

## The Financial Markets And Your SBCERS Retirement

**H**istory will likely frame 2008 as a year without precedent in the financial markets. For many of us it was simply a very challenging time. We have been here before and we have always recovered. If history has taught us anything it is that U.S. and world economies are resilient, and we will eventually enjoy a new period of prosperity.

For many individual investors, though, this bear market feels different. In fact, every bear market is different; but having lived through past market downturns has given us some added perspective. In 1973-1974, the Standard & Poor's 500 Composite Index declined for 21 months and some wondered if we would ever recover. In the early 1980s, short-term interest rates exceeded 20%, inflation was in the teens, and the market lost 27%. In 1987, the market lost 20% in a single day. Earlier this new century, the tech bubble burst and the S&P 500 lost 49% while the NASDAQ Composite Index lost 78%.

The Santa Barbara County Employees' Retirement System's short-term returns have experienced a significant decline, but SBCERS employs a thoughtful long-term investment strategy that is set to meet the funding requirements of the Plan. The SBCERS portfolio is invested in a well diversified mix of investment classes including categories within stock (equities), bonds (fixed income), and alternative investments. Over SBCERS' history we have experienced a number of significant up and down market cycles, as presented above. Please be assured that the SBCERS' investment strategy does not change with short-term market movements. Our strategy has a long-term horizon and the portfolio is well-positioned to take advantage of a return to normal market conditions when the current market turmoil subsides as history has demonstrated.

Keeping a long-term perspective doesn't make it easier to live through the current downturn, but it does reinforce our conviction that we will get through it. Already, governments around the world essentially have said, "We're going to do whatever it takes to get the economic system running smoothly again." But it will take time for stimulus packages to have an impact. After all, when you oil a bicycle chain, you've got to roll it around a few times to spread the oil and get things operating smoothly again.

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## **Board of Retirement**

### **Bernice James**

*Chair – County Treasurer-  
Tax Collector & ex-officio  
member*

### **Joni Gray**

*Vice Chair – Fourth District  
Supervisor*

### **Donald Kendig**

*Secretary – elected  
General Member  
representative*

### **Zandra Cholmondeley**

*elected Retiree  
representative*

### **Joseph Gallas**

*appointed member*

### **Julie McCammon**

*elected Safety Member  
representative*

### **Vanessa Patterson**

*appointed member*

### **Ward Rafferty**

*appointed member*

### **Shawn Terris**

*elected General Member  
representative*

### **Gail Marshall**

*alternate Retiree  
representative*

### **Frederick Tan**

*alternate Safety  
representative*

## **Changes On The Board Of Retirement**

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**W**e are pleased to introduce the newest members of the Board of Retirement, two of whom were elected and two of whom were appointed by the Board of Supervisors in 2008.

**Zandra Cholmondeley** was elected in December 2008 by the retired membership to serve a three-year term on the Board of Retirement. Ms. Cholmondeley retired in 2008 after a 29-year career with the County, which included service as the Clerk of the Board of Supervisors and as Principal Analyst in the County Executive Office. During her tenure in the Executive Office, she analyzed and monitored the County retirement fund and retiree health benefit issues. In her election statement, Ms. Cholmondeley indicated that her goals are to improve investment performance, strengthen the fund and protect retiree benefits.

**Gail Marshall** was elected to the Retired Alternate position on the Board of Retirement. Ms. Marshall was a member of the County Board of Supervisors representing the Third District from 1997 to 2005, during which time she served for three years as the Board of Supervisors' appointee to the Retirement Board. She has also served the community as a member of the County Association of Governments, Local Agency Formation Commission, Air Pollution Control District Board of Directors, and various other community board and committees. Ms. Marshall has stated her intention is to advocate for solid investments and fair health insurance subsidies for retirees.

**Vanessa Patterson** was appointed to serve on the Retirement Board by the Board of Supervisors in May 2008, and subsequently reappointed to a new three-year term beginning January 2009. Ms. Patterson is an Accredited Asset Management Specialist who recently left A.G. Edwards & Sons to start a financial planning firm. She started her career as an accountant for a local non-profit agency, and

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## Supplemental Benefit Becomes Health Reimbursement Arrangement

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Previously, retired members not participating in County-sponsored retiree health insurance plans received a \$4-per-month-per-year-of-service supplemental cash benefit. Effective January 1, 2009, the \$4-per-month-per-year-of-service supplemental benefit was converted from a taxable cash payment to a tax-free health expense reimbursement. The benefit is no longer paid as a part of the retirement allowance, but will only be paid to reimburse qualified health care costs, such as hospital and medical bills, and Medicare or other insurance premiums. Reimbursement up to the amount of the accrued benefit will be made for qualified health care expenditures beginning December 1, 2008. Recipients of the \$4 benefit should retain documentation of any payments made for health insurance premiums or medical services incurred on or after that date. The health expense reimbursement benefit will have a lifetime accumulator (that is, if no claim is filed, the \$4-per-month-per-year-of-service will accumulate for use at a later date). Any balance remaining at the member's death will transfer to a qualified surviving beneficiary receiving a continuance benefit.

The healthcare reimbursement program is administered by Creative Benefits, a third-party administrator located in Vista, California. When qualified claims and supporting documentation are submitted to Creative Benefits, the reimbursements are processed and transmitted directly to the same bank account in which the member's retirement allowance is deposited.

Reimbursement forms have been mailed to all affected retirees and beneficiaries. Extra claim forms are available on the SBCERS website: [www.sbcers.org](http://www.sbcers.org) or by calling the SBCERS office. Reimbursements are paid by Creative Benefits on the 15th of each month. Questions regarding how the reimbursement arrangement works can be answered by calling your Retirement Benefits Specialist. Questions regarding a specific reimbursement that is in process can be answered by calling Creative Benefits toll free at (888) 295-5656.

### Combined Newsletter For Active and Retired Members

In recent years, active and retired members have received separate newsletters from SBCERS with information targeted to the specific audience. However, we understand that our members take interest in what happens system-wide. Active members are often interested in knowing what is happening with retirees, and vice versa. So, with this issue, we are launching a new "combined" format which includes communications with all members within the same newsletter. Our goal continues to be to provide timely, accurate and easy-to-understand information to our members, and with the new format you can expect to receive a newsletter four times each year (January, April, July, and October).

## Did Your Retirement Check Change?

Does the amount of the retirement check you received at the beginning of January look different? Several common check deductions often change at the start of a new year. Review the deduction amounts on the check you received in December and the one you received in January against this list to see if any of these changes are the reason for the difference.

### Tax Withholding

The Internal Revenue Service revises the tax tables each calendar year, which can raise or lower your federal withholding amount. State tax tables also change. If there is a significant difference, you may want to check with your tax consultant about the amount to have withheld based on these new tables.

### Health Premium Rates

New monthly premium rates for Secure Horizons and Fire Fighters Insurance Fund health plans went into effect on January 1.

### Supplemental Benefit

On January 1, the \$4-per-month-per-year-of-service supplemental benefit became a non-taxable reimbursement for eligible health expenses and is no longer being paid in your monthly allowance. Your monthly allowance decreased if you previously received the cash supplement.

### Post-Tax Allowance

You may have used all of your post-tax contribution credits and no longer have a tax-free benefit. (See the explanation for Box 5 in the next article.)

## Retiree Q & A — Your 1099R Tax Form

### Q. What's a 1099R form?

**A.** Each January, SBCERS mails a 1099R form to all those receiving SBCERS benefits. This is the form that reports the amount of income you received during the tax year, which is the information you need to complete your federal and state tax returns.

### Q. What if I don't receive my form from SBCERS?

**A.** We mailed your tax form to the address we had in our files as of January 15, 2009. If you've moved, be sure to contact us with your new address. If you haven't received your form by February 15, you can request a duplicate by contacting your Retirement Benefits Specialist.

### Q. What does the information on the form tell me?

**A.** Each box has specific information you will need to complete your tax returns. The boxes shown below are the ones that relate to your SBCERS benefits.

### Q. Why is there a difference between the gross benefit amount and the taxable benefits on my form (Box 1 and Box 5)?

**A.** Box 5 is the amount of your after-tax contributions that the IRS allows you to report as tax free in 2008. It is based on retirement contributions you paid while you were working that were taken from your pay check "after" taxes had been deducted, so you have already paid the taxes on this amount.

Form 1099-R		Department of the Treasury - Internal Revenue Service		CORRECTED (if checked) OMB No. 1545-0118		2008	
1 Gross distribution		2a Taxable amount		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.			
\$		\$					
2b Taxable amount not determined		Total distribution					
PAYER'S name, street address, city, state, and ZIP code							
PAYER'S federal identification number				RECIPIENT'S identification number			
3 Capital gain (included in box 2b)		4 Federal income tax withheld		5 Employee contributions (designated Roth contributions or insurance premiums)			
\$		\$		\$			
6 Net unrealized appreciation in employer's securities		7 Distribution code(s)		8 Other			
\$				\$			
9a Your percentage of total distribution				9b Total employee contributions			
%				\$			
RECIPIENT'S name and street address (incl. apt. no.), city, state and ZIP code							
Account number (see instrs.)		1st year of desig. Roth contrib.		10 State tax withheld			
				\$			
11 State/Payer's state no.				12 State distribution			
				\$			
13 Local tax withheld		14 Name of locality		15 Local distribution			

**Q. But my 1099R doesn't show anything in Box 5. What does that mean?**

- A.** If Box 5 is blank, then either:
1. The contributions deducted during employment were "pre-tax" contributions. Since you paid no taxes on them while employed, your benefit is fully taxable. Or,
  2. You, or the member you are receiving a benefit from, retired under General Plan 2 and did not pay any contributions while working. Or,
  3. You have already used up the total previously-taxed contributions in prior tax years. Your allowance is now "fully taxable."

**Box 1** This is the total dollar amount of the benefits you received in 2008 before any deductions were taken.

**Box 2a** This shows the amount of your benefits that are taxable, which is what you need to report on your taxes. If Box 2b is checked, Box 2a will be blank.

**Box 4** This is the amount of Federal withholding that was deducted during 2008. You will use this amount on your Federal tax return.

**Box 5** This is the amount of the after-tax contributions that you paid while you were working that the IRS allows you to receive as tax free this year.

**Box 10** This is the amount of State withholding that was deducted during 2008. You will use this amount on your State tax return.

**Box 11** This is the State tax ID number for SBCERS.

## A Fond Farewell To "Retiring" Board Member George Bobolia.



Members of the Board of Retirement donned bow ties at the December meeting in tribute to George Bobolia, who served as the elected Retired member since 1994. (Front: Vanessa Patterson, George Bobolia, Bernice James, Shawn Terris; Back: Fred Tan, Joseph Gallas, Julie McCammon, Ron Bruns, and Interim Administrator Tom Ford)



Retiring Board member George Bobolia stands between recent appointees Vanessa Patterson and Ward Rafferty.

## **Financial Markets**

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Over the past several months, many of you have asked us the same two questions about the System's current financial situation. First, you wanted to know, "What happened?" Many pundits in the financial press have declared that new products, such as credit default swaps, collateralized debt obligations, and special investment vehicles, were the culprits. Our view is much more basic. We think the financial world got into this mess because the financial markets fundamentally mis-priced risk, or they simply did not understand how much risk they were taking. An example of this type of risk would be the purchase of sub-prime mortgage bonds.

Second, you have wanted to know, "How is SBCERS responding to this financial environment?" The answer is simple: we are committed to our belief in fundamental, long-term asset allocation, which we believe, and history also demonstrates, will lead our system back to more prosperous times.

As we move into a new year, please keep in mind that SBCERS continues to be well funded, and we are aware of the current market environment. We continue to diligently monitor the portfolio and are maintaining a prudent investment strategy which has proven itself over the long-term.

## **Changes On The Board Of Retirement**

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continues to actively serve the community by participating on various local agency councils and committees. Ms. Patterson says her interest in serving on the Board of Retirement stems from her desire to help protect promised benefits for the members of the System.

**Ward Rafferty** was appointed to serve on the Retirement Board by the Board of Supervisors in October 2008. Having worked in the financial services industry since 1993, Mr. Rafferty is an experienced investment professional who characterizes his approach as that of a prudent fiduciary. He is currently a Senior Financial Consultant with Wells Fargo Investments, and was previously a vice president of wealth management at Smith Barney. Mr. Rafferty is a resident of the Santa Ynez Valley where he is

an active member of the community, including service on the board of the Valley Alliance and participation in the collaborative Valley Blueprint project.

Continuing on the Board are Donald Kendig, who was re-elected to another three year term by the active General membership in December, and Joni Gray, who was re-appointed by the Board of Supervisors. Leaving the Board of Retirement over the past year were Harriett Miller (appointed member), George Bobolia (elected Retired member) and Ron Bruns (elected Retired Alternate member). We would like to express our appreciation to the departing members for their time and distinguished service on the Board.

# Contact Information

**Tom Ford**  
Interim Retirement  
Administrator

**Lila Deeds**  
Assistant Retirement  
Administrator

**Ramona DeWitte**  
Retirement Benefits  
Manager

## Santa Barbara Office

Serving California residents with zip code lower than 93200, plus residents of Buellton, Los Olivos, Santa Ynez, and Solvang:

### Last Name A-K

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## Santa Maria Office

Serving all out of state residents, and California residents with zip code higher than 93200, excluding residents of Buellton, Los Olivos, Santa Ynez, and Solvang:


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