VCERA
Ventura County Employees' Retirement Association

# NEWSLETTER

SEPTEMBER 2004



**Administration**

Van Perris, Administrator
Tim Thonis, Assistant Administrator

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,
Communications Specialist,
at the above address.

## ADDITIONAL RETIREMENT CREDIT (ARC) – ASSEMBLY BILL 55

VCERA staff has received many inquiries this year regarding Assembly Bill 55. This bill, signed by former Governor Davis on September 3, 2003, would permit active members to purchase up to five years of additional retirement credit ("ARC"). The provisions for the purchase of ARC are set forth in Government Code section 31658. This section is not operative in any county until the board of supervisors, by resolution adopted by majority vote, makes this section applicable in the county. This section has **not** been adopted in Ventura County.

VCERA staff is unable to provide any information with regard to the cost that would be involved in purchasing ARC time, or the impact such a purchase would have on a members retirement benefit. If the Board of Supervisors were to adopt section 31658, VCERA's Board will request that its actuary develop a methodology for calculating the cost to purchase ARC time that complies with the requirement set forth in this section that the contributions for the purchase of ARC time be sufficient to not place any additional financial burden upon the retirement system.

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## EMPLOYER/EMPLOYEE CONTRIBUTION RATES

On January 26, 2004, the Board of Retirement adopted the annual actuarial valuation report submitted by The Segal Company as of June 30, 2003. This actuarial valuation sets forth both employer and employee contribution rates that will be in effect for fiscal year 2004-2005. The law requires the new contribution rates be implemented within 90 days after the beginning of the fiscal year. VCERA has been advised that the new rates are scheduled to go into effect September 26, 2004 (pay period 04-21).

The aggregate employer contribution rate will increase from 1.68% to 13.71% of covered payroll. The components of this aggregate rate are General Tier 1 - 14.79%, General Tier 2 - 7.73% and Safety - 28.27%. The most significant reason for the increase in this rate was due to the less than assumed investment return on the actuarial value of assets. Other factors include the reduction in the assumed investment return from 8.25% to 8.00% and other assumption changes.

For the first time since 1991, there will be some adjustments to employee contribution rates. The aggregate employee contribution rate will decline from 7.34% to 6.82%. The contribution rates for General Tier 2 and Safety will decrease, while the contribution rate for General Tier 1 will increase slightly. The changes in employee contribution rates are due primarily to the lower earnings assumption rate and salary inflation assumption. The lower than assumed investment return, which was primarily responsible for the increase in employer contribution rates, does not impact employee rates since the plan sponsor assumes all investment risk. The current and revised employee rates applicable to biweekly compensation are summarized below. For those employees in service prior to August 1974, the actual rate may be higher or lower depending on your age at the time of employment.

| | **Current** | | **Revised** | |
|---|---|---|---|---|
| | First $161 | Over $161 | First $161 | Over $161 |
| **General Tier 1** | 5.60% | 8.39% | 5.93% | 8.89% |
| **General Tier 2** | 3.87% | 5.81% | 3.57% | 5.35% |
| | All Compensation | | All Compensation | |
| **Safety** | 11.84% | | 11.50% | |

The split rate for General Members reflects integration with Social Security. The rates listed above are the actuarial employee contribution rates, which are not the actual contributions made by employees in most instances as a result of the negotiated payment (“pick-up”) by the employer of all or a portion of the employee contribution.

## NEW DOMESTIC PARTNER LAW

Assembly Bill 205 was passed by the legislature and signed by the Governor in 2003. This legislation enacts the California Domestic Partner Rights and Responsibilities Act of 2003. The new law extends the rights and duties of marriage to persons registered as domestic partners on and after January 1, 2005. Under the new law, the registered domestic partner of a member of VCERA will be eligible for the same benefits currently available only to the spouse of a VCERA member.

Under the law that will take effect on January 1, 2005, if a member of VCERA is a party to a domestic partnership that was registered with the California Secretary of State at least one year prior to the member's retirement date, and the member elects an unmodified retirement allowance, the member's surviving domestic partner would be eligible for a survivor continuance under VCERA that is 60% of the member's retirement allowance, so long as the retired member's death occurs on or after January 1, 2005, and the partnership had not been terminated prior to the member's death. The survivors continuance will also be available to an eligible post-retirement domestic partner. To be eligible for the continuance, the domestic partnership would have to have been established at least two years prior to the member's date of death, and the domestic partner must be at least age 55 at the time of the member's death.

Under the California Family Code, a domestic partnership shall be established in California when both persons file a Declaration of Domestic Partnership with the Secretary of State. A registered domestic partnership may only be terminated by filing a court action, or in some instances, by filing a notice of termination with the Secretary of State. A registered domestic partnership is automatically terminated upon the death of either partner. The community property interest related to contributions and benefits granted to spouses of VCERA members will also be extended to registered domestic partners of VCERA members beginning on January 1, 2005. The Superior Court shall have jurisdiction over all proceedings relating to the dissolution or legal separation of a domestic partnership.

The California Secretary of State maintains the statewide registry of domestic partnerships and is responsible for preparing related forms and notices. For more information about registered domestic partnership you are encouraged to visit the Secretary of State's website at www.ss.ca.gov/dpregistry.

## INVESTMENT UPDATE

After a number of less than stellar years, investment performance in fiscal year 2003-04 showed significant improvement with a total fund return of 16.3%. Performance was led by the equity portion of the fund with a total return of 20.9% versus the return of 20.5% posted by the benchmark Russell 3000. The fixed income component of the fund also outperformed its benchmark with a return of 1.6% versus the Lehman Aggregate return of 0.3%. The real estate allocation returned 13.1% versus the NCREIF Property Index return of 10.8%. The best performing asset class on an absolute basis was the allocation to international equity. This asset class returned 29.4%, although failing to match the 32.0% return of the benchmark.

The current asset allocation adopted by the Board of Retirement is 49.0% U.S. Equity, 16.0% International Equity, 29.0% U.S. Fixed Income and 6.0% Real Estate. Each month staff reviews the allocation and makes any adjustments necessary to keep the allocations balanced as closely as possible. VCERA currently retains five U.S. equity managers, two international equity managers, three U.S. fixed income managers and two real estate managers. EnnisKnupp & Associates provides comprehensive investment consulting services to VCERA.

The Board made one change to VCERA's manager roster this year. Prudential Real Estate Investors was retained to manage a portion of the real estate allocation. VCERA will invest $65 million in a commingled real estate fund. This allocation will be funded in early 2005. Funding for this allocation will come from the disposition of individual real estate assets currently owned, the possible transfer of an existing real estate asset into the commingled fund, and cash.

## VCERA INTEREST CREDITING POLICY

On November 3, 2003, the Board of Retirement adopted a new interest crediting policy. Among other things, the new policy changes the method used to determinate the rate at which member accumulated contributions will be credited with interest each June 30 and December 31. Prior to adoption of this revision, member contributions were credited semiannually using the current actuarial interest rate adopted by the Board. Effective December 31, 2003, the rate of interest credited to member accounts was based on the U.S. ten year Treasury Note.

The change in policy will result in interest being credited to member accounts at a rate that better reflects prevailing market conditions. While the revised policy will reduce the amount of interest that is credited to your account, there will be no impact on the amount of the monthly benefit you will be entitled to receive at the time of retirement as a result of this change, nor is there any impact on the taxability of your monthly benefit. That is due to the fact that VCERA is a defined benefit plan and the balance of contributions in your account at the time of your retirement is not a factor in calculating the amount of your monthly retirement benefit. In the case of employees who leave service and elect a refund of their contributions, the amount of interest refunded will be less under the new policy.

## SUPPLEMENTAL RETIREMENT BENEFITS

There are currently three monthly supplemental benefits payable to eligible VCERA retirees or their survivors. A $108.44 monthly supplemental benefit has been payable to retirees and eligible surviving beneficiaries since July of 1986. This became a permanent benefit in 1991 with the addition of Government Code section 31682 to the retirement law and the subsequent adoption of a resolution by the Board of Retirement that included funding of this benefit on a permanent basis. The reserve established for the payment of this benefit currently exceeds $100 million. The current monthly amount of this benefit paid to retirees is approximately $412,000.

A second benefit currently provided by the Board of Retirement is a $27.50 monthly supplement. Eligibility for this benefit is the same as for the $108.44 discussed above. The $27.50 payment is not a vested benefit. This benefit, which has been payable since May of 2003, was permanently funded by the Board of Retirement through a transfer of $25 million from excess undistributed earnings into a special reserve account. The $25 million became available as the result of the settlement of litigation between various labor organizations, the Board of Retirement and the County of Ventura. The structure of this payment, a long-term annuitized benefit payable to all retirees, was based on a recommendation from the County of Ventura. The current monthly amount of this benefit paid to retirees is approximately $104,000.

The third benefit is a supplemental cost-of-living payment provided pursuant to the provisions of Government Code section 31874.3 (c) to those General Tier 1 and Safety member retirees whose cost-of-living banks equal or exceed 20.0% as of January 1. The cost-of-living bank represents the accumulated excess of the actual CPI above the maximum annual 3.0% cost-of-living adjustment provided. This benefit is referred to as the Supplemental Targeted Adjustment for Retirees Cost-of-Living, or STAR COLA benefit. It is intended to provide a supplemental payment to those eligible retirees and surviving beneficiaries who have been most negatively impacted over the years by inflation. The Board of Retirement first adopted the provisions for the payment of this benefit in 1997 and pre-funded it for a full five-year period. The benefit has been renewed annually, with additional funding provided when available to keep the reserve established for the payment of this benefit pre-funded at a level that will allow its payment to continue for a five-year period. This benefit was scheduled to expire on September 30, 2004; however, on August 16, 2004 the Board of Retirement approved a resolution to renew the benefit for an addition one year. This benefit is now payable through September 30, 2005, to those eligible retirees and surviving beneficiaries retired prior to April 2, 1981. The actual amount of the monthly payment is based on the balance of the member cost-of-living bank. The current monthly amount of this benefit paid to eligible retirees is approximately $135,000.

In addition to the three monthly supplemental benefits, there is a $5,000 lump-sum death benefit payable to the named beneficiary of a deceased retiree. The Board of Retirement has permanently funded this benefit.

## VCERA WEBSITE

Log on to www.ventura.org/vcera to obtain more information about your retirement benefits. Information maintained on the VCERA website includes the Employee Handbook, Quarterly Investment Reports, VCERA's Annual Report, Business Meeting Agendas and Minutes, Pension Benefits Calculator, Forms, Related Links and other information that may be of interest. There is also a section soliciting your comments, which gives every VCERA member the opportunity to provide input on how we can improve our services to you.

The Retirement Benefit Calculator is simple to use and allows you to quickly obtain an estimate of your projected retirement benefit based on your current retirement compensation, age at retirement and years of retirement service credit. Your biweekly compensation for retirement purposes is listed on your pay stub as "Retirement Earnings Final". To use the Retirement Calculator you will need to convert the biweekly amount on your pay stub into a monthly amount. While the Retirement Calculator will produce a reasonable benefit estimate, it is not recommended you make a decision to retire based on this information. If you are planning to retire in the next few years and want to obtain an estimate, please submit a Request for Retirement Benefit Estimate form. This form is available in the forms section of our website.



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