

# Quarterly Review

Winter 2012

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## A Year In Review: Highlights from the 2011 CAFR

SBCERA has completed its 2011 Comprehensive Annual Financial Report (CAFR). This year's theme "The Art of Investments," emphasizes the complexity of navigating the investment markets, especially in today's turbulent economic times. Like any successful piece of art, strategically managing and investing a \$6 billion portfolio requires the highest level of skill, enduring patience and the right tools and resources for success.

This year, SBCERA faced many challenges. Below is a summary of some of the major initiatives SBCERA participated in during the fiscal year:

- **Changes in Leadership:** Dawn Stafford was selected as the Chair of the Board of Retirement following the resignation of the former Chair, Ellen Weisser, who left the Board after 24 years of faithful service. Of the 11-member Board, only five who were named in last year's CAFR remain on the Board. Also, Board member and County Treasurer Larry Walker stepped in as Managing Trustee while the Board conducted a national recruitment for a new Chief Executive Officer (CEO). The Board selected Norm Ruggles from Denver as SBCERA's new leader. In addition, Donald Pierce, a long-time senior investment officer with SBCERA, was selected as Chief Investment Officer (CIO).
- **2011 Member Survey:** SBCERA conducted an online survey to determine members' knowledge about their retirement benefits; measure their satisfaction with the SBCERA website; identify the usefulness of our retirement planning tools and communications; and find ways to better serve our members. In total, more than 4,000 members responded to the survey.
- **Five-Year Technology Plan:** SBCERA is in the midst of a 40-month retirement administration upgrade project. Key elements of the project include a new enterprise imaging system, an upgraded retirement administration system and an updated website.
- **Removal of Discretionary General Subsidy:** The "General Subsidy," a discretionary, non-vested benefit granted to retirees with at least 10 years of service credit, was terminated by the Board of Retirement. All General Subsidy payments concluded on October 31, 2011.
- **SBCERA Had a Record-Breaking Year:** For Fiscal Year 2010-2011, SBCERA's total net assets grew by a record \$1.107 billion, or 22.01 percent. The ending balance as of June 30, 2011 was \$6.14 billion.

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# First Quarter FY 2011-2012 Performance Review

by Don Pierce, CFA  
Chief Investment Officer (CIO)

## NEWS FLASH

### RETIREMENT SEMINARS AND EDUCATIONAL OPPORTUNITIES COMING SOON

January through March is retirement season at SBCERA. Don't wait until you are ready for retirement to start learning about your benefits. This year, SBCERA will offer a variety of opportunities for you to find out more about your retirement benefits whether you are 1 or 20 years away from retirement. Stay tuned for more information about the opportunities listed below and more:

- **Mid-Career Retirement Planning Seminars:** Held on the last Thursday of each month, February through June, from 5:30 p.m. to 7:15 p.m., these seminars are perfect for active SBCERA members who are vested and don't plan to retire for at least another five or more years. Guests are welcome to attend. Each seminar features presentations by SBCERA and ING. See the back page for upcoming dates and ways to register.
- **Group Service Retirement Counseling Session:** If you are planning to retire in the

next 90 days, SBCERA is preparing to offer a new way to retire. Instead of attending a one-on-one consultation with a Retirement Specialist, you and a guest can attend a Group Service Retirement Counseling Session. Offered in the evening, this is a great way to complete the retirement process at a convenient time and location. Additional details and dates to be determined.

- **Custom Offsite Seminar:** Interested in finding out more about your retirement benefits, but can't seem to make it to any of the SBCERA seminars? Employers and members can request to host a seminar of their choice at an offsite location and time. In addition, the presentation content can be tailored based on your needs and the information you are most interested in.

To reserve a spot, request an offsite seminar or find out more about the opportunities listed, contact us at [Communications@SBCERA.org](mailto:Communications@SBCERA.org) or call (909) 885-7980 ext. 329.

## WE ASKED, YOU ANSWERED

This summer, SBCERA set out to determine what members knew and thought about SBCERA and the benefits provided. From June 1, 2011 to June 24, 2011, our members were asked to participate in an online member survey.

The survey was conducted primarily online. However, SBCERA did send mailed copies of the survey to those who requested one. In total, 4,008 people responded. 97.1% were active members and 1.2% retired members.

### Key findings from the survey included:

- Members are happy with existing communication levels, but lack knowledge about many SBCERA topics and seek more communication from us.

- In addition to existing methods of communication, members want greater accessibility and more options for communication.
- Members are unaware of many of SBCERA's retirement tools and resources.

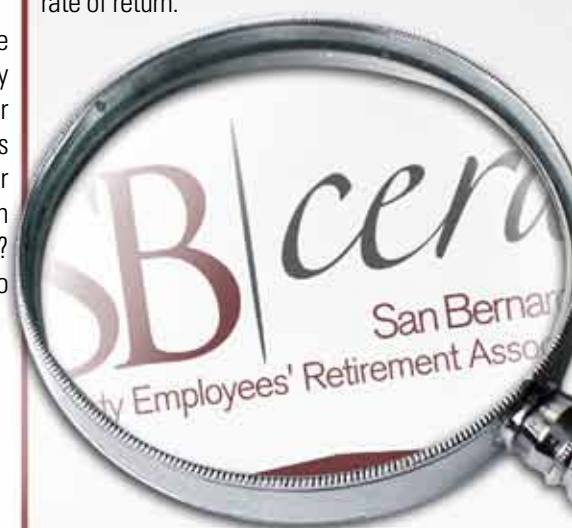
SBCERA would like to thank all of those members who participated. We are extremely pleased with the results and are grateful for your feedback. SBCERA will be using the results to determine future goals and objectives for our next communication plan including outreach tactics and new media tools. Still have ideas? We would love to hear them. Send them to [Communications@SBCERA.org](mailto:Communications@SBCERA.org).

This quarter, the European debt crisis bubbled up again as European leaders made multiple attempts to address the systematic sovereign debt risks associated with the southern European nations of Portugal, Italy, Greece and Spain. The markets reacted with elevated levels of volatility. Still unresolved, this volatility is expected to continue into the coming months as sovereign debt markets re-price to include default risk.

In response, SBCERA added to its risk position by selectively buying emerging market equity and European equity. Both markets declined sharply during the quarter and valuations were attractive.

As of September 30, 2011, total assets were valued at approximately \$5.79 billion – down 6.6% for the quarter. In comparison, the S&P 500 was down 13.9%. For the one-year period, the Fund performance was positive, returning 7.7% with less volatility than the equity market. SBCERA credits its income focused strategy for its superior risk-adjusted results over this recent period of elevated volatility.

SBCERA remains focused on building and maintaining a well-diversified portfolio. The Board adheres to a disciplined investment process seeking to meet or exceed the policy benchmark and the 7.75% actuarial assumed rate of return.



The 2011 CAFR provides detailed information about SBCERA's demographics and financial condition and status for the Fiscal Year from July 1, 2010 thru June 30, 2011. Below are some of the highlights from this year's CAFR. **All of the data listed is as of June 30, 2011:**

**Membership by the Numbers:**

- **Total Membership:** 32,246 (Up from 31,998)
- **Active Members (still employed):** 19,258 (Down from 19,520)
  - General Members: 11,731 Vested, 5,339 Non-Vested
  - Safety Members: 1,808 Vested, 380 Non-Vested
- **Retirees/Beneficiaries:** 9,265 (Up from 8,843)
  - Service Retirement: 6,571
  - Disability Retirement: 1,356
  - Beneficiaries: 1,338
- **Deferred Members** (no longer employed, vested): 3,723 (Up from 3,635)

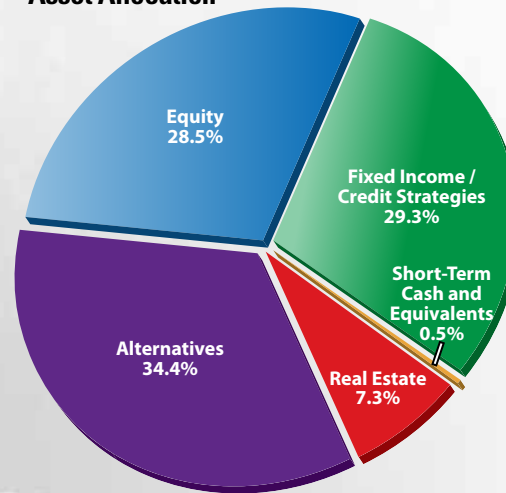
**Average Monthly Retirement Benefit:** \$2,775

**Investment Results:**

- **Total Investment Portfolio:** 22.59% return for the Fiscal Year
- **Net Assets Held in Trust for Pension Benefits:** \$6,136,574,000

This article is only a summary of some of the information included in this year's CAFR. For complete and detailed financial information, please refer to SBCERA's 2011 CAFR online at [www.SBCERA.org/2011CAFR](http://www.SBCERA.org/2011CAFR) or by calling (909) 885-7980 to request a mailed copy.

**Asset Allocation**



# Retirement 101: Cost-of-Living Adjustments (COLAs)

**0-2%**

## Mark Your Calendar for Feb 2, 2012!

The SBCERA Board of Retirement will vote regarding this year's COLA on February 2nd. If approved and you choose to retire on or before April 1st, you will be eligible to receive the COLA.



Have you ever wondered the age of SBCERA's oldest payee? Our oldest payee is over 100 years old, and they are still receiving their lifetime, monthly benefit.

This member could have retired at the age of 50 or maybe even younger. Whether they retired 50 years ago or 30, their monthly retirement benefit has probably not kept pace with the increasing costs to live.

Therefore, SBCERA offers a Cost-of-Living Adjustment (COLA) of up to 2 percent per year based upon the change in the Consumer

Price Index (CPI) as of January 1st of that year (pursuant to Government Code section 31870). The COLA, if approved, is effective April 1st for all eligible payees. This includes service and disability retirement allowances, continuances, optional death allowances and/or modified optional death allowances.

SBCERA determines the increase or decrease in the CPI using the Bureau of Labor Statistics CPI for All Urban Consumers in the region. The COLA is always rounded to the nearest one-half percent and will never exceed 2

percent. For example, if the CPI went up by 1.34 percent, SBCERA payees would receive a 1.5 percent COLA. Typically, each year the SBCERA Board of Retirement reviews and approves any applicable COLA at its February Board meeting.

What happens in years when the CPI is more than 2 percent or if it decreases? A CPI increase or decrease in any year, which is not met by the maximum annual change of 2 percent, shall be accumulated or "banked" for the member to be met by the increases or

decreases in the COLA in future years; except no CPI decrease shall ever reduce the monthly retirement benefit below the base amount received by the member on the effective date of retirement. **Below are two examples:**

- If the CPI went up by 3.5 percent, SBCERA payees would receive a 2 percent COLA. The remaining 1.5 percent of the CPI (change) not received would be banked for members for future years when the CPI was less than 2 percent.
- If the CPI was 0.5 percent, the COLA would be 0.5 percent. However, for those members with a positive percentage in their COLA bank SBCERA would take up to 1.5 percent from their COLA bank and the member could receive a 2 percent COLA for that year.

For more information regarding the COLA, please refer to SBCERA's COLA Frequently Asked Questions (FAQs) online at [www.SBCERA.org/COLA](http://www.SBCERA.org/COLA).



— by Norm Ruggles  
SBCERA CEO

## Optimism for the New Year

Is the glass half full or half empty? It's all in the way you look at it. We can approach 2012 with optimism or pessimism, it depends on our attitude.

Despite the barrage of gloomy reports from the news media and the constant finger-pointing of the politicians in Washington, we have plenty of reasons for optimism. Let's take a look at some of the positive points about our retirement system.

First of all, SBCERA members have the advantage of participating in a "defined benefit" retirement plan. Our retirement benefit formula is defined, and the plan provides a monthly payment to our retirees throughout their retirement years. Other types of retirement plans, such as a 401(k) or 457(b), do not provide a defined lifetime benefit. In fact, many Americans unfortunately do not participate in any type of retirement plan.

Positive developments are readily apparent throughout SBCERA's business operations. For example, the auditors from Macias Gini & O'Connell recently completed their audit of SBCERA's financial statements, and I am very pleased to report that we received a "clean" audit without qualifications. This is a strong and positive indicator of the soundness of our financial activities. Also in 2011 SBCERA received from the Government Finance Officers Association a "Certificate of Achievement for Excellence in Financial Reporting" for the 14th year in a row!

Our Member Services programs receive a significant amount of positive feedback. We do all we can to provide our members the assistance, direction and information they need. Our staff continues to expand our retirement seminars and member communications. In October, SBCERA received a Polaris Award from the local Public Relations Society

of America chapter in the category of "Creative Communication" for our milestone event communications. The results of our member satisfaction surveys show our members recognize SBCERA's consistent emphasis on customer service.

Another positive is SBCERA's carefully planned investment program. We engage outstanding investment managers and consultants from across the country to work with our Board and our staff investment professionals. We use prudent strategies that emphasize long-term goals and wisely focus on risk as well as return. SBCERA was recently nominated for Asset International CIO magazine's 2011 "Industry Innovation Award."

To enhance staff's ability to keep up with an increasing workload and to improve our members' ability to access retirement materials, our Information Services department constantly follows technological developments to make sure SBCERA stays current. This has a very positive effect on our efficiency and service to our members.

This "CEO's Column" mentions only some of the reasons to be optimistic about our retirement system. SBCERA has successfully operated since 1945, and will continue to do so under our excellent Board and staff.

My wife and I recently came across this quote from Art Linkletter which is pertinent to taking a positive attitude into 2012. He said, "Things turn out best for the people who make the best out of the way things turn out." Let's appreciate what we have and look forward to the best things this new year has to offer!

A handwritten signature in black ink, which appears to read "Norm Ruggles". The signature is written in a cursive, flowing style.

# Payee Perspective

News and updates for SBCERA retirees and beneficiaries

Have any story ideas? Email us at [Communications@SBCERA.org](mailto:Communications@SBCERA.org) or call (909) 885-7980 ext. 329.

## ESTATE PLANNING... THE NEXT STEP IN RETIREMENT

Now that you're retired, you'll want to ensure that you have a sound financial plan that includes trust and estate planning. With forethought, you can minimize estate taxes and preserve more of your assets for your beneficiaries. A qualified financial and tax professional can help you accomplish this. Bring this three-part checklist to your initial meeting to help make your plan comprehensive and up-to-date.

### Part 1: Communicating Your Wishes

- Do you have a will?
- Are you comfortable with the executor(s) you have selected?
- Have you executed a living will or health care proxy?
- Have you considered a living trust to avoid probate?
- If you have a living trust, are your assets properly titled?

### Part 2: Protecting Your Family

- Does your will name a guardian for your minor children?
- Do you want to limit your spouse's flexibility regarding the inheritance?
- Have you reviewed your life insurance needs – estate settlement, burial, survivor income?
- Have you considered an irrevocable life insurance trust to exclude the insurance proceeds from your estate?

### Part 3: Reducing Your Taxes

- If you are married, are you taking full advantage of the marital deduction?
- Are you making gifts to take advantage of the \$13,000 annual gift tax exclusion?
- Have you gifted appreciable assets to maximize future estate tax savings?
- Have you considered charitable trusts that could provide you with both estate and income tax benefits?

Estate planning is a very valuable and important part of your financial picture. Considering the above will help greatly in this process.

#### Contributed by:

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**Upcoming  
Pay Dates**

**January 31<sup>st</sup>  
February 29<sup>th</sup>  
March 30<sup>th</sup>**

### 1099-Rs ARRIVING SOON

SBCERA will prepare and mail 1099-R tax statements to all SBCERA retirees, beneficiaries and other payees by January 31, 2012.

The 1099-R statement is for tax purposes and includes the amount paid to you by SBCERA, the amount of taxes withheld (if any), and any other required information. Upon receiving your 1099-R, if you feel there is an error or to request a new or duplicate form you may contact SBCERA at (909) 885-7980. You can also complete and print a Request for 1099-R Duplicate or Correction Form at [www.SBCERA.org/forms](http://www.SBCERA.org/forms). For more information, read our 1099-R Frequently Asked Questions (FAQs) also available online at [www.SBCERA.org/1099R](http://www.SBCERA.org/1099R).

## WANT TO ADJUST your tax withholding for 2012?

You may change or revoke your tax election at any time by completing an SBCERA Tax Withholding Election Form. This form can be found at [www.SBCERA.org/forms](http://www.SBCERA.org/forms). You may also call SBCERA at (909) 885-7980 or toll free at (877) 722-3721 and request to have the form faxed, mailed or emailed to you.



# IMPORTANT DATES AND EVENTS

## Holiday Schedule

SBCERA will be closed for the following holidays:

**Presidents' Day . . . . .Monday, February 20, 2012**

Regular office hours are **Monday through Friday**  
from **8:00 a.m. to 5:00 p.m.**

## Board of Retirement Meetings

SBCERA Board meetings are held in the Board Chambers on the first Thursday of every month at 9:00 a.m. All meetings are open to the public. View agendas and minutes at [www.SBCERA.org](http://www.SBCERA.org).

**February 2, 2012      March 1, 2012      April 5, 2012**

## 2012 Mid-Career Retirement Seminars

SBCERA's Mid-Career Seminars are back. They will be held on the last Thursday of the month, from February thru June, in SBCERA's Board Chambers located on the 1st floor at 348 W. Hospitality Lane in San Bernardino. The seminars will take place from 5:30 p.m. to 7:15 p.m.

**Upcoming dates include:**

**February 23, 2012      March 29, 2012      April 26, 2012**

Members are welcome to bring a guest. Seating is limited. Anyone interested in attending is encouraged to reserve a seat. To do so, call (909) 885-7980 or email us at [Communications@SBCERA.org](mailto:Communications@SBCERA.org). If you are sending an email, please include your complete name and your employee ID or last four digits of your social security number.



## Elect SBCERA's Newest Service Option - eCorrespondence!

Start receiving your Quarterly Review Newsletter, Annual Member Statements and/or Payee Advices electronically. Sign up for our new paperless eCorrespondence. It is a faster, more convenient way to receive important SBCERA documents. To do so, log in to or create your SBCERA Web Member Services (WMS) account at [www.SBCERA.org](http://www.SBCERA.org) and select the option to "elect eCorrespondence." Once you have elected to receive these materials via email, you will no longer receive printed copies in the mail. You can change your election at any time. Find out more at [www.SBCERA.org/eCorrespondence](http://www.SBCERA.org/eCorrespondence).



**Visit:** [www.SBCERA.org](http://www.SBCERA.org)  
**Call:** (909) 885-7980 / Toll Free: (877) 722-3721 or (877) SBCERA-1  
**Email:** [communications@sbcera.org](mailto:communications@sbcera.org)

Member comments and suggestions should be directed to SBCERA's Communications Officer.

Quarterly Review is published for members of the San Bernardino County Employees' Retirement Association. It is written by SBCERA Communications Officer Nicole Dailey (unless noted otherwise) and designed by Spencer Lewis Group.

Donald Pierce, CFA

**Chief Investment Officer**

Norm Ruggles

**Chief Executive Officer**

Janece Rutherford, Larry Walker, Neal Wamer

Brendan Brandt, Louis Fiorino, Harry Hatch, Bret Henry, Don Neely,

Vice Chair - Dave Williams

Chair - Dawn Stafford

**Board of Retirement**

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