Ventura County Employees' Retirement Association

NEWSLETTER

APRIL 2005

Board of Retirement Meetings are held on the first and third Monday of the month at 9:00 a.m., 1190 South Victoria Avenue, Second Floor, Ventura, CA 93003.

Website: www.ventura.org/vcera

Comments and suggestions should be directed to Brenda Cummings, Program Administrator, at the address below.

DEFINED BENEFIT v. DEFINED CONTRIBUTION PLANS

The State of California finds itself in the spotlight nationwide as several proposals have been initiated that would serve to terminate public employee defined benefit retirement plans for all public agencies in the state. Proposals by Assemblyman Keith Richman, Assembly Constitutional Amendments 1 and 5, and the Howard Jarvis Taxpayers Association's Fair and Fiscally Responsible Public Employee Retirement Act, would mandate closing defined benefit pension plans to new hires beginning July 1, 2007. These employees would instead be mandated to participate in a Defined Contribution Plan. Governor Schwarzenegger is supportive of making this type of change to public employee retirement plans. Labor organizations throughout the state are opposed to the proposals to abolish defined benefit plans.

VCERA is a defined benefit plan. How would the termination of defined benefit plans in California impact current employees and retirees?

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DEFINED BENEFIT v. DEFINED CONTRIBUTION PLANS

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Retirement benefits accrued under VCERA are protected by the State Constitution. This point is acknowledged by the Jarvis proposal which includes language stating, "Under current law, existing state and local government employees cannot have their retirement plans changed by this Act. Promises made to all current public employee retirement system members will be kept under this Act. A switch from defined benefit to defined contribution plans will only effect employees hired by public agencies on or after July 1, 2007."

Some of the basic characteristics of Defined Benefit and Defined Contribution Plans are outlined below.

	Defined Benefit (DB)	Defined Contribution (DC)
Purpose	The principle goal of a DB plan is to insure against loss of income in the event of retirement, death, or disability.	The principle goal of a DC plan is to accumulate savings through deferred compensation and investment earnings. The resulting capital accumulation may be used to replace income after retirement or for other purposes.
The Promise	The employer promises to pay a specific benefit in the event of retirement, death, or disability.	The employer promises to contribute periodically to each member's individual account. The account balance increases with investment earnings.
The Cost	Employer is responsible for contributing whatever the promised benefit costs, net of member contributions, the investment returns earned by plan assets and other actuarial experience. The employer bears all investment risk.	The employer is responsible for contributing periodically the amount promised to each member's account. The employee bears all investment risk.
Benefit Types	Death, disability, and retirement benefits are provided. Members who terminated with a vested benefit may be eligible for a deferred retirement benefit.	The account balance is usually payable in the event of retirement, death, disability, or vested termination.
Benefit Eligibility	Age and service requirements are imposed for receipt of retirement, death, disability, and termination benefits.	Age and service requirements are frequently imposed for receipt of retirement, death, disability, and termination of benefits.
Benefit Amount	The benefit amount is determined based on a formula using pay, years of service, and age at retirement.	Member and employer contributions are accumulated in an account. The basic plan benefit is the account balance, increased with investment earnings.
Form of Benefit	Benefits are usually provided in the form of a monthly annuity, payable for life.	The benefit is the account balance, payable in a lump sum, in installments, or as an annuity for life.
Cost of Living	Annual cost of living adjustments may be included in the benefit paid.	The member may elect to convert his account balance into an increasing or variable annuity, which may emulate cost of living protection.
Member Options	The member may pick among various forms of benefit at retirement.	The member may pick among various forms of benefit at retirement: Lump sum, partial lump sum, installments, and annuities are typically offered. In addition, the member often can choose the investment mix of his account during his career.
Availability of Funds	The benefit is not available during active service. Plan loans are not permitted.	Plan loans are permitted in some plans. In addition, hardship withdrawals may be allowed.
Administration	Calculation of benefits requires accurate records of member age, service, and compensation.	Periodic allocation of investment earnings requires accurate record of member contributions, withdrawals, and investment choices during each allocation period.

The Governor has indicated a desire to work with the legislature and other parties to arrive at a compromise on this issue.

RETIREMENT BOARD ADOPTS TIER 2 COLA REGULATIONS

At its meeting of February 28, 2005, the Board of Retirement, at the request of the County and SEIU Local 998, adopted Regulations to provide a 2.0 percent Cost-of-Living Adjustment (COLA) to General Tier 2 County employees represented by SEIU. For employees currently in service, the COLA will apply to that portion of the retirement benefit applicable to service rendered on or after March 16, 2003. Eligible employees will be required to make a contribution calculated at the rate of 2.63% of retirement compensation beginning March 13, 2005. With respect to County employees represented by SEIU who retired prior to March 13, 2005, the eligible period of service on which the COLA will be based is July 7, 2002 to the actual date of their retirement.

VCERA staff is in the process of calculating the adjustments to be made on behalf of eligible General Tier 2 retirees. This adjustment will be reflected in the monthly benefit payment issued April 29, and will include the 2.0 percent COLA for 2005, plus a lump-sum payment for any amounts the retiree would have received had this COLA been credited in April 2003 and 2004.

RETIREE ANNUAL COST-OF-LIVING ADJUSTMENT

On February 7, 2005, the Board of Retirement approved the annual retiree Cost-of-Living Adjustment (COLA) for 2005. All General Tier 1 and Safety retiree members, as well as eligible surviving beneficiaries of retirees from those groups, will receive a 3.0% adjustment. This increase will be reflected in the monthly benefit payable April 29.

The annual COLA is based on the change in the Consumer Price Index for the Los Angeles-Riverside-Orange County area during the prior year, rounded to the nearest one-half of 1.0 percent, not to exceed 3.0 percent. The increase in the CPI for this area in 2004 was 4.39%. Rounded to the nearest one-half of 1.0 percent would provide an adjustment of 4.50%. As a result, each eligible retiree and surviving beneficiary will receive the maximum 3.0% COLA and “bank” the excess 1.50% to be used in future years when the CPI provides an adjustment of less than 3.0%

In addition to the above, certain General Tier 2 retirees will receive a 2.0% COLA effective with the monthly benefit payable April 29. For additional information on this please see the article titled <u>Retirement Board Adopts Tier 2 COLA Regulations</u> above.

PURCHASE OF RETIREMENT SERVICE CREDIT

Your retirement benefit is based in part on the amount of retirement service credit accrued while a member of VCERA. In addition to service credit for the time you are an active member of the retirement system, you may also be able to purchase retirement service credit for previous Ventura County service and eligible public service. Purchase of service credit may be made by a lump sum payment, biweekly payroll deductions, or a rollover from another tax qualified plan such as a 401(k) or 457 plan.

Previous County Service: This type of service credit is included in determining when you meet the minimum eligibility requirements for vesting or receiving a retirement benefit. You may be eligible to purchase retirement service credit for previous County service in a position excluded from membership. Service in a position excluded from membership includes extra-help service with the County prior to January 1, 1992 and the pre-membership period applicable to General Members who entered County service prior to July 11, 1999. Your cost for this type of purchase is calculated by applying the contribution rate applicable to you at the time of membership to the aggregate compensation earned for the period of time for which you elect to receive service credit, plus interest that would have accrued on that amount since your date of membership.

You may also redeposit contributions previously withdrawn from an earlier period of membership in VCERA. You must redeposit all of the previously withdrawn retirement contributions, plus interest that would have accrued on those contributions had they remained on deposit since the date of withdrawal. If your original membership was General Tier 1 and you were placed in General Tier 2 when rehired, a redeposit will convert all current service to Tier 1 as well.

Medical Leave of Absence: If you return to service following an uncompensated leave of absence due to illness you may receive service credit for the period of absence by paying to VCERA the contributions that would have been made during such period had you not been on leave, plus interest that would have accrued on those contributions had they been on deposit. VCERA may require a physician's statement or other proof that you were unable to work due to a medical condition.

Public Service**:** You may be eligible to purchase and receive service credit for prior employment with other qualifying public agencies if you are not eligible to receive a pension from that system as a result of your service there. Public service purchased is **not** included in determining when you become vested or meet the minimum eligibility requirements to receive a retirement benefit. Public agencies include U.S. government service (including military), the State of California, cities and counties within California, the District of Columbia, and others (see the employee handbook for a complete definition). Your cost to purchase public service is twice the contributions you would have made, based on your contribution rate and compensation at the time you became a member of VCERA, plus interest that would have accrued on those contributions since your date of membership.

To make a request to purchase service, go to the Forms section of the VCERA website and print off the Buy Back Request form. It explains what kind of documentation is needed for the different types of service purchases.

RETIREE 1099-R FORMS

VCERA is required to mail to each retiree member and eligible surviving beneficiary a 1099-R form no later than January 31 that sets forth the amount of the distribution made for the prior calendar year. The information provided on the 1099-R is outlined below:

Box 1 - Gross distribution: For those members who retired with a regular service retirement or non-service connected disability, the gross distribution is the total amount of the benefit paid during the prior calendar year. For those members who retired with a service connected disability retirement, the gross distribution represents the amount of the benefit paid in excess of the statutory entitlement for a service connected disability.

Box 2a - Taxable amount: This represents the taxable portion of the gross distribution.

Box 4 - Federal income tax withheld: The total federal tax withholding for the year.

Box 5 - Employee contributions: The amount of the tax-free recovery for the year of the after-tax contributions made to VCERA while an employee. This amount is deducted from the gross distribution amount 1 to arrive at the taxable amount. The period over which a retiree recovers their after-tax contributions is based on IRS tables.

Box 7 - Distribution code: Identifies the type of retirement; “3” for disability (either service or non-service connected) and “7” for a regular service retirement.

Box 9b - Total employee contributions: In the first year of distribution this amount represents the retirees total after-tax contribution balance to be recovered. In each subsequent year this amount represents the remaining after-tax contributions the retiree has left to recover.

Box 12 - State distribution: This amount is the same as in Box 1.

RETIREMENT BENEFIT CALCULATOR

Did you know that there is a Retirement Benefit Calculator on the VCERA website? Just put in your retirement plan, age, years of service, and final average compensation and the calculator will give you the estimated monthly retirement allowance.

Your current biweekly compensation for retirement purposes shows on your paystub under Employer Paid Benefits as *Retirement Earnings Final*. Your compensation for retirement purposes includes all cash payments you receive, as well as the amount of your flexible benefit credit and employer paid employee retirement contributions. Overtime, other than regularly scheduled, and employer contributions to your deferred compensation account are not included. You will need to convert the retirement earnings on your pay stub to a monthly amount by multiplying by 26 then dividing by 12. At retirement, an average of your highest consecutive (usually final) 12 months for General Tier 1 and Safety or 36 months for General Tier 2 will be used for the final average monthly compensation.

INVESTMENTS – LOOKING BACK/LOOKING FORWARD

Ventura County Employees' Retirement Association (VCERA) enjoyed a solid 2004 as the investment portfolio earned 10.8%. Domestic and international equity were the best performing assets classes with returns for the year of 11.8% and 18.8%, respectively. VCERA's fixed income and real estate allocations returned 5.2% and 7.5% during the period. As of December 31, 2004, VCERA's investment portfolio was valued at approximately $2.4 billion.

We anticipate 2005 to be a year of change in VCERA's portfolio as the Board of Retirement (Board) establishes a new investment allocation to global equity and plans modifications to the fixed income and real estate allocations.

In February, the Board hired two new global equity managers, Wellington Management Company and Grantham, Mayo, Van Otterloo and Company (GMO), to manage approximately $100 million or 4% of VCERA's assets. The distinguishing characteristic of a global equity manager is that geographic borders do not hinder a manager's search for the best stocks to add to the portfolio. For example, assume there were only two companies in the world that made automobiles. One company was domiciled in the United States, while the other made cars in Europe. A domestic equity manager could only choose the U.S. firm for the portfolio, while the international equity manager could only choose the European firm. A global equity manager would be able to choose either one or both firms based upon their research. This breadth of choice should enhance VCERA's opportunities for additional returns in the portfolio.

Within the fixed income allocation, the Board in 2005 will be exploring the amount of the allocation to be managed actively along with determining the most appropriate benchmark to utilize in evaluating manager performance.

The real estate portfolio continues to evolve from one in which VCERA owned separate properties to one where VCERA participates in commingled pools of real estate properties along with other institutional investors. The Board believes that a strategy involving commingled pools of real estate provides VCERA with a better opportunity for increased returns at lower levels of risk. In the first quarter, VCERA closed the sale on one property for approximately $15 million and provided an additional $40 million in funding to the real estate allocation. The Board anticipates selling the remaining three individual properties prior to the end of the year.

We look forward to reporting the performance results of our new global managers along with continuing updates on the ongoing changes to the fixed income and real estate allocations in future newsletters.

POST RETIREMENT SPOUSE SURVIVOR BENEFIT

Your retirement plan provides for a survivors continuance to an eligible spouse or minor child(ren) if you elect an unmodified retirement. The continuance is 60% of the benefit payable at the time of the retired members death. In general, an eligible surviving spouse is defined as one married to the member at least one year prior to the date of retirement. Under certain conditions, a post-retirement spouse may also qualify for the 60% survivors continuance. In order to qualify the spouse must have been married to the member a minimum of two years prior to the date of death and have attained age 55. In addition, the member must have elected an unmodified retirement.

BENEFICIARY DESIGNATION

Please keep your Beneficiary Designation current. You may obtain a Beneficiary Designation form from our website or by calling our office at (805) 339-4250.

$5,000 LUMP SUM DEATH BENEFIT

VCERA provides for the payment of a $5,000 lump-sum death benefit to the named beneficiary of a deceased retiree member. This payment is issued by VCERA directly to the beneficiary and there are no special forms that need to be completed.

DIRECT DEPOSIT

Having your monthly retirement check deposited directly into your bank account each month is safe, efficient, and provides you with access to your funds earlier than having a check mailed to your home. You may have all or only a portion of your benefit direct deposited and use two separate financial institutions. You can obtain a Direct Deposit form from our website or by calling our office at (805) 339-4250.

RETIREE MEDICAL INSURANCE

Questions regarding retiree medical insurance should be directed to the Ventura County Human Resources Department at (805) 662-6791.

or

Sheriff's Retiree Medical (805) 987-9785

or

Fire Retiree Medical (805) 484-8844

2005 RETIREMENT BENEFIT PAYMENT DATES

April 29
May 31
June 30
July 29
August 31
September 30
October 31
November 30
December 30

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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