

The Fiduciary

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San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, CA 93408

Easy Does It -

**US Debt Crisis and Credit
Downgrade**

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COMPREHENSIVE ANNUAL FINANCIAL
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Tier Two Highlights

See Article 27 of the Retirement Plan
for all the provisions of Tier Two-
Miscellaneous

**2 % @ 60 formula for Miscel-
laneous Members.**

**36 Month Final Average Com-
pensation.**

**Maximum 2% Annual Post
Retirement Cost Of Living
Adjustment.**

**No Special Compensation
subject to Pension Contribu-
tions.**

No Eligibility for DROP.

INVESTMENTS, ACTUARIAL VALUATIONS AND BENEFITS

2010 proved to be a good year for the Pension Trust Investment program. After the ugly losses we saw in 2008 (-26.7%), the fund recovered to some degree in 2009 with a 23.6% total return. This recovery continued in 2010 as the fund generated a total return of 14.2%. Total assets now stand at about \$923,000,000. As a result of two solid years of investment performance there are no changes to the current rates of contribution to the Trust. This is good news.

In response to the dismal investment performance of 2008, when the markets suffered such dramatic declines, the Board of Trustees took action to mitigate, to the extent that it was prudent to do so, the immediate impact of the market crash. Primarily, this was done by extending the smoothing period over which the losses of 2008 would be recognized from the normal five years to ten years. The Trustees recognized that this was a temporary action and directed the actuary and the staff to act such that future gains in the investment portfolio would be used to reduce this smoothing period whenever possible and prudent. How does this work? In setting rates, the actuary calculates the

Actuarial Value of Assets (AVA) that recognizes the gains or losses of any one year over a five year smoothing schedule. The purpose of the smoothing process is to reduce the degree of change (volatility) year-over-year for the rates. If this smoothing of asset gains and losses were not done, rates would change, often very dramatically, from one year to the next. They would be volatile. Smoothing reduces this volatility and allows for much better budgeting for rates. In 2008, the investment losses in the portfolio were close to 300 million dollars. Under a 10 year smoothing schedule, about 30 million in losses would be recognized each year. As a result of the rebound in 2009 and continued improvement in 2010, the Board took action to maintain that schedule, but reduce the remaining losses by an additional 10 million dollars. This means that the losses will be absorbed into the AVA sooner than originally scheduled. This is also good news.

Following are some results from the January 1, 2011 valuation. The funded ratio increased from 77.1% to 78.8% and total actuarial gains to the plan for the year were \$13.6 million. Market value returns helped ease the pressure of the 2008 losses. However, as we have seen very recently, markets are volatile and can be very tumultuous.

TIER TWO BENEFITS

The adoption of a second tier of benefits to the current Retirement Plan is underway in San Luis Obispo County. In December of 2010, the Board of Supervisors adopted Article 27: Tier Two – Miscellaneous. Initially, the provisions of this section only applied to management and confidential employees hired on or after December 26, 2010, and who become employed in Bargaining Unit 7, 8, 9, 10, 11, 13 or 17. Subsequent negotiations between the County and SLOCEA have extended coverage under Tier Two to SLOCEA represented employees who are hired on or after April 17, 2011. Further negotiations are under way to bring other newly hired Miscellaneous Members under Tier Two. In addition, the County is undertaking negotiations with the Safety and Probation representatives to establish a second tier of benefits for those member classes.

So what is Tier Two? What does it mean for current and future Miscellaneous Member employees? Put simply, for newly hired Miscellaneous Members, Tier Two is a return to the general level of retirement allowances that existed prior to the plan changes that occurred in 1999 (with one exception—the post retirement Cost Of Living Adjustment under Tier Two will be 2% rather than 3%). Management Employees hired after December 26, 2010 are covered by Tier Two Management—2% @ 60 formula, 36 month final compensation, 2% COLA, no ancillary compensation (such as Auto Allowance or Employer Pick Up) included for calculation of Final Compensation. Employees covered by Tier Two are not eligible to participate in the DROP plan. The maximum allowance that can be accrued is 90% of final compensation. Employees represented by SLOCEA who become new employees on or after April 17, 2011 are subject to similar provisions for Tier Two as are management employees under Tier Two. Ongoing negotiations will bring other Bargaining units under Tier Two over the next several months. We will keep you informed as changes move forward.



"I need some short-term economic stimulus."

THE ACTUARIAL PROCESS

The Retirement Plan requires the Board of Trustees to have an actuarial valuation conducted at least every two years. The Board of Trustees policy is to order an actuarial valuation every year. The purpose of the actuarial valuation is to assess the funding status of the plan and to determine the required level of contributions needed to fund the plan over time. Based on this study, the actuary advises the Board of Trustees on the required total rate of contribution to maintain funding of the plan.

In addition to the actuarial valuation process, there is another significant report prepared by the actuary every two years—the Experience Study. The Experience Study, while conducted every two years, looks back over five years. The Experience Study reviews actual plan experience against the assumptions that are in place to predict plan experience. The Experience Study is the starting point for considering changes to the actuarial assumptions that are in place.

Actuarial Experience includes the investment return, salary increases, changes to the size of the workforce, the number of people who retired, died, became disabled or terminated, the rate of employee turnover, mortality (another measure of longevity or death), the demo-

THE FIRST (EVER) PENSION TRUST COMPREHENSIVE ANNUAL FINANCIAL REPORT

We are pleased to announce the recent distribution of the Pension Trust's FIRST EVER Comprehensive Annual Financial Report (CAFR). The CAFR combines essential information in a single easy to reference document. The sections include:

- Management's discussion of the operation of the Trust
- Audited Financial Statements and footnotes
- Investment Section including Investment Policy, fund performance, significant holdings and asset allocation
- Actuarial Section which reviews actuarial assumptions, funded ratio, funding policy and other actuarial information.
- Statistical Section with historical comparisons

The CAFR provides a convenient resource for those interested in the retirement plan, its performance, its challenges and its opportunities. The CAFR is available on www.SLOPensionTrust.org or upon request.

....More on the Actuarial Process

graphic composition of the plan by gender, age, length of service, marital status and compensation history.

All of these elements are reviewed and actual results are compared to what was assumed. As you might guess, those assumption related to investment returns, salaries and workforce are volatile and reflect the more immediate economic environment. Those assumptions related to the membership composition, mortality and gender are less volatile and reflect refinement of those assumptions as years of experience are tallied and analyzed.

Once the experience study is complete, the actuary and the Board of Trustees review the current actuarial assumptions and then analyze those areas where plan experience was significantly different from what was assumed.

The next Experience Study will be conducted in 2012 and will encompass the "new" experience realized in 2010 and 2011. The Board will review this report to determine what changes to assumptions must be considered and how best to implement such changes.

Changes to actuarial assumptions can have significant effects on current levels of contributions and appropriations. For example, reducing the Investment Earnings Assumption will—absent offsetting changes to other assumptions— cause the required level of contribution to the plan to increase. Likewise, reductions in the salary assumption— absent any offsetting adjustments to other assumptions— would have the effect of reducing currently required contributions.

Great care must be exercised when considering assumption changes. And in the end, the underlying assumptions should reflect the current economic environment as accurately as possible.

LET’S TALK LONG TERM..... The Story of Gertrude Janeway

For those of you that have come to Pension Trust meetings, or read about the Pension Trust or any pension system, you know that these plans are structured for the long term. We always talk about our long term investment horizon, or long term plan demographics and often note that we pay benefits to our participants for their life and often for the life of their beneficiaries.

To illustrate just how long term the pension commitment can be, I want to tell you the story of Gertrude Janeway—who passed away in 2003 at the age of 93. When Gertrude died, she was still getting a monthly check of \$70.00 from the Veterans Administration for a military pension earned by her late husband John who fought on the Union side during the Civil War. The war ended in 1865.

The couple married in 1927 when she was 18 and he was 81. They were married for about 10 years when John passed away—Gertrude never remarried. And while the amount from the V.A. may have been modest, the payments were made over 130 years.

Gertrude was not your typical recipient or beneficiary. But the story illustrates just how important

consideration of the long term is in thinking about how to administer, invest and otherwise manage an undertaking like the Pension Trust.

Keep in mind that the relationship that a Member has to the Pension Trust spans their working career, their retired life and the lifetime of their survivor or beneficiary—usually this is roughly 75 - 80 years...unlike John and Gertrude Janeway’s relationship to the VA, which lasted about 138 years.

HEALTH BENEFIT OPEN ENROLLMENT

Open Enrollment will be from October 10th — through November 4th. This is the time to make changes to your health benefit coverage. CalPERS will be contacting Retired participants who are covered or eligible to be covered under the County’s agreement with PERS in the very near future to announce an open enrollment fair—to be held at the County in October (a firm date and time will be sent to you from PERS).

CalPERS encourages each Retired Participant to contact CalPERS directly with questions and issues. To reach the Health Benefits Division, call (888) 225-7377.

MEETINGS OF THE BOARD OF TRUSTEES

The Board of Trustees meets on the fourth Monday of each month in the County Administration Building. Meetings are held in the Board of Supervisors chambers unless otherwise noted and begin at 9:30 A.M. Meetings are open to the public and your attendance is welcome and encouraged.

2011

January 24
February 28
March 28

April 25
May 23
June 27

July 25
August 22
September 26
STRATEGIC PLANNING MEETING

October 24
November 21
(November’s meeting will be held in Room 161/162 in the County Administration Building)

December 19
(December’s meeting will be held in Room 161/162 in the County Administration Building)

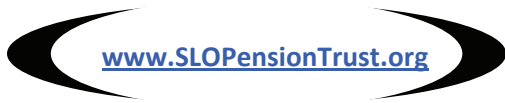




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Easy Does It....

“All the perplexities, confusions, and distresses in America arise, not from defects in their constitution or confederation, not from a want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation.”

John Adams, in a letter to Thomas Jefferson,
Aug. 25, 1781

Over the past several months , the financial markets have exhibited a substantial degree of volatility. Stocks have fallen dramatically, only to rise equally dramatically the next day....as this is written, the European debt crisis is the issue du-jour.

The U.S. debt ceiling debate—as substantially idiotic as it was (yes I said idiotic!) did nothing more than make the Congress look irresponsible. It also—at least according to their own pro-

nouncements—led Standard and Poors to downgrade U.S. debt from AAA to AA+. Nevertheless, U.S. Treasury Securities staged a substantial rally in the wake of the downgrade.

As you might imagine, we at the Pension Trust watch economic news very closely. As a result of having deep connections to the market through our consultant and managers we do a lot of questioning, especially in turbulent times such as these. No one that

we spoke to in the investment profession—managers, brokers, consultants, EVER SERIOUSLY expected the U.S. to default on its debt. In fact, in most professional assessments, the risk of a U.S. default was considered nil.

So my advice, regardless of your politics, is to tune out CNN, FOX NEWS, MSNBC, and especially CNBC. Every one of these media outlets did a huge disservice to us all with their breathless reporting and silly conjectures.

There are real risks to the economy. The real risk, and one we are seeing play out in these wild market swings is tepid or declining economic growth. Austerity measures now underway in the major economies of the world (the U.S., Europe, China) will only increase this risk. The GOOD NEWS....Longer term, businesses are sitting on a lot of cash—once this cash is deployed, economic recovery will begin in earnest....then the risk will be inflation. More next issue.....

