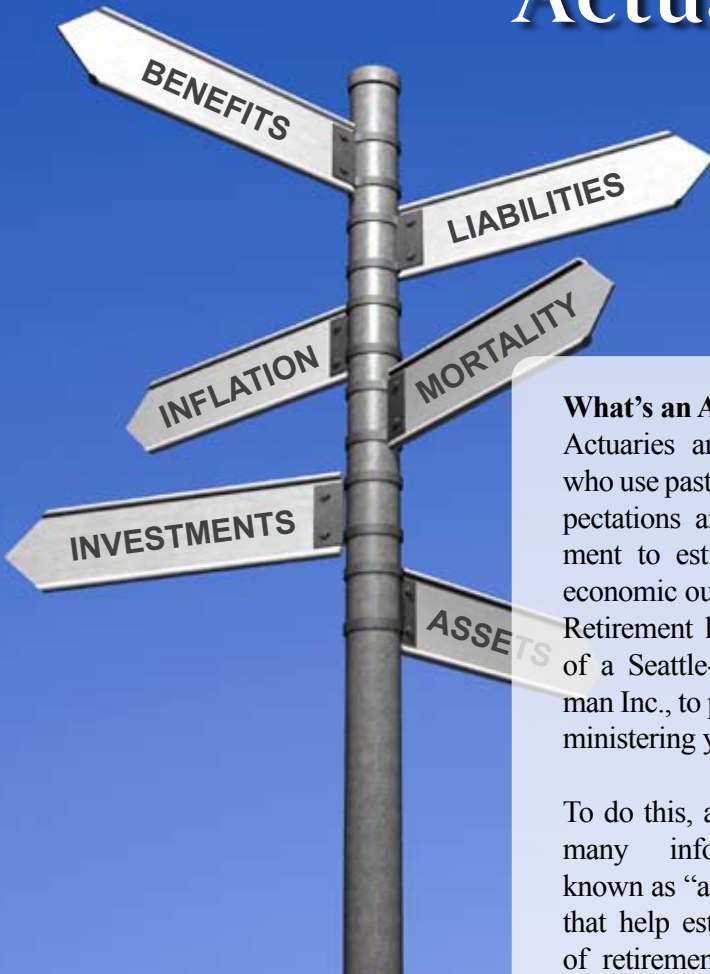




The Retirement CHRONICLES

A quarterly publication of the Kern County Employees' Retirement Association

Actuarial Assumptions: Signposts of Future Costs



There is an old saying about making assumptions. Although they are discouraged in regard to people, they are essential to KCERA's future.

What's an Actuary?

Actuaries are expert statisticians who use past experience, future expectations and professional judgment to estimate possible future economic outcomes. The Board of Retirement has hired the services of a Seattle-based actuary, Milliman Inc., to project the costs of administering your pension plan.

To do this, an actuary must make many informed assumptions, known as "actuarial assumptions," that help estimate the future cost of retirement benefits. There are economic assumptions that relate to economic factors—such as price inflation and investment rate of return—and demographic assumptions that relate to recent KCERA Plan experience—such as member retirement ages and mortality rates.

Why Assumptions Matter

KCERA relies on actuarial assumptions to calculate its future assets and liabilities. Having sufficient assets to pay for liabilities

is the primary goal of the Board of Retirement. Therefore, accurate valuation is a critical undertaking that demands well-informed assumptions about the future.

KCERA values its future assets largely based on an assumed rate of return, which is arguably the most important actuarial assumption because it represents the Retirement Board's long-term investment target. In November 2008, KCERA lowered the target from 8.00% to 7.75% in response to adjustments in current and long-range market performance expectations. KCERA's future asset projections will now be valued using the new assumption.

In terms of liabilities—what KCERA owes—the cost of future retirement benefits assumes expected changes in wages, retirement ages, service tenures, inflation, mortality rates and other key factors.

(continued on page 2)

IN THIS ISSUE

- 1 – Actuarial Assumptions:
Signposts of Future Costs
- 2008 Investment Update 2
- FAQs
- 3 – New Pension Admin System
- Events & Dates
- Retiree News
- Sign Up for Retirement Seminar 4

2008 Investment Update

Last year will likely be remembered as one of the most volatile and severe in investment history. Plagued by the collapse of once-revered financial institutions, a burst real estate bubble, credit deleveraging and many other economic woes, global investments have suffered immensely. Despite its well-diversified portfolio, KCERA was not immune to such losses.

In the 12-month period ending December 31, 2008, KCERA's total investment portfolio returned -30.74%, resulting in a fund balance of \$2.01 billion. Most of the underperformance came in the turbulent fourth quarter, in which KCERA posted a 17.35% loss.

Contributing to KCERA's 2008 losses were factors such as deleveraging by financial institutions and wholesale reductions in investors' risk appetite with the failure of once-solid investment banks.

Fund Performance as of December 31, 2008	
1 Year	-30.74%
3 Years	-4.93%
5 Years	1.05%
10 Years	2.86%

Together, the factors negatively impacted the performance of all KCERA asset classes, including domestic equity (-37.86%), non-U.S. equity (-45.01%) and real assets (-37.91%). KCERA's fixed income, high yield, alternative investment and absolute return portfolios were impacted to a lesser extent.

"Not only was 2008 the worst year for equity returns in over 70 years, it was a year when there were few places to hide," said Jim Rice, vice president at Wilshire Associates Inc., KCERA's investment consultant. "Government-backed bonds were one of the only areas in the market where returns were positive."

(For financial information covering the 2007-08 fiscal year, please see the enclosed Annual Report.)

Actuarial Assumptions

(continued from page 1)

Changes in economic and demographic assumptions impact employee and employer contribution rates. Actuarial "gains" decrease rates, whereas actuarial "losses" (like the reduced rate of return) increase rates. Milliman reports these gains and losses annually to the Retirement Board based on KCERA plan experience during the preceding year.

Triennial Experience Study

Milliman also performs a triennial "experience study" in which it digs deeper into KCERA's economic and demographic data over the preceding three years. The actuary then recommends to the Board changes in assumptions and contribution rates. Milliman's most recent experience study is posted at www.kcera.org under "Investments."

The last experience study, covering January 1, 2006 to June 30, 2008, recommended economic assumption changes in the inflation rate and the investment rate of return. Demographic changes were made to the post-retirement mortality, service retirement, disability retirement, reciprocal, termination and married-at-retirement assumptions.

Milliman's proposed assumption changes, which were adopted by the Boards of Retirement and Supervisors, will result in employer and employee contribution rate increases in the next fiscal year, beginning July 2009. The rise in member rates is expected to be slight (less than 1%), while total employer rates will grow by about 4% of total average payroll, or \$31 million. ■

Frequently Asked Questions

Q: Did KCERA post interest to my account at the end of 2008?

A: Yes. KCERA uses a "five-year smoothing" strategy to minimize the volatility of its investment returns for purposes of posting interest. If its previous six months of smoothed returns were positive,

KCERA credits that earnings percentage to member accounts six months later. Because its smoothed returns were positive during the six months ended June 30, 2008, KCERA posted 4.17% interest to more than 10,800 member accounts on December 31, 2008.

New Pension Admin System

KCERA has begun the process of replacing its decade-old pension administration system.

The legacy system has met the basic needs of KCERA staff over the years, but its limited functionality, outdated technology and periodic upgrades have created extra work in every KCERA division. The result has been inefficiency and additional cost to the system.

A year ago, KCERA issued a comprehensive Request for Proposal for an integrated pension administration system to fulfill the needs of a growing membership with increasingly complex service requests. The Board of Retirement awarded the contract to CPAS Systems, Inc., a Canadian firm with experience working with 1937 Act counties like Kern.

With a tentative go-live date of April 2011, the new system will improve access to member information (e.g., service credit, contributions, benefit statements, etc.) using a password-protected portal on the KCERA website.

Members will be able to request services, submit forms and view informational resources online. The new system will also improve member communication with KCERA via automatically generated correspondence in response to service requests.

“The new administration system will significantly improve staff’s efficiency in processing member requests that we now perform manually,” said Anne Holdren, KCERA’s executive director. “Their increased access to information and services will benefit members for years to come.”

Upcoming Events & Important Dates

Investment Board Meetings

April 8
May 20 (combined)
June 10

Regular Board Meetings

April 22
May 20 (combined)
June 24

Benefit Payment Mailings

April 24
May 22
June 24

Retirement Planning Seminar

Thursday, June 18, 2009
Board Chambers
1115 Truxtun Ave., 1st Floor

The Board of Retirement meets at 1115 Truxtun Ave. in the multi-purpose room located on the third floor.

Retiree News

The 2009 COLA

On April 1, each retiree or beneficiary will be entitled to a cost-of-living adjustment (COLA) increase of 2.5%. The 2009 COLA will appear on April 30 retirement benefit payments and will be applied to basic retirement benefits, including previous years’ COLA amounts. The COLA is not applied to any amounts paid from the Supplemental Retiree Benefit Reserve (SRBR).

Board of Retirement

Joseph Hughes, Chair
Norman Briggs, Vice-Chair
Brad Barnes
Jackie Denney
Jeff Frapwell
Robert Jefferson
Mike Maggard
John Mainland
Mark Ratekin
Bart Camps, Alt.
Phil Franey, Alt.

Sign Up for Retirement Seminar

Use this form to reserve a seat at the next retirement planning seminar.

Name		SSN (Last 4 Numbers)	
Address			
City		State	Zip Code
Home Phone	Work Phone	Dept. Name/Number	
Please add my name to the reservation list for the retirement planning seminar to be held: <input type="checkbox"/> June 18, 2009 <input type="checkbox"/> December 2009			
Mail reservation form to: KCERA 1115 Truxtun Avenue Bakersfield, CA 93301	You can also e-mail your reservation to servicerep@kcera.org or fax your reservation to (661) 868-3779.	Retirement planning seminars are designed for members <u>within five years of retirement</u> . Attendance at seminars is limited to about 130 people. Make your reservation early to ensure a seat at the next seminar.	
