



# THE *Retirement* CHRONICLES

A quarterly publication of the Kern County Employees' Retirement Association

## FUNDING STATUS

*Update >>>*

In the last investment performance report provided by investment consultant Wilshire Associates, the KCERA trust fund continued to show sustained growth. As of December 31, 2010, the fund was valued at \$2.75 billion, a long way from its March 31, 2009 low of \$1.83 billion.

Despite its aggressive recovery in value, the KCERA trust fund has not seen a similar recovery in its funded status. A retirement system's funded ratio is its actuarial assets divided by its actuarial accrued liabilities. It is the percentage of funds, as measured by the actuary, currently available to pay all current and future benefits. The ratio is generally considered a reliable indicator of a system's financial health, particularly when it exceeds 80%.

KCERA's funded status peaked at 103.3% in 2000, just prior to the retroactive "3% at 50" benefit adoption for safety members. The following year's evaluation reflected much higher liabilities—and low investment returns—resulting in a funded ratio of 93.6%. A similar drop occurred when the retroactive "3% at 60" benefit was adopted for general members: 86.1% in 2004 to 75.6% in 2005.

### FEATURES

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Although KCERA's funded ratio benefited from excess investment returns in 2003 and 2007, it has followed a downward trend for the past decade. The last actuarial valuation on June 30, 2010 recorded a funded ratio of 62.7%.

Two factors influence funded status: assets and liabilities. KCERA's funded ratio can improve as its assets rise: when investment returns exceed the actuarial assumed rate of 7.75%. The Board of Retirement's Interest Crediting Policy requires that returns—gains and losses—be realized over five years, not all at once. This "five-year smoothing policy" moderates short-term investment swings and helps stabilize employer contributions. The result of KCERA's delayed recognition of gains and losses is a "smoothed" rate used to derive the funded ratio. Employee and employer contributions also contribute to funded status.

The other key factor in calculating a funded ratio is actuarial accrued (past, present and future) liabilities. Liabilities can increase when actuarial assumptions change as a result of benefit enhancements, higher employee salaries,

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# Welcome New Trustees

KCERA is pleased to welcome four new trustees to the Retirement Board: Michael Turnipseed, Lance Horton, Konrad Moore and Zack Scrivner. Their three-year term on the Board began January 1, 2011.



**Michael Turnipseed**, executive director of the Kern County Taxpayers Association since 2005, was a small businessman in the local agricultural industry from 1975 to 2004. During his career, he founded two agriculture associations, created a governmental relations firm for his industry, and sat on and/or led the boards of a dozen state and local organizations. Mr. Turnipseed is currently vice-president of the California League of Bond Oversight Committees.

He earned a B.S. in agricultural economics from UC Davis, graduated from the California Agricultural Leadership Program, and completed the Executive Program in Management from the Anderson Graduate School of Management (UCLA).

**Lance Horton** has worked in financial investments since 1992, when he joined Dean Witter Reynolds, Inc. as a stockbroker. He spent 14 years at Salomon Smith Barney, Inc. before joining Morgan Stanley in 2007. Mr. Horton now works for Morgan Stanley Smith Barney as a vice president, wealth advisor and portfolio manager. He is president of the boards of directors for the M.A.R.E. Therapeutic Riding Center and the Kern Kiwanis Foundation. He also sits on the board of the Stephen E. Haberfelde Foundation.

Mr. Horton graduated from San Diego State University with a B.S. in geological sciences.

**Konrad Moore** began his legal career in 1991 as a civil attorney with Kirkland & Ellis. In 1993, he transitioned to the public sector as a deputy district attorney, first in Stanislaus County and then in Monterey County. In 2000, he joined the Kern County Public Defender's Office and, since 2008, has served as the Chief Deputy Public Defender.

Prior to attending law school, Mr. Moore worked for KPMG-Peat Marwick and earned his license as a Certified Public Accountant. He holds a J.D. from UC Berkeley's Boalt Hall School of Law and a B.S. in Business Administration from UC Berkeley. He serves on the Board of the California Public Defenders Association and as a chapter editor for *California's Criminal Law - Procedure and Practice Manual*.

**Zack Scrivner** sits on the Kern County Board of Supervisors. His biography can be viewed online at [www.co.kern.ca.us/bos/dist2/](http://www.co.kern.ca.us/bos/dist2/).



Michael Turnipseed



Lance Horton



Konrad Moore

## FAQS

***Editor's Note: KCERA's Fiscal Year 2010 Annual Report is enclosed! You can also view it at [www.kcera.org](http://www.kcera.org) under "Investments."***

### Q. Can I purchase retirement service using pre-tax payroll deductions?

A. Effective March 1, 2011, members may no longer purchase eligible retirement service using pre-tax payroll deductions. The change was made to reflect the current Internal Revenue Service position on pre-tax contributions, which ends KCERA's ability to offer this payment method. *Deductions must now occur on an*

*after-tax basis.* However, you can still roll over pre-tax funds to KCERA from your eligible 401(a), 401(k), 403(b) and governmental 457 accounts. Other after-tax payment methods include salary advance (vacation rollover) and personal check. Conditions may apply to your payment method(s), so please contact KCERA for more information on service purchases.

# STATISTICAL YEAR-IN-REVIEW



Statistically, 2010 was an interesting year for KCERA, as the table below illustrates for the years ended December 31.

Category	2010	2009	2008
Active Membership	8,377	8,801	9,197
Total Membership	15,636	15,789	15,875
Retirements	416	418	321
Service Purchases via Payroll Deduction	62	89	110
Service Purchases via Lump Sum Payment	325	322	191

Last year continued a trend of declining active membership, which decreased by 820 members over the past two years. This employment trend is largely responsible for a drop in KCERA's total membership during the same period.

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## Retiree News THE 2011 COLA

The annual cost-of-living adjustment (COLA) that KCERA retirees and beneficiaries are eligible to receive each April is based on the change in the region's average Consumer Price Index (CPI) from the previous year—rounded to the nearest positive 0.5%.

The 2010 CPI was reported as 1.2%, which means most retirees and beneficiaries will receive a COLA in April 2011, depending on their "COLA bank" reserves (accumulated CPIs minus COLA payments) from past years.

<u>Date of Retirement</u>	<u>COLA Granted</u>
Before 4/2/2006	2.5%
4/2/2006 to 4/1/2007	1.5%
4/2/2007 to 4/1/2009	1.0%
4/2/2009 to 4/1/2010	0.0%
After 4/1/2010	1.0%

The 2011 COLA will appear on April 30 pension payments and be applied to basic retirement benefits, including prior COLA amounts. The COLA is not applied to Supplemental Retiree Benefit Reserve (SRBR) payments.

## IMPORTANT EVENTS & DATES

### Investment Board Meetings

April 13  
May 18  
June 8

### Regular Board Meetings

April 27  
May 18  
June 22

The Board of Retirement meets in the KCERA Board Room located at 11125 River Run Boulevard Bakersfield, California 93311.

The public is invited to attend. Meeting agendas are available online at [www.kcera.org](http://www.kcera.org).

### Retiree Payment Mail Dates

April 25  
May 24  
June 24

## BOARD OF RETIREMENT

Norman Briggs, *Chair*  
Jeff Frapwell, *Vice-Chair*  
Jackie Denney  
Lance Horton  
Joseph Hughes  
Konrad Moore  
Mark Ratekin  
Zack Scrivner  
Michael Turnipseed  
Phil Franey, *Alternate*

## CONTACT US

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## **FUNDING STATUS UPDATE** *(continued)*

more disability retirements, longer mortality and other factors. The full cost of financing every vested member's lifetime pension represents the liabilities component of KCERA's funded ratio.

The Board of Retirement's funding policy establishes the funding objectives and strategy to ensure future benefit payments to all active and retired members. Buttressed by

employer and employee contributions and investment earnings, the KCERA trust is projected to be fully funded in about 25 years, *assuming* investment returns average 7.75% over time and current liabilities projections are met.

You can depend on the Board of Retirement's strict adherence to its policies and guidelines to meet the funding objectives of the plan in order to pay the retirement benefits entitled to its members.

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## **STATISTICAL YEAR-IN-REVIEW** *(continued)*

Retirements, on the other hand, have continued their upward trajectory. From 2008 to 2010, KCERA has processed 1,155 retirements. Historically, the average was about 200 retirements per year until a record 458 members retired in 2005, when the "3% at 60" benefit took effect.

The number of service purchases via payroll deductions decreased to its lowest level in nearly a decade, from a high of 130 in 2004. Service purchases via lump-sum payment have risen since 2008, primarily from the use of pre-tax contributions rolled over from deferred compensation and other qualified retirement funds.