

Administrator's Corner



Oscar Peters
Retirement Administrator

Open enrollment for retiree health insurance has closed for another year. The complexity of insurance options, plan design changes and increasing cost of coverage make

this one of our most challenging periods each year. As most of you know, this year there were modest changes in medical insurance plans. However, retirees not enrolled in Medicare experienced 45–60% increases in premiums. All enrolled retirees receive a health insurance subsidy, but in very few cases does the subsidy cover all of the insurance cost. Therefore on an individual basis the out-of-pocket increase was much more than 60%.

Many retirees are very upset by the magnitude of the increase and have asked about the insurance renewal process. The health insurance renewal is negotiated by the insurance carriers and the County with assistance from the County's benefits consultant. Playing a significant role in this process is the County's Health Oversight Committee, which includes representatives from all County employee organizations and one voting member from the Retired Employees of Santa Barbara County. The Committee weighs cost and coverage alternatives, and makes recommendations to the Board of Supervisors.

Health insurance rates are based on a combination of plan design, health care inflation (which runs about 12% per year), and group claims experience. The claims experience reported by Blue Shield for retirees has been very poor, particularly for non-Medicare, or "early" retirees. As an example, Blue Shield reports that depending on plan, for each one dollar received from in early retiree premiums, the carrier paid out between \$1.27 and \$1.77 in claims during 2005–06. Some retirees have questioned the accuracy of the experience reporting. We are not in a position to assess the accuracy of the claims reporting, however, the County's benefits consultant and actuaries are experts in that area.

To a large extent, the increase in non-Medicare retiree rates was due to a Health Oversight Committee decision to reallocate premium costs among Active Employees, Early Retirees and Medicare Retirees in order to rate each group based on its own claims experience. In recent years, early retiree costs have been subsidized by premiums paid by employees and Medicare retirees. This "unblending" of the rates resulted in minor decreases in most Medicare retiree rates. Overall premiums for active employees

In This Issue

Your Retirement Board At Work	2
Contribute To The Democratic Process	3
Are Your Affairs In Order?	4
New "Public Safety Officer" Tax Benefit	6

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*

George Bobolia

*elected Retiree
representative*

Paul Doré

appointed member

Joseph Gallas

appointed member

Harriet Miller

appointed member

Julie McCammon

*elected Safety Member
representative*

Shawn Terris

*elected General Member
representative*

Ronald Bruns

*alternate Retiree
representative*

Vacant

*alternate Safety Member
representative*

Your Retirement Board At Work

Special Cost Of Living Adjustment For Those Retired Prior To April 1, 1981

One of the benefits of your retirement plan is an annual cost of living adjustment (this benefit does not apply to non-contributory Plan 2 retirements).

Prior to April 1st of each year, the Board of Retirement determines the cost of living adjustment (COLA) amount based on the Consumer Price Index (CPI). Retirement allowances are adjusted to the nearest one-half percent, up to a maximum of three percent.

If in any year the CPI increases more than three percent, the difference is “banked” to be applied to the COLA amount in years when the CPI increases less than three percent. Over time, retirees accumulate a “COLA bank” representing the amount that CPI has increased over and above the total of COLA’s received. Another way of looking at it is that the COLA bank represents the loss of purchasing power in the retiree’s monthly allowance in relation to inflation.

The County Employees’ Retirement Law (1937 Act) provides that a retirement board can fund and approve supplemental cost-of-living increases to reduce the loss of purchasing power for retirees whose COLA banks exceed 20%. After this year’s April COLA, the 326 retirees who retired prior to April 1, 1981, had accumulated COLA banks ranging from 30% to 44%.

Based on a request from the Retired Employees of Santa Barbara County (RESBC), the Board of Retirement at its May 2007 meeting granted a special “ad hoc” COLA for retirees retiring prior to April 1, 1981, in order to reduce their loss of purchasing power. The Board allocated \$2.3 Million from the Special Allowance Reserve for this purpose, and SBCERS will be working with the Retirement System’s new actuary to determine the amount of the additional benefit each affected retiree will receive. Because we’re in the

process of transitioning to a new actuarial firm, we anticipate that the calculations will be completed and the benefit implemented sometime this Fall.

Issue Of Health Insurance Subsidy Deferred

The Board of Retirement also considered a request from RESBC to use the Retirees' share of undistributed earnings to increase the health insurance subsidy and in-lieu dollar amounts. As health care and insurance costs increase at a far greater rate than inflation, a larger proportion of retiree income is used for medical benefits. This year's health insurance renewal was particularly difficult for many retirees, some of whom experienced 60% increases in medical premiums (and with the retirees'

out-of-pocket increases being even greater). The Retirement Board is very sensitive to this issue. However, retiree health insurance funding is complicated and a subject under review nationwide as public agencies come to grips with new Governmental Accounting Standards Board reporting requirements. While SBCERS' health benefits are well funded (much more so than many public agencies), there are concerns that the present method of providing health care subsidies may not be fully compliant with federal tax laws. SBCERS and the County are working to identify the best tax-compliant method for providing health care benefits to retirees. Since this process is ongoing, the Retirement Board deferred this matter until January 2008 in order to allow additional time for the current evaluation process to be completed.

Contribute To The Democratic Process

As a SBCERS retiree, you are permitted to work extra help for the County up 960 hours per fiscal year (July 1 to June 30) without impacting your retirement benefits. Many former County employees work extra help after retiring in order to keep active and serve the community, and to make a little extra money, too. County departments often seek to supplement their regular staffing resources and make use of the training and experience of County retirees.

The Santa Barbara County Elections Division is responsible for voter registration, administration of elections, and maintenance

of related official records. The Elections Division is looking for qualified individuals to work extra help through the November 2008 election cycle. This is an opportunity to play an active and important role in the community, and earn some extra money while contributing to the democratic process.

Positions are available in the Santa Barbara, Santa Maria, and Lompoc offices. Interested persons should contact Suzanne Jackson, Elections Supervisor, by calling (805) 568-2207 or (805) 568-2202 or e-mailing her at sjackso@co.santa-barbara.ca.us.

Are Your Affairs In Order?

It's something we all know we need to do, but many of us put it off until it's too late. Oftentimes, family members are left to struggle with disorderly and expensive legal and financial matters when they are emotionally devastated and least able to cope. While we strongly recommend that you obtain professional estate planning advice, the following questions may get you started thinking about decisions and actions that should be made to ease the burden on your family if you die or become incapacitated.

Have you designated a financial power of attorney? Create a durable power of attorney to authorize a trusted person to handle your finances if you become incapacitated and unable to handle your own affairs. Your durable power of attorney can be made effective when you sign it or upon certification by a doctor that you have been incapacitated. It automatically ends upon your death (or sooner in certain circumstances such as divorce).

Have you signed an advance health directive and durable power of attorney for health care? An advance directive (or "living will") allows you to determine in advance what type of medical treatment you do or do not want to receive if you become unable to communicate your wishes. The directive should include designation of the person who will have the authority to make decisions about your health care if you are unable to do so.

Is your will up to date? In addition to deciding who will inherit your property and other assets, a will should designate an executor to carry out the terms of the will. If you have minor children, you should choose a guardian to raise them in case both parents die or are unavailable, and identify who will manage any property or income they inherit.

Have you considered a trust? If your assets are held in a living trust, your survivors may be able to avoid the time and expense of probate. Assets are transferred quickly and easily to the beneficiaries of the trust upon your death. Some living trust arrangements can also reduce federal estate taxes when the estate is large. Keep in mind that having a living trust may not eliminate the need for a will to provide instructions on the disposition of personal items not held in the trust.

Do you have life insurance, and if so, have you evaluated the adequacy of your life insurance policy? A life insurance policy can provide a source of financial support to dependents, as well as providing readily available cash to pay debts, taxes, and/or funeral expenses. By evaluating the immediate and long-term needs of your family in the event of your death, you can determine what kind of policy best meets those needs and how much insurance to buy.

Have you designated beneficiaries for all bank and brokerage accounts, and for retirement survivor benefits? Naming a beneficiary on a form provided by your bank or broker makes the account "payable on death" to that person and often simplifies transfer of those assets.

Have you considered funeral arrangements and let your preferences be known to the person(s) that will likely have that responsibility?

While most of us would rather avoid this subject, it will be very helpful for your loved ones to know your wishes. In addition, you may want to consider pre-funding related expenses through a trust for that purpose that you can set up through your bank.

Have you stored documents where the person who will be handling your affairs has access?

The person who has power of attorney and/or your executor may need access to the following documents:

- will
- trusts
- insurance policies
- real estate deeds
- certificates for stocks, bonds, annuities
- information on bank accounts, mutual funds, and safe deposit boxes
- information on retirement plans and deferred compensation accounts
- information on debts such as mortgages and loans, credit cards, utilities, and unpaid taxes
- copies of recent federal and state tax returns
- funeral arrangement instructions

Have you created a list of important contacts?

The same person who needs access to documents will need a list of contacts to help manage your affairs, including your attorney, your insurance agent, your tax accountant, your stock broker, etc. While some of this information can be gleaned from documents, it's much easier to consult a prepared list. In addition, you may want to make a list of relatives, friends and other personal contacts. Should you die or become incapacitated, who would you want to know about it? Your only surviving aunt in Montana may have no formal role in your estate, but would surely want to be informed in the event of your death.

None of us likes to think about these things, but making the time and effort to organize our affairs is one of the best gifts we can leave to those we love.

Be sure to store documents where the person who will be handling your affairs has access

New “Public Safety Officer” Tax Benefit

If you're a retired public safety officer who left your job after age 55, you may have received a letter in January from the Retirement Office about a new tax benefit that is effective this year. The Pension Protection Act of 2006 created a new law allowing qualified public safety (i.e., law enforcement and firefighter) retirees to have up to \$3000 of their annual pension used to pay for health insurance premiums excluded from income for federal tax purposes.

This new law has been challenging for SBCERS and other public pension systems to implement because Internal Revenue Service regulations outlining how the agency will interpret the new law were not available by the January 1 effective date. Since then, there has been a lot of conflicting and confusing information about how the new law will be interpreted, and a number of questions remain unresolved. However, some clarifications have become available in the past six months, and here is an update for affected retirees.

- Based on IRS Notice 2007-7, the safety officer's surviving spouse and dependents are **not** eligible for the tax benefit.
- IRS Notice 2007-7 also provided that payments to self-insured benefit plans are not eligible (this would make ineligible premiums for the County's self-funded dental and CalPERS long term care insurance plans). However, the U.S. House of Representatives Ways and Means Committee sent a letter to the IRS clarifying the legislative intent to include self-funded as well as insured plans and

indicating that a technical correction to the law will be forthcoming. Based on that clarification the IRS has now indicated that premiums to self-funded plans **will** be included.

- Originally it was understood that an affirmative election had to be made by the retiree following separation from safety employment and that the retirement system would reduce reported income on the member's Form 1099R. Now, however, based on IRS advice, it appears that the retirement system will **not** reduce reported income on the 1099R. Instead, each qualifying individual will take the exclusion on his or her individual tax return (form 1040, line 16b). This eliminates the need for election or notice to the retirement system.

Clarification is still needed regarding qualifying public safety officer classifications and normal retirement age. Late last year, the Board of Retirement adopted the following criteria for administration of this benefit: “eligible retirees are those who (1) retired as a Safety member (or would have if they retired at the present time), and (2) separated from county service by reason of disability or attainment of normal retirement age. Normal retirement age is currently defined as age 55 or the age at which the employee becomes eligible to retire, whichever is later.”

We will keep you informed as further guidance is available.

Administrator's Corner

continued from page 1

increased by 17% this year. If early retirees had been included with the active members, the rates for active employees would have gone up much more. The difference would have been considered a County subsidy to retiree health insurance and beginning next year would have to be reported as a financial liability against the County.

We recognize the importance of this issue to retirees and while SBCERS does not have a decision-making role in health insurance process, we will continue to communicate your concerns and work to ensure that you are well informed regarding changes that affect your health insurance options.

The financial markets were very good over the last fiscal year. A preliminary report indicates that SBCERS had an investment return of more than 17% for the year. The value of the portfolio increased by about \$225 Million to \$1.9 Billion at fiscal year end. We have significantly changed the structure of the portfolio over the last several years. In 2001-2002, SBCERS was invested only in publicly traded large capitalization domestic stocks, publicly traded developed and emerging market stocks, and domestic bonds. In 2003, we added publicly traded Real Estate Investment Trusts (REIT's). We added small capitalization value and growth stocks in 2004. We then sold the REITS and in 2006 added core real estate, and invested in a private equity fund and a hedge fund.

These investments were not added to significantly increase returns, but rather are intended to reduce the volatility of the value of the portfolio by investing in assets that do not move in tandem. The goal is to have some asset classes performing well while others may be falling or not performing as well. Over an extended time period, the cost of providing retirement benefits should be reduced as we do not have periods of significant losses from which we must recover.

The current portfolio is allocated as follows.

Cash	1.00%
Bonds	25.00%
American Stocks	47.00%
Developed Markets International Stocks	15.00%
Emerging Markets International Stocks	2.00%
Real Estate/Real Return	5.00%
Private Equity	5.00%

**SBCERS is here to
serve you.**

**For general information and/or assistance
please contact us as follows:**

SBCERS
3916 State Street, Suite 210
Santa Barbara, CA 93105
(805) 568-2940
Email: sbcers1@co.santa-barbara.ca.us

Contact Information

Lila Deeds Assistant Retirement Plan 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 **Barbara Gordon** **(805) 568-2942**

Last Name L-Z **Scott Dunlap** **(805) 568-2943**

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:

Last Name A-K **Doreen Miller** **(805) 739-8668**

Last Name L-Z **Reneé Lynn** **(805) 739-8667**