

# Retirement Quarterly

## UNDERSTANDING RECIPROCITY

### ***What is Reciprocity?***

*Reciprocity is an agreement between California Public Employees Retirement System (CALPERS) and certain other public retirement systems that allows an employee to move from one system to the other without losing retirement and related benefits.*

In 2002, the City of Fresno established an agreement with CALPERS.

When a member of CFRS terminates active employment, he/she will be given several options of how to handle their benefit. If the person qualifies for retirement, they can retire and begin receiving a monthly retirement allowance payable for life. They can also elect to take their funds in cash or roll them over into an Individual Retirement Account (IRA) or other qualified retirement program. An additional option, however, is to seek employment under a reciprocal retirement system and elect Reciprocity.

Electing reciprocity allows service earned with one plan to be used in helping a member meet the minimum service requirements for retirement benefits under the new plan. There is no transfer of funds or service credit between retirement systems. You become a member of both systems and are subject to the membership and benefit obligations and rights of each system. Upon retirement, separate retirement allowances are received from each system and you must apply for retirement from each system separately. You must retire on the same date from all public retirement systems participating in a reciprocal agreement. *(Continued on Page 3)*

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#### VISIT US

MONDAY-FRIDAY, 8 AM TO 5 PM  
2828 FRESNO STREET SUITE 201  
FRESNO CA 93721

CALL FOR AN APPOINTMENT  
AT (559) 621-7080.

VISIT OUR WEBSITE  
AT [WWW.CFRS-CA.ORG](http://WWW.CFRS-CA.ORG)

EMAIL  
YOUR QUESTIONS OR  
COMMENTS TO  
[RETIRE@FRESNO.GOV](mailto:RETIRE@FRESNO.GOV).



#### RETIREMENT BOARD MEETINGS

Second Wednesday and Fourth Tuesday of  
each month at the CFRS Retirement Office,  
Retirement Board Chamber, 2nd Floor,  
Room 202, 1:00 pm.

#### RETIREMENT BENEFIT PAYMENT DATES

Oct 31  
Nov 28  
Dec 31  
Jan 30

#### OBSERVED HOLIDAYS (OFFICE CLOSED)

November 11, 27 & 28, 2014  
Dec 25, 2014  
Jan 1, 2015



# Investment Report

by Stanley McDivitt, Retirement Administrator

## STATUS OF INVESTMENT PROJECTS

During the third quarter of 2014, the Joint Boards continued further evaluation and education related to direct lending with an introduction provided by two investment firms, White Oak and TCW, and details about the various types of loans and structures available through different lending products. The Boards' investment consultant, NEPC, provided a presentation on the concept of leverage, its various forms and uses, for discussion pertaining to how and to what extent leverage may be utilized in Global Tactical Asset Allocation ("GTAA") products, an asset class that is currently under evaluation by the Boards. The Boards also continued monthly evaluations of their existing managers.

The Boards concluded their Emerging Markets Equity manager search by approving the On-Site Due Diligence Visitation Committee's recommendation to retain two new emerging market equity managers, Acadian (Boston, MA) and Axiom (Greenwich, CT) each to manage a separate account of approximately \$38.0 million, effective August 1, 2014; and to terminate the existing Wellington Emerging Markets Equity portfolio based upon the outcome of the emerging markets manager search.

In the coming months the Boards will conclude further evaluation and education related to real estate, issue an RFP for direct lending, conduct further review and evaluation related to GTAA and conduct an All Country Word Index excluding the U.S. ("ACWlexUS") manager search, and resume analysis pertaining to a new Asset Allocation study.

## THE ECONOMY

After six very long years of extreme volatility in the global markets, we were experiencing some calmer times and heard forecasts that suggested better times lie ahead for the economy. When it comes to the U.S. economy, the glass went from half full to half empty. At the start of the year, economists were optimistically reporting that perhaps the economy would grow 3% this year instead of the meager 2% pace where it has been stuck for the prior three years. Half-way through the year, however, forecasts were being slashed. The latest news comes from the International Monetary Fund – with that organization now saying that the U.S. economy will only grow 2% this year, down from its earlier forecast of 2.8%.

In less than three weeks, a big change is nearly certain for investors. Virtually all economists expect the Federal Reserve to announce the end of its program that bought bonds every month in order to boost the job market. The purchases are widely credited for fueling price increases of all kinds of investments. Investors have had a lot of advance notice that the end is coming, and the hope is that the announcement will not cause big market swings given all the time to prepare. Some express their bigger concern is when the Fed will start raising short-term interest rates, which the central bank has said will not be for a "considerable time". Rising interest rates would lower prices for bonds and could also reduce demand for stocks. Most investment managers are expecting the first rate hike to happen next year and for it to have a bigger impact than the end of bond buying, also known as Quantitative Easing ("QE").

Notwithstanding some recent wobbles, it has been a remarkably calm climb for stocks in recent years. The Fed's bond buying program helped the stock market not only to surge but to do so in nearly uninterrupted fashion, even when the economy was improving only modestly. The last

time investors saw a 10 percent drop for the Standard & Poor's 500 index was three years ago. Some suggest that this week's downturn may be a preview of things to come after QE ends.

To be sure, conditions are different from past instances when the Federal Reserve ended QE programs. The economy is stronger, and the unemployment rate is at its lowest since 2008. The central bank has also been steadily tapering the pace of its monthly bond purchases since January, and investors have already had their chance advance notice. While the Federal Reserve is almost certain to pull back soon on its stimulus, other central banks around the world are also still pushing the accelerator, which would give an upward push to stock prices. Most economists expect the European Central Bank and the Bank of Japan to keep up efforts to stimulate their economies.

## INVESTMENT PERFORMANCE OF THE SYSTEMS

During the third quarter of 2014, the markets began a correction which has now been characterized as a downward trend despite an economy that is growing at a modest to moderate pace.

The System's total quarter-to-date return was -1.99 percent, 0.06 below our weighted index benchmarks for the quarter ending September 30, 2014. Meanwhile the S&P 500 Index generated a 1.13% total return for the third quarter significantly ahead of the quarterly returns for the Russell 2000 -7.36 percent, MSCI EAFE Index return of -5.83 percent and the Barclay (BC) Aggregate bond index of 0.17 percent.

For the current fiscal year-to-date period ending September 30, 2014, our System's cumulative investment returns were -2.00 percent which is 0.89 percent below our index benchmarks. For the twelve months ending September 30, 2014, our System's cumulative investment returns were 9.14 percent. For the past five years our System's annualized return was 10.50 percent which is 0.22 percent below our weighted index benchmarks and compares somewhat favorably with the five year return of the SP 500 return of 15.70 percent, the Russell 2000 return of 14.29 percent, MSCI EAFE International Index return of 7.04 percent and the Barclay (BC) Aggregate bond index of 4.12 percent.

As of September 30, 2014, the Retirement System's portfolio had 60.17 percent in equities, 28.32 percent in fixed income, and 11.47 percent in public and private open ended real estate investment funds. The investments were further diversified into the following asset classes and target percentages:

	Actual	Target
Large-Cap equities	23.15%	22.50%
Small-Cap equities	7.00%	7.50%
International equities	22.62%	21.60%
Emerging Market equities	7.41%	8.40%
Domestic fixed income	17.90%	15.00%
High Yield fixed income	10.42%	10.00%
Real estate	11.47%	15.00%
Cash	<u>0.03%</u>	<u>0.00%</u>
Total	100%	100.0%

This asset class diversification along with portfolio investment style diversification is all part of the Retirement Board's Investment Risk Management Program.

In September of this year, the Retirement Office was notified that elected Employees System Board Member Gary Bersch passed away suddenly. At the Board meeting on September 23, 2014, the Board agendized a moment of silence in his honor. Although Gary only served on the Board since July 2014, Gary was a dedicated and active participant and served his members well. He was always willing and open to education and accepted the position as Board Member with enthusiasm. Our prayers go out to Gary's family, friends and coworkers.

At the Employees Retirement Board meeting on October 8, the Board called for a Special Election to complete the Board Member term ending June 30, 2018 and adopted an election calendar. As of Friday, October 10, 2014, the last day to receive nomination petitions, only one nomination petition was received by the Retirement Office. Therefore, in accordance with Section 13 of Article 6 of the Joint Boards Rules and Regulations, whenever, at the close of the time for filing nomination petitions only one candidate qualifies for placement on the ballot for the election, the Secretary shall make a certification of that fact, naming the candidate, and candidate shall be deemed elected to the office and no election shall be held for that office. **That candidate is DAVID CAIN.**



David is an Airport Operations Specialist for the Airports Department. He has been with the City of Fresno for almost 20 years. David will be sworn-in at the October 28th Board meeting and will serve the remaining term through June 2018.

## PREPARING FOR YOUR RETIREMENT

Preparing for retirement requires planning in a number of areas. The staff role at CFRS is to assist you in making sure that once you've made the decision to retire, you can do so with confidence. In preparing for your requirement date, here are some considerations that you should make:

- **Gather together important documents.** CFRS is required to see the *original* or *certified copies* of the following:
  - Birth Certificate or valid Passport
  - Marriage certificate
  - Driver's license
  - Social Security card
- **Select your Retirement Date.** There are many factors to consider to determine the best time for you to retire. We suggest that you make an appointment with a Retirement Counselor and request an estimate of your pension allowance. An estimate or calculation, will include your different retirement payment options.

CFRS offers all its members the opportunity to speak with a Retirement Counselor and will assist you with selecting a retirement date, choosing the best retirement payment option, calculating the amount of tax withholding, setting up direct-deposit, and answer any other questions that you may have before making the decision to retire.

**Contact the Retirement Office to make an appointment with a Retirement Counselor at (559) 621-7080 or email [Retire@Fresno.gov](mailto:Retire@Fresno.gov).**

## UNDERSTANDING RECIPROCITY continued

A member who wishes to establish reciprocity must begin membership in the new retirement system within six (6) months of leaving their former plan. The member must also agree to leave his/her funds on deposit with the first plan while employed under the new retirement plan. The funds left on deposit continue to earn interest but are not available for withdrawal until the member terminates employment with his/her new employer. Assuming that the member works long enough to retire under the plan, he/she will apply for retirement benefits from both plans using the same effective date of retirement. The two plans share salary information and use the higher salary information earned with one of the plans to calculate the person's monthly retirement benefit. Each plan may have a different benefit formula but the shared salary information allows a member to be out of active membership from the original retirement plan for many years and still receive a greater retirement allowance due to higher salary earnings.

Reciprocity gives many public employees within California the advantage of moving from employer to employer without having to start earning retirement benefits all over again as employment changes. When terminating employment, how you handle your future retirement benefit is very important.

**The Retirement Office is available to discuss your options or to answer any questions you may have concerning reciprocity.**

## DIRECT DEPOSIT OF RETIREMENT BENEFIT PAYMENTS IS YOUR BEST PROTECTION

Did you know that approximately ninety-nine (“99.0%”) percent of monthly City of Fresno retirement benefit payments are made by electronic deposit! Direct deposit benefit payments are in your bank account on the last business day of each month and available for your immediate use.

For those very few retirees still receiving a paper check, we strive to meet our members’ expectations, however, there are some instances which we have no control such as the mail services. Please be aware that retirement benefit checks that are mailed are not considered late until the 10th calendar day after the date upon which checks are mailed, which is the last City business day of each month. The Retirement Systems will not be held liable for any fees or other implications that may occur due to any extended delay due to weather or mail delivery of payments made by a check.

In order to reduce situations which could result in a delay of your benefit payment, the Retirement Boards highly recommend the use of direct deposit. The utilization of a direct deposit removes most reasons for any delays and provides immediate access to

your retirement funds on the day of payment. In addition, a monthly benefit advice detailing your deposit will be mailed to the address you provided for record keeping. To establish direct deposit for your benefit payments, you will need to prepare and sign a direct deposit form which provides us with your banking account information. A direct deposit form can be found on our website at the following link or contact the Retirement Office at 559 621-7080:

<http://www.cfrs-ca.org/Employee/Communications/documents/RET06-01ElectronicDeposit-March2012.pdf>

# RETIREEES

July 1, 2014 to September 30, 2014

Linda Brauer	Lynn Kirkes
Kennard Brewer	Steven Laine
Wesley Eirich	Shirley Olevas
Luther Green	Paul Reynolds
Dean Huss	Maria Sanchez
Joe Isquierdo	Richard Snyder
Richard Keck	Patricia Tierce