At Your Service

Orange County Employees Retirement System
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OCERS navigates a course into the future

At Your Service

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

At Your Service is published for members and retirees of the Orange County Employees Retirement System

Comments and suggestions should be directed to:
Robert Kinsler, Public Relations Analyst

OCERS
2223 E. Wellington Ave., Ste. 100,
Santa Ana, CA 92701-3161
Telephone: (714) 558-6200
Toll-free: (888) 570-6277
Web site: www.ocers.org

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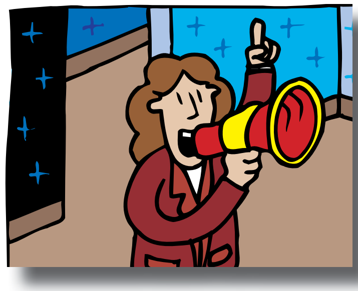
Robert Kinsler and Jayne Ritchey

Board of Retirement Meetings:
All regular business meetings are held in OCERS Board Room at 9:00 a.m.

January 17, 2012	**February 21, 2012**
March 19, 2012	**April 16, 2012**
May 21, 2012	**June 18, 2012**
July 16, 2012	**August 20, 2012**
October 15, 2012	**November 19, 2012**
December 17, 2012	

2012 COLA Update

OCERS benefit recipients will see a cost of living adjustment (COLA) beginning with their May 1, 2012 monthly retirement allowance.



At its regular meeting held on February 21, 2012, the Board of Retirement approved a recommendation to adjust all applicable retirement allowances in accordance with the 2.67 percent change in the Consumer Price Index (CPI). Per Government Code Section 31870.1, OCERS annually adjusts the benefit allowances relative to the increase or decrease in the Bureau of Labor Statistics CPI for the urban area encompassing Orange County.

The COLA will affect benefit recipients in different ways depending upon when they retired.

For benefit recipients who began receiving benefits on or before April 1, 1988, OCERS will grant a 3 percent COLA and reduce the COLA banks by .5 percent. For those benefit recipients who began receiving benefits between April 2, 1988 and April 1, 2012, OCERS will increase those benefit allowances by 2.5 percent with no reduction on COLA banks.

For more details about the COLA bank, watch the “OCERS Retiree COLA & COLA Bank” video on OCERS’ Web site.

Because the COLA goes into effect on April 1, payees will see the COLA adjustment on their May 1 payment. For more information about how the CPI impacts the COLA, as well as determining how much retirees (based on the year of retirement) have in their individual COLA bank, see the “COLA Information” page on OCERS’ Web site.

For more information on the COLA and COLA Bank, visit **www.ocers.org**.

STAR COLA approved by Board of Retirement

At its regular meeting on March 19, 2012, the Board of Retirement unanimously approved payment of Supplemental Targeted Adjustment for Retirees, Cost of Living Adjustment (STAR COLA) for the period April 1, 2012 through March 31, 2013.

STAR COLA is designed to restore purchasing power for retirees and survivors who have lost more than 20 percent of their purchasing power since retirement, as measured by the accumulation in a retired member's COLA bank. The STAR COLA applies only those 643 members who retired on or before April 1, 1981. For more details about the COLA bank, watch the "OCERS Retiree COLA & COLA Bank" video on OCERS' Web site.

The STAR COLA provides a much needed cushion to OCERS' oldest retirees, whose benefits have been most diminished by inflation over time.

Inflation, or the rise in the prices of goods and services, reduces the purchasing power of cash over time. Even at 3 percent per year – the average rate since 1926 – inflation may slash the purchasing power of $1,000 to $543 over 20 years (according to the Bureau of Labor Statistics).

Eligible payees will see the STAR COLA in their May 1, 2012 monthly allowance payment.

OCERS is your best resource for information

By Steve Delaney, Chief Executive Officer

Typically OCERS chooses not to respond to reports on the pension system, preferring that our members and plan sponsors get the facts directly from OCERS' Web site and publications such as the Comprehensive Annual Financial Report (CAFR). However, in the wake of a number of calls from our members, OCERS has issued a response to the Stanford Institute for Economic Policy Research (SIEPR) report examining OCERS and other independent public employee pension systems in California. One message lost in the language of the report and subsequent media coverage is that OCERS is strong and has more than $9.6 billion available to pay benefits.

Based on the composition of investments in the OCERS portfolio, OCERS currently assumes an investment rate of return of 7.75 percent annually, and the portfolio has in fact exceeded that assumption on average over the past 20 years with an 8.20 percent return (as of February 29, 2012). Meeting the 7.75 percent mark over the long-term provides employers the ability to

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Financial Strategies Seminars set for April – June

A recent article in USA TODAY noted that "more Americans are finding themselves in their 50s and 60s with practically no money saved for retirement." One of the key points made in the article was that while Depression- and World War II-era workers were "good savers," many Baby Boomers have not prepared for retirement as attentively as their parents.

The good news for OCERS members is most will collect a lifetime pension. In addition, all members can take a free Financial Strategies Seminar.

One of the biggest misconceptions about the Financial Strategies Seminar is that members should only take the class if they have money to invest, when in fact the class is about smart actions for making the most of the money that a person has now. Investments are only a small part of the seminar. The seminar teaches members worthwhile tools to:

- Create a path to follow and make appropriate financial decisions
- Know when you can retire and how much you will need
- Factors that can positively or negatively impact your plan to retire
- Appropriate investment selections for your short, mid and long-term goals
- Resources for further education and planning

SCHEDULED DATES
for three-session workshop:

Workshop
Wednesdays
April 4, 11 and 18, 2012
6 – 9:30 p.m.

Workshop
Wednesdays
May 2, 9 and 16, 2012
6 – 9:30 p.m.

Workshop
Wednesdays
June 6, 13 and 20, 2012
6 – 9:30 p.m.

Members will also learn income tax planning, estate planning, proper beneficiary designations, calculating Social Security benefits, and an explanation of the OCERS' pension, among other things.

The class is small, interactive, presented in a supportive environment, and the instructors do not spend time on self-promotion, or discussing specific products. Lastly, members will have an opportunity to meet with the financial advisor after the class is completed at no cost on a one-on-one basis to have specific questions answered and create a personalized financial plan with recommendations for the best steps to achieving their financial goals. Attendees have found this individualized planning to be extremely valuable.

Financial Strategies Seminars are held in OCERS' Training Room, 2223 E. Wellington Avenue, Santa Ana, CA 92701-3161. The three-session workshop seminars are free, but reservations are required. To make your reservation to attend this seminar, please log on at **www.ocers.org** and click on "Retirement Seminars." For more information on upcoming Financial Strategies for Retirement Planning Seminars, please call Robert Kinsler at (714) 558-6230.

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forecast their pension costs far into the future. The question of an appropriate investment rate of return is important, and is an issue the OCERS Board of Retirement regularly considers, most recently at their public meeting of October 17, 2011. Just as a family considers its household costs and income when planning for the future, the Board of Retirement will continue to study OCERS' investment rate of return in further detail this fall as it determines ongoing benefit costs.

The Stanford Institute report seeks to opine on this topic, and advises that a public pension system such as OCERS should actually be assuming earnings of no more than 5% annually. That approach of assuming a much lower rate of investment growth in public pension investment portfolios is a major difference between the authors of the study and the trustees, investment professionals and actuaries who work together to set the "earnings assumption" used by OCERS.

Here are some important facts about OCERS to consider when thinking about the health of the retirement system:

- $1 invested in OCERS in 1985 would have grown to $8.72 by December 31, 2010. That same dollar invested in a 10-Year Treasury would only be worth $5.78, and even when invested in a 30-Year Treasury would only be worth $6.82.
- OCERS' investment portfolio has grown from $3.8 billion (as of December 31, 1997) to $9.6 billion (as of February 29, 2012).

- OCERS is a "cash positive" system, meaning the retirement system collects more contributions every year than it pays out in benefits.

- For every dollar paid in pension benefits from 1998 – 2010 the majority came from investments:

1. Investment earnings	53 cents
2. Employer contributions	31 cents
3. Member contributions	16 cents

Finally, it's important to note the very good partnership between labor and the administration here in Orange County related to funding pension benefits. The Board of Retirement has been assisted by the good efforts already being made on issues such as a "reverse pick-up" component which has members funding benefit formula changes, the creation of a DB/DC hybrid plan, and the fact that the vast majority of OCERS members pay all or almost all of their employee contributions and have a three-year measuring period used in the calculation of their retirement allowance.

Vested benefits and OCERS' financial health

By Julie Wyne, Assistant Chief Executive Officer, External and Legal Operations

There has been a great deal of attention paid to public pensions lately. This attention has come in the form of legislation, publicly released studies and press reports. Legislative efforts include a Conference Committee formed in the California legislature to study public pensions, various ballot initiatives and the Governor's pension reform plan. Publicly released studies include the Hoover Commission report and the Stanford Report, and we all know what the press reports include. The information being discussed in these forums can at times be confusing and even misleading. Understandably, our members and beneficiaries are concerned about their rights to promised benefits, the financial stability of OCERS and our ability to continue paying promised benefits, and the ability of our participating employers and employees to meet their contribution obligations.

The legislative focus is on changing the benefit structure of the defined benefit plan and how those benefits are funded. Some of the legislative changes are aimed at current members and some are aimed at new members on or after a certain date in 2013. For the changes that relate to current members, there is a legal hurdle that must be cleared. That hurdle relates to the concept of vested benefits and whether those vested benefits can be altered. The rights of OCERS' members are governed by statute and by the California Constitution. Pension benefits are considered a form of deferred compensation and are part of the employment contract formed between the employee and employer upon acceptance of employment.

While most employees do not sign a specific contract when accepting a job offer from a public agency, most serve under a collective bargaining agreement that sets the terms and conditions of employment, including the level of pension benefits the employee will earn through employment. Those who don't serve under a formal collective bargaining agreement are still subject to the rules, regulations and benefit structure in place when they accept employment. It is those benefits that are protected by the Contracts Clause of the California Constitution, and are what we call vested benefits. The legislature's power is very limited in how these benefits can be taken away or modified. Vested benefits are not only the benefits a member has earned up to a specific date, but most legal authorities have concluded that vested benefits are also benefits a member is eligible to earn during future employment service. The same is not true for future employees. There is no constitutional protection prohibiting a change in benefits for new employees.

Legislative proposals that impact the level of benefits, the cost of those benefits, or how they are funded will likely face vested rights challenges in court if they make it through the legislative process and become law. If this occurs, the OCERS' Board of Retirement will need to determine what action to take to effectively administer the trust within the confines of the law.

The public studies, mentioned above, have largely focused on the funding of the plan and suggestions to change our assumptions and funding method, as well as the level of benefits. OCERS' Board has sole and complete authority over the administration of the pension trust fund, which includes setting assumptions relating to what we believe the plan's actual experience will be, selecting the appropriate funding method to ensure we collect enough contributions to pay

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the promised benefits, and actually administering the pension benefits. The employers who participate in our plan set the benefit levels through collective bargaining in most cases, or through other forms of negotiation with employees. OCERS job is to grow the contributions received by the employers and employees through prudent investing in order for those contributions plus the investment earnings to pay for promised benefits plus administrative expenses.

When there is a shortfall in the funding of the plan, which can be due to numerous factors including a downturn in the investment markets, or when our actual plan experience differs from our assumption expectations (e.g. how many members will retire in a given year, how much will OCERS earn, what is the average salary level of our members), or when benefits change, the employer is required by law to make that shortfall up. This shortfall is paid over a period of time, which we call an amortization period. The amortization payment is included in the employer's contribution rate, along with half of the normal cost, which is the cost to provide a current year of service. The employees pay, on average, the other half of the normal cost.

There are public retirement systems that must sell investment assets to cover their pension benefit payments. That is the natural progression for pension systems as they mature through the years with a growing number of retirees. OCERS is fortunate to not have reached that point yet. OCERS presently brings in more in contributions than it pays out in benefits. This is on track to continue for several more years. We monitor this very closely and if we become concerned that our cash positive status may be changing our Board will consider what steps to take in future public meetings.

In addition to being cash positive, there are other measures of a plan's financial health. These include the funding level of the plan, whether the employer is paying their annually required contribution and the increase in that annually required contribution as a percentage of payroll each subsequent year. At present, OCERS funding level is 69.79% to pay all promised current and future benefits. But remember, not only is the employer paying an amortization payment towards our unfunded liability with each contribution made, OCERS is taking in more in contributions than it pays out in benefits, so for the current term, and for several more years, we have sufficient assets to pay promised benefits. The long-term nature of governments and pension liabilities gives OCERS time to respond to investment declines and other economic shocks and to adjust our assumptions and investment portfolio accordingly in order to collect enough contributions and earn enough investment earnings to pay promised benefits.

All of the participating employers are contributing their full annually required contribution, which is, as mentioned above, another measure of a plan's financial health. The change in the annually required contribution from our last actuarial valuation averaged at around 1%. This is considered a small change in terms of predicting the financial stability of a plan.

OCERS remains sensitive to the budget concerns of our participating employers and we strive to administer our plan prudently to ensure only proper benefits are paid out in correct amounts and administrative expenses are closely monitored. We regularly review plan assumptions and funding methods, with the assistance of actuarial and investment experts, to ensure they remain valid. We also act as an objective source of information about how our plan functions and how proposed plan changes would impact the administration of the plan. If you have specific questions or concerns about your pension benefits or OCERS' plan administration, we encourage you to visit our Web site at **www.ocers.org**, and if your questions are not answered, contact us at 714-558-6230.

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2223 E. Wellington Avenue, Ste. 100
Santa Ana, CA 92701-3161

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Pre-Retirement Seminars set for springtime

While it's easy to live for today, the transition into retirement requires plenty of advance planning. To help fill this need, OCERS offers Pre-Retirement Seminars. Anyone who is within three years of their retirement date should plan on taking this seminar.

These daytime seminars are held at OCERS, 2223 E. Wellington Ave., Suite 100, Santa Ana, from 8 a.m. to 2:30 p.m. The one-session seminar is free, and there is plenty of free on-site parking for those attending. Various topics are covered. A Social Security representative will discuss Social Security and Medicare benefits; a representative from "Deferred Compensation" will discuss the County of Orange 457 plan; a representative from the County of Orange retiree medical program will discuss the County's retiree medical benefit options; and an OCERS Retirement Specialist will focus on your OCERS retirement benefits. **Seminar dates: April 4 and 18; May 2 and 16; June 6 and 20, 2012.**

No registration is necessary for the Pre-Retirement Seminars. Members are welcome to take this seminar as often as they like. For more information visit **www.ocers.org**.