



# Retirement Chronicles

*News Today About Your Tomorrows*

October 2001

Quarterly Newsletter

## Reader Feedback

You may reach us at:

KCERA  
1115 Truxtun Ave 1st Floor  
Bakersfield CA 93301  
Attn: Newsletter Editor

E-mail: Editor@kcera.org  
Fax: (661) 868-3779

## Upcoming Events

Retirement Planning Seminar  
December 6, 2001

Retirement Board Meetings  
Investment Board  
2nd Wed. of each month

Regular Board  
4th Wed. of each month

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“Shoot for the moon. Even if  
you miss, you’ll land among  
the stars.”

Les Brown

## Reciprocity - What is It?

It is not generally possible to link retirement service credit earned in one retirement plan with another retirement plan. However, if two plans agree to “reciprocity”, it becomes possible to have service credit earned in one plan recognized in a reciprocal plan. KCERA has established such reciprocity with a number of other systems, including every county operating under the County Employees’ Retirement Law of 1937. We also recognize reciprocity with the California Public Employees’ Retirement System (CalPERS) and with agencies that have a reciprocal agreement with CalPERS. Also, since January 1999, we recognize reciprocity with the California State Teachers’ Retirement System (CalSTRS).

To qualify for reciprocity between KCERA and another system, a member must enter a reciprocal system within six months of termination from the previous retirement system. For example, if you leave employment with Kern County and, within six months, begin working for the State of California, you may apply to establish reciprocity between KCERA and CalPERS.

When you apply for reciprocity, your years of service and your contributions stay on deposit with your original retirement system. However, your new retirement system will recognize your years of service with your previous retirement system and count those years towards your vesting in the new system and towards your eligibility for retirement in the new system. For Kern County employees coming from a reciprocal system, this may mean that your retirement contribution will stop sooner due to the employer pick-up of contributions after five years of retirement service credit is earned.

Further, if your new system determines your rate of contribution

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Kern County Employees’ Retirement Association  
1115 Truxtun Avenue, 1st Floor, Bakersfield California 93301  
(661) 868-3790 Fax (661) 868-3779  
(800) 548-0738 - In California (800) 735-2929 - TTY Relay  
www.kcera.org  
Board Members:  
Phil Franey, Chairman Ken Peterson  
Geoffrey B. King, Vice Chairman Tony Plante  
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John De Mario Michael Bradley, Alternate  
Brent Dezember Lois Maujer, Alternate  
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# KCERA Retirement Chronicles

## FAQ's

### **Q. Can I contribute additional funds to my retirement account in order to increase my benefit at retirement?**

A. No. Your benefit will be based on three factors at retirement - your age at retirement, your total years of retirement service credit and your highest final average monthly compensation. Your contributions into the plan do not play any part in how your benefit will be computed. Therefore, adding additional funds will not increase your monthly benefit at retirement.

However, if you wish to save additional funds for retirement, you may want to take advantage of the County's 457 Deferred Compensation Plan. The Deferred Compensation Plan allows you to defer income each pay period on a tax deferred basis and to choose how those funds are invested.

The 457 Deferred Compensation Plan is not administered by the KCERA. If you are interested in receiving more information about the Plan, please contact Susan Leedy at 868-3467. Susan's office is in the Treasurer-Tax Collector's Office, located on the 2nd Floor of the Administration Building.

## Executive Director's Message - David J. Deutsch, CFA

### The "Bear" Market and the KCERA

As the financial press modestly puts it, stocks have "shed" a lot of value recently. But, there is nothing modest about current economic conditions; real household wealth has evaporated and unemployment is on the rise. Certainly, we should all be concerned about this state of affairs. But, what about the KCERA investment fund and the security of your promised retirement benefits? As a member of the system, are your future benefits at risk along with the stock market?

The answer is "no." Your benefits are tied to a formula that has nothing to do with investment performance of the fund. The full faith and credit of the County of Kern stands behind the promise of retirement benefits in any case. While the investments of the fund have suffered along with the down market, a period of poor performance of the KCERA portfolio does not jeopardize your future retirement benefits. The KCERA investment program adopted by the Board of Retirement (the Board) recognizes that there will be periods of decreased investment earnings. Lastly, your benefits are very well funded at this point.

The Board considers many factors in designing the investment strategy. While the law requires that the strategy be "prudent," the Board tries to maximize return within this limitation. Long term investment results depend primarily upon the size of the investment in stocks. The larger this part of the portfolio, the higher the expected return overall but the more risky the portfolio. The "right" mix of stocks and bonds for a public pension plan is one which strikes a balance between the desire for increased return and the ability of the plan to tolerate wide swings in returns year to year. For the KCERA this strategic mix is 60% stocks and 40% bonds, cash, and other securities. The Board expects this mix to return over 8% on average per year over the longer term.

In the meantime, however, results will vary year to year, and sometimes dramatically so. In the 1990s, the plan earned much more than 8% for a number of years. More recently, the plan has earned less than 8%. The Board chooses to bear some swings in returns year to year in exchange for some extra returns, for overall returns that are better than the returns on government treasurers over the long term. So, the Board anticipates both bear and bull markets.

The plan can cope with a bad stretch for a number of reasons. First, the fund built up assets in the 90s. This experience may have created unrealistic expectations among investors about the future. Your Board, however, guards against short-sighted decisions based on extreme expectations by "staying the course" in terms of the mix of assets.

Second, only a portion of benefits come due in any one period. This permits the plan, like an insurance company, to pay all the benefit costs in any one period without threatening the overall stability of the plan. Lastly, the employer is required to maintain regular funding of the new service credit earned each year and any benefits previously accrued but currently unfunded. Employer contributions will generally increase in bad investment markets and decline when investment returns are better than expected. In this way, employer contributions are a buffer for the investment program helping the plan maintain a stable course in bad times. Employee contribution rates are not changed by investment results.

While your personal investments may have "shed" value, your KCERA retirement benefits are very secure.

Enjoy the Holidays!

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by your age at the time you enter retirement, then your new system will use your entry age from your previous retirement system. By using your "younger" age, your rate of contribution in the new system may be considerably less.

Finally, when you are ready to retire, you must retire from all retirement systems at the same time. You will receive a separate retirement benefit from each reciprocal system. But, each system will use your highest average salary from all systems to calculate your benefit. For example, if you were under CalPERS and then came to KCERA, CalPERS and KCERA will both use your Kern County salary to determine your benefit if your Kern County salary is the highest.

There are some rules you need to be aware of in order to preserve your reciprocal benefits:

- It is your responsibility to apply for retirement from all reciprocal retirement systems.
- You must retire from all reciprocal retirement systems on the same day.
- You may not have concurrent service. There must be a clear break in service between one retirement system and another.
- Your break in service between retirement systems may not exceed 6 months (previously 180 days).

Reciprocity can be a very valuable benefit for those members who qualify. If you have questions about reciprocity or if you think you may be eligible to establish reciprocity, we encourage you to contact the KCERA office to speak with a Service Representative.

## Member Communication

To coincide with the planned launch of our web site, [www.kcera.org](http://www.kcera.org), KCERA has adopted a new logo and a new format for the Retirement Chronicles. These steps are just part of our continuing effort to improve member communications.

Our web site, scheduled to launch by mid-October, will allow members to access information about the retirement system. Members can access information on-line, download forms and information, and communicate with KCERA by e-mail. Eventually we hope to have a secure, interactive website, allowing members to access information about their own accounts and to estimate retirement benefits, as well.

The new format for the Retirement Chronicles gives us more room to provide news to our members while increasing the readability of our articles.

Please let us know what you think about the website and about the changes to the Retirement Chronicles. Also, please let us know about subjects you would like to see covered in future issues of the Retirement Chronicles.

## Of Interest to Our Retirees

One of the supplemental benefits provided to our retirees and beneficiaries is 80% purchasing power protection. KCERA annually reviews the monthly benefit paid to each of our retirees and beneficiaries to ascertain whether those benefits have lost purchasing power. If KCERA finds that your benefit has lost more than 20% purchasing power since your retirement year, your monthly benefit will be increased to bring it back to 80% purchasing power. This program is known as Supplemental Retirement Benefit Reserve 3 (SRBR 3).

KCERA has recently completed SRBR 3 calculations for this year. Each retiree or beneficiary will be mailed a letter advising whether or not an increase in benefit is due. Benefit increases will be paid retroactive to July 1, 2001. If you are due an increase, you will see the increased benefit plus the retroactive payment on your October 31, 2001 benefit payment. Even if you do not receive an SRBR 3 benefit increase now, you will still receive a Cost of Living Adjustment on April 1, 2002.

If you have any questions about SRBR 3, please contact the KCERA office.

Return Service Requested

Bakersfield CA 93301-4639

1115 Truxtun Avenue

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION



**Visit us soon on the web  
at [www.kcera.org](http://www.kcera.org)**

**Are you thinking about retirement soon?  
Plan now to attend the next Retirement Planning Seminar.  
Call or e-mail the KCERA office for more information.**