

Your MCERA Defined Benefit Plan: The Most Important Part of Your Financial Security

Experts still believe that the traditional three-legged stool consisting of a pension, Social Security, and individual savings provides the best way to achieve retirement security. However, most MCERA members have not participated in Social Security during their MCERA-covered employment (see the important note to right of this article for further information on Social Security). Because of this it's important to understand how your MCERA defined benefit plan works to provide you with a secure income in retirement.

Defined benefit plans, like the one administered by MCERA, provide a monthly allowance paid for the rest of the member's life including a potential annual cost of living adjustment. This benefit is based on the member's final average compensation, their age at retirement and their years of service credit – not on their account balance or investment market returns.

Defined contribution plans, such as those established under Internal Revenue Code (IRC) section 401(k), IRC section 403(b) or an IRA, are savings vehicles similar to the IRC section 457(b) deferred compensation plan offered by your employer. The benefit one may receive from these plans is generally determined by investment performance and the amount contributed. Payments from these plans can stop when your money runs out.

There are common features shared by both types of plans. For instance, they both are employment-based plans that make preparing for retirement easier than if employees had to tackle the job completely on their own; both defined benefit and defined contribution plans benefit from tax incentives designed to encourage retirement preparedness; and both types of plans are governed by laws designed to protect employees and their benefits. But there are certain features that are distinctive to defined benefit pensions that can have a significant impact on retirement readiness.

Features of Your Defined Benefit Pension Plan

✓ Provides a Lifetime Income

After you retire, your defined benefit plan will provide you with a guaranteed lifetime income. Regardless of how long you live and what happens in the stock market before, during, or after your retirement, you can count on a predictable retirement benefit each month for the rest of your life.

✓ Provides Professional Asset Management

Just as not everyone can perform your particular job, not everyone can successfully invest in the stock and bond markets. To fulfill the obligation of providing the promised retirement benefits,

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Important Note re: Social Security

MCERA members may have rights to Social Security benefits earned through other employment. The retirement allowance you receive from MCERA will not be impacted by Social Security. However, due to the Federal Government Windfall Elimination Provision Act (WEP), the benefit you receive from Social Security may be impacted by the benefit you receive from MCERA.

More information on the WEP (SSA Publication No. 05-10045) is available on the website for Social Security, www.ssa.gov.



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FUNDamentals is published quarterly for members of the Marin County Employees' Retirement Association (MCERA). It is compiled and designed by MCERA's Communications Associate unless noted otherwise.

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Board Meeting Highlights

Key Actions from January through June 2011

IRS Determination Letter Filing

In January, MCERA compiled its Plan Document and submitted a favorable determination letter request to the IRS.

Semi-Annual Strategic Workshop

The Board convened for a two-day workshop in March. The Trustees reviewed the economic and capital markets over the last ten years and discussed the analyses of market returns and factors affecting the global economy. Trustees also discussed the draft actuarial valuation report including projections of funded ratio and employer contribution rates over time, and economic assumptions used in the study.

Annual Cost-Of-Living Adjustment (COLA)

The annual retiree cost-of-living adjustment was 1.5% (up to the maximum for each individual's Tier), effective April 1.

Actuarial Valuation Report Accepted

The Actuarial Valuation Report for the period ending June 30, 2010 was accepted by the Board at the April meeting.

Budget Approved

The budget for the fiscal year beginning July 1, 2011 and ending June 30, 2012, was approved by the Board at the May meeting.

Committee Charters Revised

The following Retirement Board committee charters were revised:

- ✓ Communications & Member Services Committee Charter
- ✓ Governance Committee Charter
- ✓ Finance & Risk Management Committee Charter

Policies Revised

The following policies were revised:

- ✓ Placement Agent Payment Disclosure Policy
- ✓ Interest Crediting Policy
- ✓ Unrestricted Earnings Policy
- ✓ Budget Policy
- ✓ Economic Assumptions Policy ■



I'm Ready To Retire... What Are My Options?

Planning for retirement is exciting and there are many decisions to be made. One of the things you will have to decide is which option for payment of your retirement allowance is right for you, since each option has an impact on the retirement allowance you and your beneficiary will receive. At retirement, the benefit amounts under each available option will be presented to you so that you can select the option that best meets your needs and objectives with respect to your lifetime allowance as well as your beneficiary.

Consider your options carefully. This is a lifetime benefit and, generally, your election is irrevocable.

Unmodified Option

What the Retiree Receives: The maximum possible monthly allowance provided to the retiree for their lifetime.

What the Beneficiary Receives: Upon the retiree's death, if the beneficiary is a qualified dependent, they will receive a lifetime monthly allowance equal to 60% of the retiree's allowance at the time of their death. A qualified dependent is a spouse or state registered domestic partner to whom the retiree has been married or partnered for at least one year prior to retirement, or a dependent child under the age of 18 (or 22 if a full-time student at an accredited institution) at the time of the retiree's death. If the beneficiary is not a qualified dependent, they will receive a one time, lump sum payment of the retirees' remaining accumulated employee contributions and interest, minus monthly benefit payments already paid.

Option 1

What the Retiree Receives: A slightly lower monthly allowance than under the Unmodified Option, payable for the retiree's lifetime.

What the Beneficiary Receives: Upon the retiree's death, the named beneficiary receives a one time, lump sum payment of the retiree's accumulated employee contributions and interest, minus the monthly annuity portion of benefits already paid to the retiree.

Option 2

What the Retiree Receives: A lower monthly allowance than under the Unmodified Option for the retiree's lifetime with the amount of the reduction based upon the named beneficiary's age at the time of the member's retirement.

What the Beneficiary Receives: Upon the retiree's death, the named beneficiary will receive a lifetime monthly allowance of 100% of the retiree's allowance at the time of their death.

Option 3

What the Retiree Receives: A lower monthly allowance than under the Unmodified Option for the retiree's lifetime with the amount of the reduction based upon the named beneficiary's age at the time of the member's retirement. The reduction is smaller than under Option 2 because the continuance to the beneficiary is less.

What the Beneficiary Receives: Upon the retiree's death, the named beneficiary will receive a lifetime monthly allowance of 50% of the retiree's allowance at the time of their death.

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Did you know?

Retirees can name anyone as their beneficiary; however, under California community property law, the retiree's spouse or state registered domestic partner may have certain rights over any other designated beneficiary. Note too that benefit reductions and other limitations may be imposed if a member selects a much younger beneficiary.

Also, your beneficiary doesn't have to be a "natural person." For example, you may designate an organization or a trust. However, organizations and trusts may not receive a continuance, only a refund of your unused contributions.



Online Newsletter Survey

You've heard from us, now it's time for us to hear from you!

Since the fall of 2009, MCERA has published the *FUNDamentals* newsletter on a quarterly basis for all of our active, retired, and deferred members and beneficiaries. Our goal is to always provide you with useful and timely education and information related to various aspects of your MCERA retirement benefits. How do we measure up?

Please visit our website, www.mcera.org, and click the link for our **FUNDamentals Newsletter Survey**.

Let us know how we're doing and suggest ways for us to serve you better in the future. Survey answers are anonymous and results will be reported in a future issue.



Happy 2nd Birthday, *FUNDamentals*!

Marin County Employees' Retirement Association

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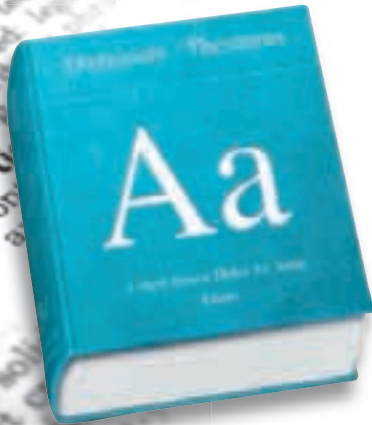
<http://www.mcera.org>

Quarterly
Quote

**A perfect summer day is when the sun is shining,
the breeze is blowing, the birds are singing, and
the lawnmower is broken.**

James Dent, Professional Golfer

...FUNDamentals DE•FINED.....



qual•i•fied de•pend•ent

— noun

1. A spouse or state registered domestic partner to whom you have been married or partnered for at least one year prior to retirement, or a dependent child under the age of 18 (22 if a full time student in an accredited institution) at the time of your death.

Page 3, this issue: Learn about what your **qualified dependent** may be eligible to receive if you've designated them as your beneficiary at retirement.

New Public Fund Study Released

The issue of public pensions in the United States has taken center stage at the state and local government levels. A report released in June by the National Conference on Public Employee Retirement Systems (NCPERS), examines the current status of public pension funds nationwide.

In March and April 2011, NCPERS undertook the most comprehensive study to date addressing retirement issues for this segment of the public sector. The 2011 NCPERS Public Fund Study includes responses from 215 state and local government pension funds with a total number of active and retired memberships surpassing 7,590,000 and assets exceeding \$900 billion. The vast majority (83 percent) were local pension funds like MCERA, while 17 percent were state pension funds like CalPERS.

According to the report, "Public pension funds are experiencing a robust recovery from the historic market downturn of 2008-2009—reporting strong investment returns, growing assets and funding levels on track to meet obligations. In addition, funds have responded to changes in the economic, political and social landscape by adopting substantial organizational and operational changes to ensure their long-term sustainability."

Key findings reported in the study:

- ✓ Over the last year, funds have achieved an annual investment return of 13.5 percent on average, nearly double the 7.7 percent rate most assume.
- ✓ Investment returns are the single most significant source of plan funding, comprising approximately 66 percent of fund revenues. Employer contributions comprise about 24 percent.
- ✓ On average, pension systems are 76.1 percent funded. According to its February 2011 report Enhancing the Analysis of U.S. State and Local Government Pension Obligations, Fitch Ratings considers a funded ratio of 70 percent or above to be adequate.
- ✓ Over the last two years most public pension funds have lowered their assumed rates of return, lengthened the period of time to amortize their liabilities, increased employee contributions and raised the retirement age.

The full report is available on the NCPERS website at www.NCPERS.org. ■

Investment The Investment Insights: Policy Statement

The Retirement Board's overall goal for MCERA investments is to build a portfolio that meets or exceeds the long-term actuarial assumption for return on net assets in order to provide our members with their promised benefits. This is accomplished through a carefully planned and executed long-term investment program. The Board's Investment Committee actively monitors the performance of the fund, hires and fires investment managers, conducts regular on-site due diligence visits to the investment managers' businesses, makes decisions regarding the investment strategy and asset allocation of the fund, and assesses the level of risk in the individual investments as well as the overall portfolio.

MCERA's Investment Policy Statement is a Blueprint for Assessing Fund Performance

In order to effectively direct the management of MCERA's assets, the Board created an Investment Policy Statement (IPS). The IPS serves as a type of agreement between the fund's investment professionals and the Retirement Board that outlines the investment goals and objectives of MCERA and describes the strategies that the investment professionals should employ to meet those objectives. The IPS is an essential tool, or a blueprint, for MCERA's Retirement Board in overseeing the investment policy on an ongoing basis. By comparing the status of the plan to the original objectives and assumptions laid out within the IPS, the Board can be assured that the goals of the plan are met.

A Comprehensive Document

MCERA's IPS addresses a number of different aspects of investing, including, but not limited to, the following topics.

✓ **Asset Allocation Policy:** provides for diversification of assets in an effort to maximize the investment return of the fund consistent with market conditions. The IPS also specifies MCERA's target asset allocation ranges.

✓ **General Investment Objectives and Guidelines:** states the general investment goals with regard to specific asset classes (such as equity portfolios, fixed income portfolios, real estate portfolios and cash), proxy voting, securities lending and rebalancing.

✓ **Investment Management Policy:** states the Board's objectives with regard to selection criteria for investment managers and criteria for investment manager termination.

✓ **Duties of Responsible Parties:** outlines the duties of the Retirement Board, MCERA staff, the investment managers, private equity investment managers, the master custodian, and the general investment consultant.

✓ **Specific Objectives, Guidelines and Procedures for Individual Investment Managers:** states goals specific to each investment manager working with MCERA and requires that investment managers certify in writing on a quarterly basis that they are in compliance with MCERA's IPS.

✓ **Placement Agent Payment and Disclosure Policy:** outlines the Board's policies with regard to placement agents.

Regular Review Ensures That Guidelines Are Met

The Retirement Board reviews MCERA's investments quarterly, or as needed, to ensure that policy guidelines continue to be met. Additionally, the IPS is reviewed annually and, if appropriate, revised to reflect prudent changes to MCERA's investment structure or asset allocation in response to changing market conditions or investment returns. The IPS helps to assure plan sponsors and plan participants that their contributions are invested in a prudently constructed portfolio that is continually being overseen in an effort to maximize return and minimize risk.

MCERA's complete IPS is available in the Policies section of our website, www.mcera.org. ■

Your MCERA Defined Benefit Plan

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MCERA's Retirement Board works with professional consultants and money managers whose full-time job is to ensure that MCERA's portfolio receives the highest possible return on investment.

✓ Provides Special Protections for Spouses/Partners

Depending upon the benefit payment option chosen at retirement, upon the member's death their spouse or state registered domestic partner may be eligible to receive a continuance of up to 100% of what the member was receiving in retirement from MCERA's defined benefit plan.

✓ Provides a Broad Range of Benefits

If an employee meets the eligibility requirements of the defined benefit plan, they are automatically included in the

plan and will earn benefits without having to make active decisions. Also, MCERA's defined benefit plan provides for other benefits like disability retirement, death benefits, benefits for your spouse or registered domestic partner should you predecease them and cost-of-living adjustments for retirees.

Understand What You Have and Its Value

Your MCERA defined benefit plan offers many important benefits. It supports stability for your years of retirement by providing you with predictable retirement income for life. Don't underestimate the value of what could be your most important asset. ■

I'm Ready To Retire... What Are My Options?

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Option 4

What the Retiree Receives: A lower monthly allowance than under the Unmodified Option for the retiree's lifetime with the amount of the reduction based upon the named beneficiary's age at the time of the member's retirement.

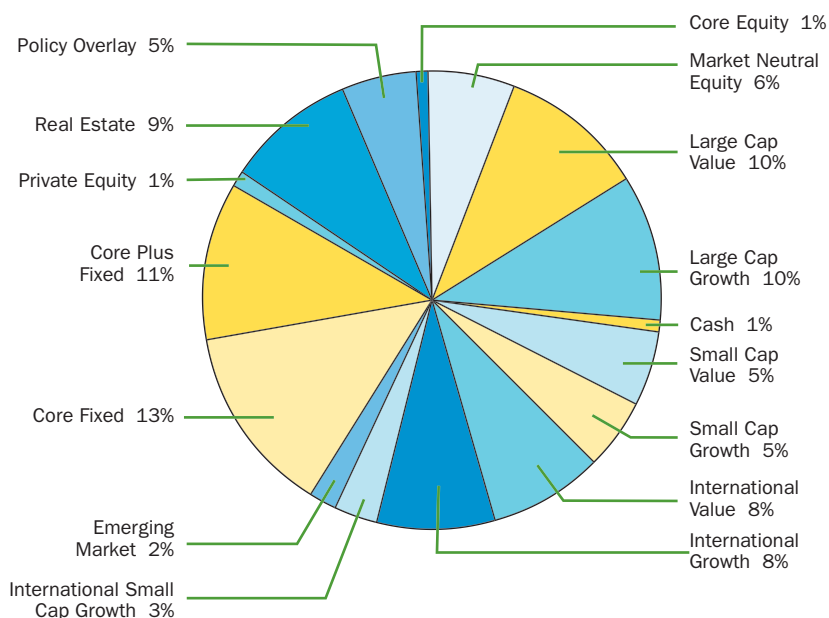
What the Beneficiary Receives: Upon the retiree's death, the named beneficiary (or beneficiaries) will receive either the dollar amount or the percentage of allowance specified by the retiree at the time they retired.

Additional Resources

This article only summarizes your available options. MCERA's Pre-Retirement Seminar presentation contains more detailed information on the options for payment of your retirement allowance. Seminar presentations are customized for each plan sponsor and are available on MCERA's website, www.mcera.org, in the Publications section.

MCERA staff is always available to answer your questions. Stop by our office or give us a call at (415) 473-6147. ■

Portfolio Pie as of March 31, 2011



Core Equity	\$	11,795,000
Market Neutral Equity	\$	77,500,000
Large Cap Value	\$	140,125,000
Large Cap Growth	\$	139,325,000
Cash	\$	10,186,000
Small Cap Value	\$	71,631,000
Small Cap Growth	\$	75,820,000
International Value	\$	115,432,000
International Growth	\$	109,949,000
International Small Cap Growth	\$	45,039,000
Emerging Market	\$	32,583,000
Core Fixed	\$	175,591,000
Core Plus Fixed	\$	157,638,000
Private Equity	\$	16,958,000
Real Estate	\$	131,229,000
Policy Overlay	\$	76,023,000
TOTAL		\$ 1,386,824,000

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Marin Superior Court

Novato Fire
Protection District

San Rafael
Redevelopment Agency

Southern Marin Fire
Protection District

Tamapais Community
Services District

Upcoming Events

- ➔ **August 10, 2011**
Retirement Board Meeting
- ➔ **September 5, 2011**
MCERA CLOSED
(County Holiday)
- ➔ **September 14, 2011**
Retirement Board Meeting
- ➔ **September 15, 2011**
Investment Committee
Meeting
- ➔ **September 20-21, 2011**
Strategic Workshop
- ➔ **October 12, 2011**
Retirement Board Meeting
- ➔ **November 2, 2011**
Retirement Board Meeting
- ➔ **November 3, 2011**
Investment Committee
Meeting
- ➔ **November 11, 2011**
MCERA CLOSED
(County Holiday)
- ➔ **November 24-25, 2011**
MCERA CLOSED
(County Holiday)

Important Disclaimer

This newsletter was drafted by MCERA staff in order to help members understand issues surrounding many aspects of their retirement benefits. Every effort has been made to ensure the accuracy of the information offered. However, you should not rely solely on the information contained herein. In the event of any discrepancy between the information contained in this newsletter and State and Federal law, the State and Federal law will govern. MCERA staff is unable to address specific legal or tax-related questions. If you have legal or tax-related questions about your retirement, please consult competent legal or IRS counsel.

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