Retirement Chronicles

News Today About Your Tomorrows

July 2002 **Quarterly Newsletter**

Reader Feedback

You may reach us at:

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Upcoming Events

Retirement Planning Seminar
December 5, 2002

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

Regular Board
4th Wed. of each month

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"Only a mediocre person is always at his best."
William Somerset Maugham

Limits on Benefits - IRC Section 415

The KCERA is a defined benefit plan qualified under Section 401(a) of the Internal Revenue Code (IRC). This qualification provides the members various tax advantages including tax deferral of retirement earnings, direct rollover of retirement balances, and payment of retirement contributions on a pre-tax basis. However, in order to qualify, the KCERA must adhere to the annual limits for retirement benefits imposed by IRC Section 415.

In general, Section 415 limits the annual retirement benefit amount for 2002 to $160,000 for a member retiring between the ages of 62 to 65, an amount which is indexed for inflation. This limit is significantly reduced for each year the member retires in advance of age 62, if the member is classified as a General member under tax laws. It is not reduced for safety members.

For KCERA retirement purposes, Safety members are identified as those members employed in active law enforcement, including detention officers, probation officers, and D.A. investigators, and active fire suppression. However, IRC Section 415 defines Safety members as those members involved on a full-time basis in any police department or fire department to provide police protection, fire fighting services, or emergency medical services. Section 415 does not recognize probation officers and D.A. investigators as Safety members for purposes of the annual retirement benefit limits because these members are not employed in a police or fire department. Therefore, probation officers and D.A. investigators face the same 415 reduced annual limits on benefits as General members retiring before age 62.

Generally speaking, Section 415 limits have not been a problem for KCERA members in the past, but with the increased benefit formula for Safety members under the "3% at 50" and the possibility of increased benefit formula for General members if AB616 is adopted in Kern County, Section 415 limits may become more of an issue. KCERA Administration and the Board of Retirement are working with the County to mitigate the impact of 415 limits on our members' retirement benefits. While KCERA cannot pay benefits that exceed the

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In This Issue

FAQ's

Q. Will my County health insurance continue automatically when I retire?

A. Although you may be eligible for continuing health care coverage after retirement, such coverage is not automatic. You must enroll in the plan of your choice within 30 days of your retirement date in order to avoid a lapse in coverage. To enroll, you need to contact the Health Benefits Division of the County Administration Office. Their number is 661-868-3182. Also, please note that you may experience a temporary lapse in coverage from the time you come off County payroll until you go onto Retirement payroll. This temporary lapse is unavoidable due to the logistics of switching you from one payroll system to another. You should discuss this lapse in coverage with the Health Benefits Division. They can best advise if any medical expenses incurred during this temporary lapse will be covered.

Q. Can I name a living trust as my beneficiary?

A. No. The County Employees' Retirement Law of 1937 is very clear that a beneficiary must be a living person who has an insurable interest in the life of the member. A living trust or other non-living entity may not be named as a beneficiary. However, if there is no person that you wish to name as beneficiary, you may name your own estate as beneficiary. No continuance of benefits is available after your death, but any death benefits will be paid directly to your estate and then distributed to your heirs.

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

A Change in the Funding of the Basic Retirement COLA

KCERA is one of three California counties that has a special reserve for funding additional benefits to retired members (Supplemental Retiree Benefit Reserve, or SRBR). The SRBR is required under special financial provisions of the retirement law adopted in 1984 in this County by both the Boards of Supervisors and Retirement.

Here's how the funding of accounts works at KCERA. First, the Board of Supervisors, on recommendation by the Board of Retirement and its actuary, adopts an interest assumption rate. This is the rate that, over the long term, the retirement fund is expected to earn on its investments. Currently, the KCERA's interest assumption rate is 8%.

If the return on investments matches a 4% interest assumption rate in any six-month period, each reserve and account in the KCERA is credited with 4% interest (in two six-month periods, the full 8% is credited). Reserves include the SRBR, the employer reserves, and the member accounts.

If the fund earns more than 8% in the year, the first 8% is used to credit interest to the reserves and accounts. With the leftover earnings, the Board of Retirement is required to make sure its contingency reserve is adequately funded. (The contingency reserve is a pot of money set aside to supplement earnings in any six-month period in which earnings are below the expected 4%. If the KCERA uses up the contingency reserve funds to credit interest to all the accounts and reserves during a period when earnings are short, the contingency reserve has to be replenished when excess earnings are again available.)

In the past, if there were still excess earnings after crediting interest at the 8% rate and replenishing the contingency reserve if necessary, KCERA allocated half to the SRBR. The other half was used to credit additional interest to other reserves and accounts, including member accounts.

Last December, the Board of Supervisors directed the KCERA to implement an additional section of the law that requires excess earnings to be used to fund the basic 2% cost-of-living adjustment ("COLA") before money is distributed to SRBR (Resolution 2001-465). For the past 17 years, the County and other KCERA participating employers have paid the contributions necessary to fund the COLA on an annual basis. The KCERA therefore commissioned a legal opinion from its fiduciary counsel on whether the County's direction to change the source of funding of the 2% COLA from employer contributions to excess earnings was legal. The opinion was discussed at the Board of Retirement's May 22, 2002, meeting and, based on fiduciary counsel's opinion that the code section cited by the County does apply in Kern County, the Board of Retirement will now implement this section of the law. Starting with the valuation effective July 1, 2003, excess earnings (if any) will be used to fund the 2% basic COLA (not the 0.5% COLA added by the Ventura Settlement). As a consequence of this new mechanism, the funds available to the SRBR may be reduced in the future. In the event that excess earnings are not sufficient to fund the basic COLA, participating employers will continue to fund this benefit through contributions, as in the past.

The Board of Retirement has taken steps to ensure that funding is adequate for SRBR benefits already granted. First, the Board has adopted a policy of funding supplemental benefits well into the future, rather than on a year-to-year basis, as funds become available. Secondly, the Board requires a 20% funding "cushion" for the existing SRBR benefits before additional benefits may be adopted.

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415 limits, "replacement" vehicles, which would pay the amounts excluded by 415, are under discussion with the County at this time. Please feel free to contact the KCERA office if you have any questions about the impact of IRC Section 415 on your retirement benefit.

Board Member Receives Appointment

On April 18, 2002, Governor Gray Davis appointed KCERA Board Member Claude D. Fiddler to serve on the Board of Geologists and Geophysicists. Members of the Board of Geologists and Geophysicists do not receive a salary. The Board is responsible for examining and licensing geologists and geophysicists as well as certifying engineering geologists and hydrogeologists in California.

Mr. Fiddler is a registered geologist and professional engineer with over 40 years of geological experience. Mr. Fiddler is a member of the Society of Petroleum Engineers and the American Petroleum Institute in addition to serving on the KCERA Board of Retirement and now the Board of Geologists and Geophysicists.

Sign-Up for Retirement Planning Seminar

Use the form below to place your name on a reservation list for the next Retirement Planning Seminar.

Name		SSN
Address		
City	State	Zip
Home Phone	Work Phone	Dept. Number

Please add my name to the reservation list for the Retirement Planning Seminar to be held:

☐ December 5, 2002

☐ May 2003

My estimated retirement date is ______________________________.

Mail this form to:
KCERA
1115 Truxtun Ave.
Bakersfield CA 93301

You may also e-mail your reservation to servicerep@kcera.org or fax your reservation to 661-868-3790.

Retirement Planning Seminars are designed for those members who are within five years of retirement. Attendance at the seminars is limited to approximately 100 people. Make your reservation early to preserve your spot at the next seminar.

Of Interest to Our Retirees

We often receive questions from our retirees concerning the different pay items or deduction codes on their monthly retirement payment advice. Here is a list of the most common pay items or deductions and a brief explanation of that item.

Annuity - This pay item represents the portion of your retirement allowance that is paid from your contributions during employment.

Pension - This pay item represents the portion of your retirement allowance that is paid from your employer's contributions.

COLA - This pay item stands for Cost of Living Adjustment and represents the amount of COLA increase received.

SRBR 1, 2, or 3 - These pay items represent funds received from the Supplemental Retirement Benefit Reserve. Tier 1 is a flat $35.50. Tier 2 is based on years of service and retirement date. Tier 3 protects your benefit from loss of purchasing power.

KERNINS - This code represents deductions for Health Benefits. Any questions concerning KERNINS amounts should be directed to Health Benefits.

REOKC - This code represents a deduction for dues for the Retired Employees of Kern County.

Other deductions that may appear on your statement include Federal and State tax withholding, Union dues, or voluntary deductions for Kern Federal Credit Union. If a deduction appears on your check that you do not understand, please feel free to contact the KCERA office for an explanation.

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Return Service Requested

NEWS FLASHES!

See inside for a registration form for the next Retirement Planning Seminar.

Reminder-- The Retirement Planning Seminars fill up fast! Make your reservation early.