (let's say 25) when she enters the plan will need to contribute less on a pay period by pay period basis than will a person who is 45 when he enters the plan. The 25-year old has much more time to accumulate the funds needed by the expected age of retirement than does the person who starts membership at a later age. The younger person can, therefore, pay a lower rate of contributions in order to fund her/his portion of the retirement allowance that they will eventually be paid.

You may very well be surprised to learn, however, that it is **neither** the employers nor the employees who fund the majority of the retirement benefits paid by TCERA. In fact, the **combined total** of employee and employer contributions almost pale in comparison to the largest single source of the growth in retirement plan's assets – return on investments…

TCERA Investment Returns

The chart below shows employee and employer contributions, along with TCERA's investment returns, for each of the past ten fiscal years. During that time, asset growth was equal to $991.6 million – over 61% of which came from TCERA's return on investments! As with any investment *(continued next page)*

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program, TCERA's investments have experienced periods of both growth and decline. But even with suffering through a major period of loss, TCERA's investments have continued to be the single primary contributor to growth in pension plan assets – by far!

Year	Employee Contributions	Employer Contributions	TCERA Investment Returns
2005	$11,771,012	$10,541,792	$80,933,519
2006	$13,395,806	$12,442,923	$101,792,852
2007	$15,619,522	$17,975,005	$165,066,160
2008	$17,757,261	$22,691,963	$(81,051,326)
2009	$18,992,735	$22,430,788	$(198,452,460)
2010	$18,330,594	$25,339,346	$79,550,169
2011	$17,799,366	$23,434,240	$183,326,800
2012	$16,470,845	$25,257,124	$(12,155,061)
2013	$18,430,299	$29,847,226	$112,289,019
2014	$18,968,800	$25,953,288	$176,828,141

Based upon the figures included in the chart, over the last 10 fiscal years employee contributions have added over $167.5 million in assets to the TCERA fund, the plan sponsors have added nearly an additional $216 million and investment gains have added another $608.1 million to the Retirement Plan's asset growth. Don't be misled, TCERA's pension liabilities have also increased over the same period and will continue to grow as more and more plan members qualify for retirement benefits. While TCERA's rate of investment returns cannot be guaranteed, it is clear that the retirement plan's investment portfolio continues to play an important role in the overall health of the retirement fund. The Trustees and staff of the pension plan will continue to work with our investment managers and consultants in an effort to build upon this success. Doing so will allow us to partner with our plan members and plan sponsors to help make for a secure pension fund.

Unused Sick Leave Increases Your Retirement Allowance

In 1985 the Tulare County Board of Supervisors approved an ordinance which allows those employees who retire from TCERA to receive service credit for unused sick leave hours. When a TCERA member retires, he/she can have unused sick leave converted to additional years of retirement service credit, thereby increasing the level of pension benefits received from the pension plan. In converting accumulated hours to years or partial years of service, the TCERA staff uses the following methodology that has been approved by the Board of Retirement:

- the number of hours of accumulated sick leave, divided by 8, equals days of additional service;
- the total days divided by 22, equals the months of additional service;
- the total months, divided by 12 equals the additional years of retirement service credit.

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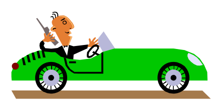
Unused Sick Leave… *(continued from 3rd page)*



In the years subsequent to the original County ordinance, Memorandums of Understanding between the employer and various bargaining units have provided for some modifications. Currently, many employees who retire have the option of converting all of their accumulated sick leave hours to additional retirement service credit **or** receive a portion of their sick leave in cash and have the remainder converted to additional retirement service. As you approach retirement, you should check with your department or bargaining unit to learn of your individual rights for sick leave cash-out/conversion. You should also be aware that sick leave received in cash ***as part of your final pay check*** **IS NOT** included in the calculation of your final average salary for retirement.

Effective in 2013 the State Legislature enacted the California Public Employees' Pension Reform Act (or PEPRA). The PEPRA provisions **do not** have an impact on the ability of TCERA plan members in Tiers I, II and III to convert unused sick leave at retirement. However, for employees hired on or after January 1, 20013 (Tier IV members), the ability at retirement to convert unused sick leave hours to pension service credit will be limited to **no more than six months** of additional retirement service.

While the conversion of accumulated sick leave hours can have a very positive impact on your pension allowance received from TCERA, the rules governing the use of sick leave can change. Should you have questions regarding how you might make the best use of your sick leave hours at retirement, feel free to contact TCERA at 713-2900.