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Retirement Administrator

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date:	March 20, 2013
To:	Board of Retirement
From:	Richard White, Retirement Administrator
Subject:	MCERA Charters and Policies

As a continued effort to implement the strategic long-term goal to "establish optimal board governance" and the objective to "review existing charters and policies to identify gaps" in these governing documents, the Board has two charters and two policies to consider and act upon.

1. Retirement Board Charter. This is a new charter which defines the duties and responsibilities of the Board of Retirement.

   Recommended motion: Adopt the Retirement Board Charter.

2. Retirement Administrator Charter. This is a new charter which defines the duties and responsibilities of the Administrator. This charter works together with the Retirement Board Charter where the Board functions at the policy level and the Administrator functions at the implementation level.

   Recommended motion: Adopt the Retirement Administrator Charter.

3. Assessment and Determination of Compensation Enhancements Policy. This is a new policy that will be implemented by MCERA staff during the calculation of a member's retirement benefit to assess whether or not an element of compensation was paid to enhance a member's benefit. The recent pension reform legislation required that the Board adopt a policy to assess a member's pension compensation. This policy complies with the PEPRA law and is consistent with policies adopted in other 1937 Act systems.

   Recommended motion: Adopt the Assessment and Determination of Compensation Enhancements Policy.

4. Overpayment Policy. This is an adopted policy of MCERA and its scheduled review. Staff has not had a lot of need to use the policy but it did function as intended in these few circumstances. A couple of minor syntax changes were made but otherwise the policy is in the original form. A redlined version and the original policy are included for review.

   Recommended motion: Adopt the Overpayment Policy, as amended.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIREMENT BOARD CHARTER

I. INTRODUCTION

A. To ensure that the accountability and authority for the governance and management of MCERA are clearly stated, the Board has established policies describing the roles and responsibilities of the key decision-making bodies within MCERA.

B. All authority granted by the California State Constitution and the County Employees' Retirement Law (CERL) to the Board is retained, except as delegated by the Board. Consistent with its fiduciary role, the Board's principal duty is to ensure that MCERA is appropriately governed and managed. The overriding goal of the Board is to serve the best interests of members and beneficiaries and to protect the assets of the Association.

II. DUTIES AND RESPONSIBILITIES

A. Governance

1. The Board will:
   - a. Approve the Mission Statement and Core Values of MCERA;
   - b. Make regulations or by-laws consistent with the CERL;
   - c. Approve and amend, as necessary, policies and charters to ensure appropriate governance practices;
   - d. Approve policies describing the roles and responsibilities of the Board, the officers of the Board, each committee of the Board, and the Retirement Administrator, and amend these policies as appropriate;
   - e. Annually elect a Chair and Vice Chair of the Board;
   - f. Provide for the election of employee and retired trustees to the Board;
   - g. Establish the committee structure and annually appoint members to each Committee.

B. Investments

1. The Board has exclusive control of the investments of the Fund. The assets of MCERA are trust funds and, as such, the Board will manage the Fund (§31595):
   - a. Solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering MCERA.
   - b. With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and
   - c. By diversifying the investments of MCERA so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

B. Investments (Continued)

2. The Board will conduct a study of the relationship between the assets and liabilities of MCERA not less than every three (3) years.
3. The Board will approve a written statement of investment policy and will review and confirm or amend the investment policy at least every two (2) years.
4. The Board will approve a written statement of investment philosophy describing the principles, beliefs and assumptions underlying the investment policy and program.
5. The Board will approve investment objectives and strategies for achieving the investment objectives.

C. Benefits Administration

1. The Board will:
   a. Approve policies necessary to ensure effective administration of member benefits;
   b. Approve all members who apply and qualify for service retirement (§31670);
   c. Determine the merits of applications for disability benefits, making determinations with respect to permanency of injury and, if necessary, service and causation (§31720);
   d. Provide for, and act on, member appeals of decisions made by MCERA staff; and
   e. Annually review potential cost-of-living adjustments, as provided for in the County Employees' Retirement Law (CERL).

D. Operations

1. The Board will:
   a. Approve the annual Administrative Budget, including any budget amendments;
   b. Ensure that all required contributions to the Fund are collected in a timely manner;
   c. Ensure that all required distributions from the Fund are made in a timely manner;
   d. Approve the location of MCERA's office and the associated leases or purchase agreements;
   e. Ensure that appropriate operational control policies are in place to provide secure, efficient, and accurate delivery of member services; and
   f. Ensure that appropriate and sufficient insurance coverage is in place.

E. Financial, Actuarial and Accounting

1. The Board will:
   a. Ensure that appropriate accounting, actuarial and internal financial control policies and reporting systems are established.
   b. Approve the actuarial valuation and the actuarial assumptions, upon the advice of the actuary and other experts as required, and recommended to the Board of Supervisors such changes in the rates of interest, in the rates of contributions of members, and in county and district appropriations, as necessary;
   c. Approve the annual financial statements;

E. Financial, Actuarial and Accounting (Continued)

d. Ensure that a financial audit is conducted at least annually (§31593), and oversee all external and internal audits;
e. Ensure that an actuarial experience study is conducted at least every three (3) years; and
f. Ensure that an actuarial audit or equivalent analysis is conducted at least every 5-7 years unless there has been a recent change or a change is contemplated in the Actuary.

F. Human Resources

1. The Board will:
   a. Appoint and terminate the Retirement Administrator (§31522.2)
   b. Establish the compensation of the Retirement Administrator;
   c. Review the Retirement Administrator's Job performance; and
   d. Ensure that appropriate succession provisions are in place to provide continuity among MCERA management and staff.

G. Legal Affairs

1. The Board will establish Board policies and guidelines regarding proposed state and federal legislation and will initiate, support or oppose legislative proposals affecting MCERA as it deems appropriate.
2. The Board will approve actions concerning lawsuits that may affect the investments, benefits or funding of MCERA.

H. Communications

1. The Board will:
   a. Approve a Communications Policy designed to ensure effective communications with plan members and all significant interest groups;
   b. Ensure that an annual financial report is issued to members and interested parties; and
   c. Ensure the timely distribution of the Annual Member Statement to all members, and periodically review the format of the statement.

I. Appointment of Service Providers

1. The Board will either appoint or ratify the appointment of each of the following vendors, as deemed necessary by the Board, as specified in the Service Provider Selection Policy:
   a. Actuarial firms;
   b. The financial auditor;
   c. Outside legal counsel;
   d. Investment consultants;
   e. The custodian;
   f. Investment managers (including transition managers);
   g. Securities lending managers;
   h. Directed commission brokers;
   i. Proxy-voting advisors; and
   j. Other service providers, as may be determined by the Board.

J. Monitoring and Reporting

1. The Board will ensure that appropriate monitoring and reporting practices are established within MCERA. In support of this task, the Board will establish a Reporting and Monitoring Policy that sets out the routine reporting requirements of the board.
2. The Board will regularly:
   a. Monitor compliance with Board policies;
   b. Review the funded status of MCERA;
   c. Review progress toward the implementation of the MCERA business plan;
   d. Review the implementation of MCERA's internal financial and operating controls;
   e. Review the investment performance of the Fund and the performance of the investment managers of the Fund;
   f. Annually review the performance of the Board;
   g. Review the appropriateness of the actuarial assumptions, methods and related matters;
   h. Review the accuracy of the actuarial valuation process through an actuarial audit;
   i. Review, on a regular basis, the performance of the Board's advisors and vendors, including, at a minimum, the Actuary, the Financial Auditor, the Investment Consultant, and the Custodian;
   j. Monitor compliance with the Administrative Budget; and
   k. Monitor the cost effectiveness of the administration and investment programs.
3. The Board will review Board policies at a frequency to be set out in each policy.
4. The Board will provide for appropriate monitoring of compliance with applicable laws and regulations.
5. The Board will maintain appropriate minutes of its meetings.

K. Policy Review

The Board shall review this charter at least every three (3) years.

L. History

The Board adopted this charter on March 20, 2013

Mendocino County Employees' Retirement Association

Retirement Administrator Charter

I. Introduction

A. The Board of Retirement will appoint a Retirement Administrator who will serve at its pleasure. The Retirement Administrator is the most senior executive of MCERA and is not subject to county civil service and merit system rules (GC 31522.2). This charter sets out the roles and responsibilities of the Retirement Administrator.

B. The Board has delegated to the Retirement Administrator responsibility for the administration and management of MCERA consistent with the policies of the Board. The Retirement Administrator's executive responsibilities extend to all aspects of MCERA, including but not limited to:

1. Administrative support to the Board;
2. Investment administration;
3. Funding and actuarial activities;
4. Human resource management;
5. Operations and member services;
6. Financial, budget and audit functions;
7. Governmental affairs/media relations;
8. Legal affairs; and
9. Service provider selection.

C. The Retirement Administrator will provide leadership for MCERA staff in implementing the programs necessary to achieve the mission, goals and objectives established by the Board. The Retirement Administrator will manage the day-to-day affairs of MCERA in accordance with policies established by the Board, and may delegate duties to staff as necessary.

D. The Retirement Administrator will provide support to the Board and its committees in establishing all policies of the board. Such support will include identifying and analyzing issues requiring Board policy, and providing policy recommendations for consideration by the Board or its Committees. The Retirement Administrator will be responsible for ensuring that all policies are implemented.

E. The Retirement Administrator will provide the Board with relevant, appropriate and timely information to enable it to properly carry out its oversight responsibilities. Furthermore, the Retirement Administrator will apprise the Board in a timely manner of all significant issues, problems, or developments pertaining to the MCERA, and provide recommended courses of action.

II. Duties and Responsibilities

A. Administrative Support to the Board

1. The Retirement Administrator will:
   a. Recommend to the Board, as necessary, policies to ensure appropriate governance practices;
   b. Assist the Board in developing and implementing its governance policies and by-laws;
   c. Provide all support in arranging and coordinating Board and committee meetings, and related presentations and materials; and
   d. Coordinate board member education and travel.

B. Investment Administration

1. The Retirement Administrator will be responsible for the following:
   a. Recommending to the Board an Investment Policy Statement which will include investment objectives;
   b. Recommending to the Board strategies for achieving the investment objectives;
   c. Implementing board-approved strategies by developing investment manager structures with respect to:
      1) The number of investment manager mandates to be established; and
      2) The size of each investment manager mandate.
   d. Coordinating studies of the relationship between the assets and liabilities of MCERA;
   e. Ensure execution of portfolio rebalancing, portfolio transitions and cash rebalancing;
   f. Ensure that necessary research is performed into investment trends, issues, and opportunities that may have implications for the investment program of MCERA and ensure that the Board receives necessary information and education;
   g. Ensuring that all necessary investment manager due diligence is being performed in accordance with the Service Provider Selection Policy and related policies of the Board.
   h. Recommend to Board, for ratification, the appointment of the following core service providers, if deemed necessary by the Board:
      1) The custodian;
      2) Investment managers, including transition managers;
      3) Securities lending managers;
      4) Proxy-voting advisors;
      5) Directed commission brokers; and
      6) Other service providers determined by the Board.

C. Benefits Administration

1. The Retirement Administrator will:
   a. Recommend to the Board policies to ensure effective administration of member benefits;
   b. Ensure accurate payment of benefits to members, and address problems or errors in accordance with established policies and procedures;
   c. In consultation with medical evaluators and legal counsel, recommend disability applications to the Board for its consideration;
   d. Present to the Board any benefit applications or provisions that require a board interpretation or decision, along with supporting analysis and recommendations;
   e. Discuss annual cost-of-living adjustments with the Board;
   f. Maintain accurate records of member accounts;
   g. Develop staff policies and procedures to ensure effective and efficient administration of member benefits.
   h. Provide the Board recommendations concerning potential discretionary benefits allowed under the County Employees' Retirement Law (CERL); and
   i. Ensure delivery of high standards of service to members including calculations and counseling.

D. Operations

1. The Retirement Administrator will:
   a. Recommend to the Board policies to ensure effective and secure operations;
   b. Recommend an annual operating Budget to the Board;
   c. Authorize payments related to the administration of MCERA, consistent with delegated authority, the Operating Budget and internal controls of MCERA
   d. Account for and ensure appropriate collection, deposit, and distribution of funds as required;

e. Implement internal operational control policies;
f. Ensure the appropriate design, acquisition, implementation, and maintenance of all technological systems required to administer MCERA;
g. Maintain the records of MCERA in a permanent, secure, and readily accessible format; and
h. Coordinate staff travel in accordance with applicable policy.

E. Finance, Actuarial and Accounting

1. The Retirement Administrator will:
   a. Recommend to the Board, as appropriate, financial, accounting, and actuarial policies;
   b. Implement appropriate internal financial controls to safeguard the assets of MCERA;
   c. Coordinate the actuarial valuation, and periodic actuarial experience studies and audits; and
   d. Before June 30th of each year, file in the office of the County Auditor and with the board of supervisors a report on the financial condition of MCERA at the close of the preceding December 31 and its financial transactions for the year ending on that day.

F. Human Resources

1. Retirement Administrator will:
   a. Regularly assess the human resource needs of MCERA and establish appropriate human resource programs and procedures, consistent with the human resources and compensation policies of the Board or when appropriate, of the County of Mendocino;
   b. Oversee the hiring, management, and termination of staff; and
   c. Ensure appropriate staff succession provisions are in place to ensure continuity in all MCERA operations.
   d. Develop training and job development programs for MCERA staff.

G. Legislation and Litigation

1. The Retirement Administrator will:
   a. Recommend for Board approval, legislative proposals to be initiated, supported, or opposed by the Board;
   b. Coordinate with legal counsel all legal proceedings involving MCERA and provide recommendations to the Board;
   c. Consult with legal counsel on all legal proceedings involving MCERA; and
   d. Develop and implement plans to comply with legislation and court rulings.

H. Communications

1. The Retirement Administrator will:
   a. Ensure effective and timely communications and working relationships with members and stakeholders on benefits and other appropriate matters relating to the administration of MCERA. Such communications may include press releases, newsletters, presentations, and internet communications; and
   b. In situations that call for an official spokesperson to speak on behalf of the MCERA, jointly determine with the Chair, or an issue-by-issue basis, who will act in such capacity.

III. Review

The board shall review this charter at least every three (3) years.

IV. History

This charter was adopted by the Board on March 20, 2013.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ASSESSMENT AND DETERMINATION OF COMPENSATION ENHANCEMENTS POLICY

PURPOSE:

This policy establishes a procedure for assessing and determining whether an element of compensation was paid to enhance a MCERA member's benefit, pursuant to Government Code Section 31542.[1]

I. STAFF REVIEW, ASSESSMENT AND DETERMINATION

With respect to payroll transmittals after January 1, 2013 and retirement applications with an effective date of retirement on or after January 1, 2013, the Board authorizes MCERA staff to review compensation included within the calculation of the member's final compensation within the meaning of California Government Code Sections 7522.32, 7522.34, 31461, 31462, 31462.1, 31462.11, and 31462.2, as applicable, for the purpose of making an initial assessment as to whether any item of compensation included in final compensation was paid to enhance a member's retirement benefit.

When reviewing items of compensation, MCERA staff will audit pay items to identify those that may have a primary purpose to enhance retirement benefits (e.g. conversion of pay items from in-kind to cash payment in the FAS period), involve the manipulation of compensation by MCERA members or employers to enhance benefits, receipt of ad hoc payments or any other compensation considered to be inconsistent with the pension reform legislation provisions.

In conducting such review and making such initial assessment, staff shall consider:

a. Whether the item of compensation was earned within the period during which final compensation is to be calculated;

[1] Government Code Section 31542 provides:

(a) The board shall establish a procedure for assessing and determining whether an element of compensation was paid to enhance a member's retirement benefit. If the board determines that compensation was paid to enhance a member's benefit, the member or the employer may present evidence that the compensation was not paid for that purpose. Upon receipt of sufficient evidence to the contrary, a board may reverse its determination that compensation was paid to enhance a member's retirement benefits.

(b) Upon a final determination by the board that compensation was paid to enhance a member's retirement benefit, the board shall provide notice of that determination to the member and employer. The member or employer may obtain judicial review of the board's action by filing a petition for writ of mandate within 30 days of the mailing of that notice.

(c) Compensation that a member was entitled to receive pursuant to a collective bargaining agreement that was subsequently deferred or otherwise modified as a result of a negotiated amendment of that agreement shall be considered compensation earnable and shall not be deemed to have been paid to enhance a member's retirement benefit.

b. Whether the pay codes reported are retirement compensable;

c. Any other factors that cause staff to believe that an item of compensation included in final compensation was paid to enhance a member's retirement benefit; and

d. Information and explanation provided by the member and/or the employer in response to MCERA's request as to the facts and circumstances concerning an item of compensation that staff believes may have been paid to enhance the member's retirement benefit.

Staff may conduct such written and oral follow-up communication as staff believes is appropriate in the exercise of reasonable diligence.

If after conducting the initial assessment described above, MCERA staff believes that an item of compensation was paid to enhance a member's retirement benefit, MCERA staff will notify the member and the employer in writing of the staff determination and of the member's and/or the employer's option to have that determination reconsidered by the MCERA Board of Retirement. Failure to exercise that option by the member or the employer as specified in this Policy shall constitute a waiver of further administrative or judicial review.

A member and the employer shall have 15 calendar days within which to respond to such a written notification by indicating the choice to have the Board of Retirement reconsider the staff determination and by providing the evidence in support of reconsideration to be presented to the Board of Retirement.

II. REVIEW OF STAFF DETERMINATION

a. In addition to a member's or employer's evidence in support of reconsideration, staff shall prepare a written report to the Board of Retirement in support of the staff determination that any item not be included in compensation earnable or pensionable compensation. The report shall contain a description of the reasons for staff's determination, including the specific facts and circumstances in support.
b. The report shall be noticed and agendized for a regular meeting of the Board, at which time the Board will act upon staffs administrative recommendation. Before the Board acts, MCERA staff, the member, and the employer shall be given an opportunity to be heard by the Board.
c. Written notice of the Board meeting and a copy of staff's report shall be provided to the member and the employer no later than 6 days before the recommendation is presented to the Board for action.
d. At the meeting, the Board will make a final determination as to whether the item of compensation was paid to enhance the member's retirement benefit.
e. MCERA will provide the member and the employer written notice of the Board's final determination, which will inform the member and the employer of their right to seek judicial review of the Board's action by filing a petition for writ of mandate within 30 days after the date of mailing of that notice.
f. If payment of the member's benefit would be delayed by seeking resolution through the administrative or judicial processes set forth herein, MCERA may process the benefit excluding the compensation in question. If it is later determined the compensation should be included, MCERA will adjust the benefit retroactive to the effective retirement date.

VI. Policy Review

The Board shall review the Board Education policy at least every three (3) years to ensure that it remains relevant and appropriate.

VII. Policy History

The Board adopted this policy on 03/20/2013.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OVERPAYMENT POLICY

I. PURPOSE

The purpose of this policy is to establish criteria and a framework for resolving overpayments made to members.

II. BACKGROUND

While rare, overpayments to members can be caused in a variety of ways, including death related overpayment, incorrect computation and other miscellaneous causes.

III. OBJECTIVES

The primary objective is to preserve and protect fund assets and collect contributions in accordance with applicable law. If an overpayment has been identified, it should be corrected as soon as possible. When reasonable to do so, the overpayment should be recovered as discussed below.

IV. PROCESS FOR RESOLVING OVERPAYMENTS

A. Staff shall verify the overpayment, notify the member and correct future payments with the next available payroll and report the correction on the next Retirement Board agenda.

B. Staff shall initiate collection efforts which shall include the notice setting forth the amount owed, an explanation of the cause of and calculation of the amount owed, and the alternatives for repayment.

C. The procedure for collection of overpayments will be as follows.

1. Amounts of $100 or less will not be pursued.

2. Collection efforts on amounts between $100 and $1,000 may be ceased by the Retirement Administrator after all collection efforts have been completed and

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Deleted: completed,

further efforts to recover the amount due will likely result in litigation; the costs of which would exceed the amount that could be recovered.

3. For amounts between $1,000 and $5,000, the Retirement Administrator has discretion, after the completion of collection efforts, to either commence further efforts such as negotiation or the intent to recommend litigation to the Board, or cease collection efforts. In exercising this discretion, the estimated cost of further negotiation and/or litigation will be considered against the amount due.

4. For amounts over $5,000, the Retirement Administrator shall, after collection efforts as well as negotiations have been completed, seek direction from the Board to either commence litigation or cease collection efforts.

5. All actions taken in (1) through (3) above shall be reported to the Board.

V. POLICY REVIEW

The Board shall review the Overpayment Policy at least every three (3) years to ensure that it remains relevant and appropriate. Notwithstanding the general review cycle, the Board shall review the Overpayment Policy no later than one (1) year after its adoption to determine its effectiveness.

VI. POLICY HISTORY

The Board adopted this policy on February 15, 2012.
The Board reviewed and revised this policy on March 20, 2013

Mendocino County Employees' Retirement Association

Overpayment Policy

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B. Staff shall initiate collection efforts which shall include the notice setting forth the amount owed, an explanation of the cause of and calculation of the amount owed, and the alternatives for repayment.

C. The procedure for collection of overpayments will be as follows.

1. Amounts of $100 or less will not be pursued.

2. Collection efforts on amounts between $100 and $1,000 may be ceased by the Retirement Administrator after all collection efforts have been completed and

further efforts to recover the amount due will likely result in litigation; the costs of which would exceed the amount that could be recovered.

3. For amounts between \$1,000 and \$5,000, the Retirement Administrator has discretion, after the completion of collection efforts, to either commence further efforts such as negotiation or the intent to recommend litigation to the Board, or cease collection efforts. In exercising this discretion, the estimated cost of further negotiation and/or litigation will be considered against the amount due.

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EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date:	March 20, 2013
To:	Board of Retirement
From:	Richard White, Retirement Administrator RAW
Subject:	Discussion and update on MCERA Strategic Plan

The Board of Retirement approved the MCERA Strategic Plan on January 16, 2013 which included a Mission Statement, Core Values and Goals and Objectives. The approval of the strategic plan set into motion a series of administrative steps necessary to implement these goals and objectives, the first of which took place at the last Board meeting where the timelines of the implementation was discussed and approved.

It is anticipated that the Board will be presented with additional information regarding the implementation and budgetary requirements of specific objectives for discussion at the April board meeting. In the meantime, this is an updated progress report made on certain objectives since the last Board meeting:

Goal 2: Increase the effectiveness of internal operations

A. **Prepare for the implementation of PEPRA.**
   - The Board has previously approved resolutions addressing compensation earnable for current employees and pensionable compensation for new employees hired on or after January 1, 2013.
   - The Board also approved contribution rates for new employees in the PEPRA compliant pension tiers which were adopted by the Board of Supervisors.
   - The Board will be discussing and approving a policy on the assessment and determination of compensation enhancements which is a requirement of the PEPRA legislation that falls within the scope of the Board.
   - The Board and administrative staff will continue to monitor the legislative process and legal system for any changes in the PEPRA legislation.
   - Katy Richardson and I met with Supervisor Dan Gjerde to answer his questions on compensation earnable/pensionable compensation.

C. **Evaluate various service providers and implement an automated pension automation system.**

- Administrative staff spent a total of 36 staff hours with the Linea Solutions consultant during the week of March 4-8 conducting an extensive review of the pension administration system requirements at MCERA. This important and intensive review was the beginning steps in the development of the RFP by Linea Solutions for the pension administration system. The RFP process is anticipated to take the next few months to complete and the plan is to bring the vendor selection action item to the Board at the June, 2013 meeting.

H. **Pursue staff development, cross-training, and succession planning.**

- The Board received an update on staff training in January during the six-month budget review and approved an additional allocation of funds to the staff training budget in February. I have revised the training plan for the remainder of the fiscal year that provides for additional staff development within the revised budget allocation amount.

Goal 3: Establish optimal board governance.

A. **Review existing charters and policies to identify gaps.**

- The Board has approved a number of new charters and policies over the past few months. Last month, the Board approved a Budget Approval Policy and Audit and Budget Committee Charter. At this meeting, the Board will discuss and approve (a) Retirement Board Charter, (b) Retirement Administrator Charter, (c) Assessment and determination of compensation enhancements policy, (d) Overpayment Policy [scheduled one year review].

E. **Establish ways to report and measure progress of strategic plan goals and objectives.**

- The Board has received monthly updates on the progress of goals and objectives which are anticipated to continue.

F. **Establish annual fiduciary training tailored for the Association.**

- It is anticipated that the Board will receive this training at the April Board meeting.

Goal 4: Explore ways to ensure prudent management of contributions and investment of retirement fund assets.

B. **Evaluate the risks and returns of shifting the degree of active and passive management of investments.**

- The Board reviewed and made policy changes to the domestic equity allocation recently. The implementation of this policy change has begun and it is anticipated that it will be fully implemented in the near future.

C. **Undertake asset/liability modeling (ALM); analyze the best case, worst case, and most likely case scenarios and trends.**

- The Board received the quarterly investment report from Callan Associates at the last meeting and a discussion about the asset/liability study was held. The planning for this study will begin shortly and the Board will be updated on the planning progress.

E. **Re-evaluate the existing actuarial funding method and the assumptions.**
- The Board will discuss and evaluate the actuarial funding method at today's meeting.

G. **Provide information to the plan sponsors on PEPRA.**
- I have participated in the County working group on PEPRA (now disbanded) and have briefed the Superior Court leadership on PEPRA, as well.
- I presented PEPRA information to the Board of the Russian River Cemetery District at their meeting on February 26, 2013.

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Date: March 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator raw
Subject: Monthly Financial Report

A. Financial Reports

The monthly reports for January 2013 (preliminary version) are included for your review.

1. Statement of Plan Net Assets.
    - This report details a "snapshot' of account balances for the period covered and the fiscal year to date activity. The report indicates the assets available for future payments to retirees and any current liabilities owed.
2. Statement of Changes in Plan Net Assets.
    - This report details a view of the current fiscal year additions to and deductions from the plan and covers the most recently available and the fiscal year to date activity.
3. Cash Flow Analysis.
    - This report is a 'snapshot' of the cash available to MCERA during the reporting period. MCERA monitors the cash within the fund in accordance with the cash flow policy.
4. Vendor Ledger.
    - This report is generated from the Peachtree accounting system and includes vendor transactions and balances for the month of February, 2013.

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Attachment(s).

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
January 31, 2013
Preliminary

ASSETS		
CASH AND EQUIVALENTS		
Trust Cash-held at county	$ 2,992,074	
TOTAL CASH AND EQUIVALENTS		**2,992,074**
CURRENT ASSETS		
Accounts Receivable	3,000	
Recoupments	1,248	
TOTAL CURRENT ASSETS		**4,248**
PROPERTY AND EQUIPMENT		
Equipment	3,786	
TOTAL PROPERTY AND EQUIPMENT		**3,786**
INVESTMENTS, ADJUSTED TO MARKET		
Unrealized Gain(Loss) Invest	44,513,804	
Fixed Income	90,619,505	
International Equities	86,115,122	
Small Cap Equities	21,033,686	
Mid Cap Equities	13,452,353	
Large Cap Equities	80,861,547	
Real Estate	29,648,196	
TOTAL INVESTMENTS, AT MARKET		**366,244,213**
TOTAL ASSETS		**$ 369,244,321**
LIABILITIES		
CURRENT LIABILITIES		
AMCRE Dues	$ 812	
Federal Withholding	7,912	
Wage Attchments	177	
Accrued Wages - 1920 Account	229,269	
PEDIT Trust Dental	18,787	
AFLAC INSURANCE	3,102	
RETIREE INS PREMIUM	(3)	
Buck Settlement Reserve	248,093	
TOTAL CURRENT LIABILITIES		**508,149**
TOTAL NET ASSETS		**$ 368,736,172**

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Seven Months Ended January 31, 2013
Preliminary

		CURRENT MONTH		YEAR TO DATE
ADDITIONS				
CONTRIBUTIONS				
Employer	$	1,035,644	$	7,972,170
Plan Members		353,299		2,747,855
TOTAL CONTRIBUTIONS		**1,388,943**		**10,720,025**
INVESTMENT INCOME				
Unrealized Gain/(Loss) Invests		4,503,219		15,634,622
Rental Income, Net of Expenses		3,696		20,132
Interest		4,199		18,018
Dividends		107,804		5,467,343
Capital Gains		0		9,994,643
Less Investment Expense		(12,676)		(290,402)
Net Inestment Income		**4,606,242**		**30,844,356**
TOTAL ADDITIONS		**5,995,185**		**41,564,381**
DEDUCTIONS				
Benefit Payment, Subsidies, & Refunds		(2,132,629)		(15,136,248)
Administrative Expenses		(73,978)		(428,773)
TOTAL DEDUCTIONS		**2,206,607**		**15,565,021**
Increase (Decrease) in Net Assets		**3,788,578**		**25,999,360**
NET ASSETS				
Beginning of Period		**364,947,593**		**342,736,812**
End of Period	**$**	**368,736,171**	**$**	**368,736,172**

UNAUDITED- FOR IINTERNAL USE ONLY

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CASH FLOW ANALYSIS
For the Seven Months Ended January 31, 2013
Preliminary

	CURRENT MONTH	YEAR TO DATE
ADDITIONS		
CONTRIBUTIONS		
Employer	1,035,644	7,972,170
Plan Member	353,299	2,747,855
TOTAL CONTRIBUTIONS	**1,388,943**	**10,720,025**
INVESTMENT INCOME		
Rental Income, Net of Expenses	3,696	20,132
Interest	4,199	18,018
Dividends	107,804	2,077,051
Capital Gains	0	0
Less Investment Expense	(12,676)	(290,402)
TOTAL INVESTMENT INCOME	**103,023**	**1,824,799**
TOTAL ADDITIONS	**1,491,966**	**12,544,824**
DEDUCTIONS		
Benefit Payments and Subsidies	(2,132,629)	(15,136,247)
Administrative Expenses	(73,978)	(428,773)
TOTAL DEDUCTIONS	**(2,206,607)**	**(15,565,020)**
OTHER INCREASES/(DECREASES)		
Accounts Receivable	261	(1,594)
Accounts Payable	18,244	106,092
Buck Settlement	0	0
Sale/Purchase of Investments	(400,000)	3,273,248
TOTAL OTHER INCREASES/(DECREASES)	**(381,495)**	**3,377,746**
INCREASE (DECREASE) IN CASH	**$ (1,096,136)**	**$ 357,550**
SUMMARY		
Cash at End of Period	$ 2,992,074	$ 2,992,074
Cash at Beginning of Period	4,088,210	2,634,526
INCREASE (DECREASE) IN CASH	**$ (1,096,136)**	**$ 357,548**

Richard A. White, Jr.
Retirement Administrator

Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

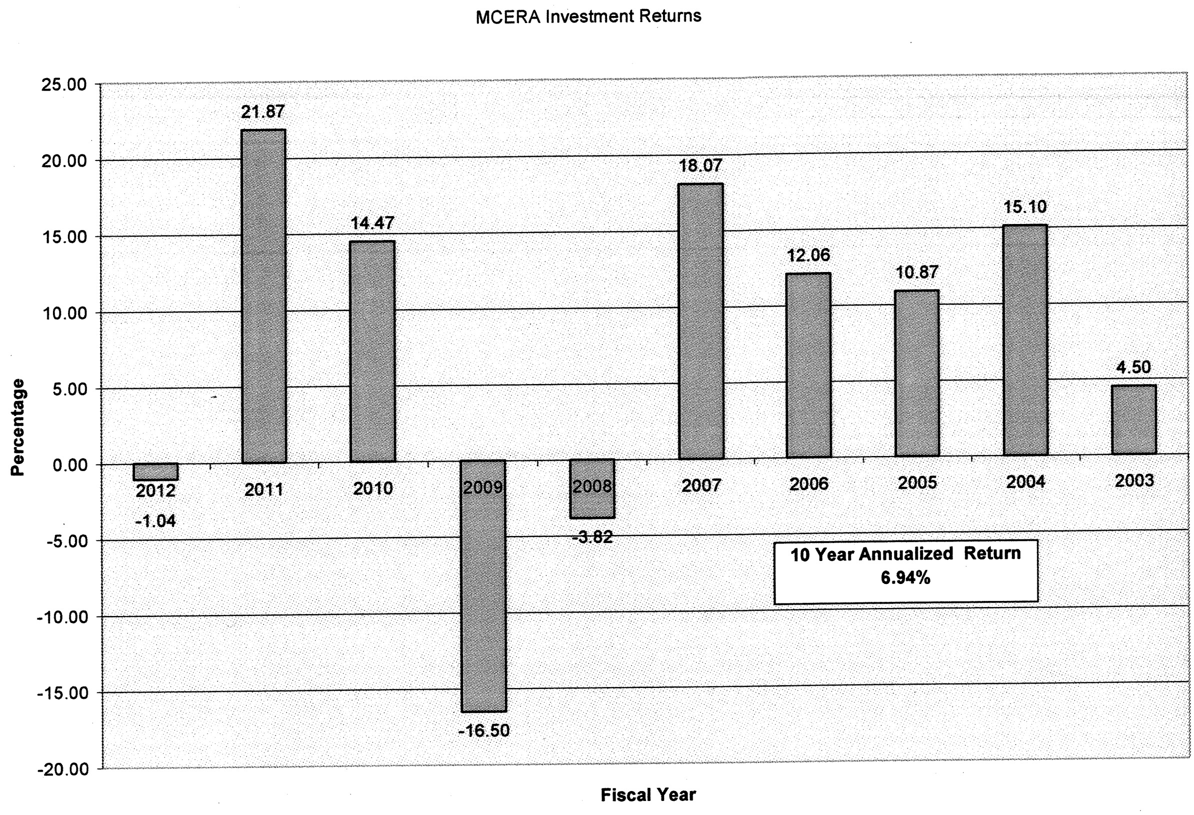
Date:	March 20, 2013
To:	Board of Retirement
From:	Richard White, Retirement Administrator RAW
Subject:	Monthly Investment Report

1. **Investment Goal Statements (excerpts from MCERA Investment Policy Statement)**
   a. The overall goal of MCERA's investments is to provide Plan participants with retirement, disability, and death and survivor benefits as provided for under the County Employees' Retirement Law of 1937. This will be accomplished through a carefully planned and executed long-term investment program.
   b. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the Association.
   c. All transactions undertaken will be for the sole benefit of MCERA's members and beneficiaries and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable associated administrative expenses.

2. **Monthly Investment Reports**
   a. Two newly created reports are included in this month's investment report. Both reports detail investment related information for the most recent period where we have updated information.
   b. One report titled, "Investment Portfolio – Target Analysis" shows the investment portfolio market value and the actual asset allocation against the targeted allocation.
   c. The other report titled, "Unrealized Gain (Loss) Analysis" shows the investment portfolio unrealized change(s) in market value from cost value and the change in value during the fiscal year period.
   d. The information used for these reports are taken from the fund statements and will show some (but not all, since some managers do not report monthly) of the change in the portfolio in the time period between the Callan quarterly reports.
   e. These reports should be viewed as informational only.

3. **Investment Manager Information**
   a. Our real estate manager, RREEF will be adopting the Deutsche Asset & Wealth Management name as a part of their incorporation into the Deutsche Bank business. The Board was briefed by Callan on the reasons for the change at last month's meeting.

4. MCERA Trust Fund Performance Information



MCERA Investment Portfolio Performance

	One Year	Three Year	Five Year	Ten Year	16-Year
Fiscal Year Ending 6-30-2012	-1.04	11.35%	2.09%	6.94%	6.09%
Calendar Year Ending 12-31-2012	14.53%	8.57%	3.18%	-	-

MCERA Investment Portfolio Market Value

December 31, 2012	$ 363,785,244
September 30, 2012	$ 357,411,731
June 30, 2012	$ 343,863,518
March 31, 2012	$ 357,302,683

MCERA investment returns are reported net of investment manager fees

Raw
Attachments

Mendocino County Employee Retirement Association
Unrealized Gain (Loss) Analysis
January 31, 2013

	A	B	C	E	F	
				Start of	Fiscal Year	
				Fiscal Year	Change in	
	Cost Basis	**Market Value**	**Unrealized Gain**	**Market Value**	**Market Value**	**Updated to**
Domestic Fixed Income						
PIMCO - Total Return Institutional	$ 45,044,992	$ 49,244,925	$ 4,199,933	$ 46,632,156	$ 2,612,769	1/31/2013
Dodge & Cox - Income Fund	45,574,513	47,111,003	1,536,490	46,261,237	849,766	12/31/2012
Total Domestic Fixed Income	**90,619,505**	**96,355,928**	**5,736,423**	**92,893,393**	**3,462,535**	
Small Cap Equities Growth						
Alliance Bernstein - US Small Cap Growth Fund	1,967,850	4,709,946	2,742,096	4,294,111	415,835	1/31/2013
RS Investments - Small Cap Growth Fund Y	2,500,101	3,857,382	1,357,280	3,681,678	175,704	12/31/2012
Managers - Micro-Cap Institutional	6,400,253	7,242,161	841,908	7,012,372	229,789	12/31/2012
Total Small Cap Equities Growth	**10,868,204**	**15,809,488**	**4,941,284**	**14,988,161**	**821,327**	
Small Cap Value						
Prudential	10,165,482	10,063,407	(102,075)	6,530,308	3,533,100	1/31/2013
Total Small Cap Value	**10,165,482**	**10,063,407**	**(102,075)**	**6,530,308**	**3,533,100**	
Total small cap equities	**21,033,686**	**25,872,896**	**4,839,210**	**21,518,469**	**4,354,427**	
Mid Cap Growth						
Morgan Stanley	3,605,091	4,204,246	599,155	5,358,956	(1,154,710)	12/31/2012
Janus - Enterprise Fund	3,727,951	4,704,430	976,479	5,744,596	(1,040,166)	1/31/2013
Total Mid Cap Growth	**7,333,042**	**8,908,675**	**1,575,633**	**11,103,552**	**(2,194,877)**	
Mid Cap Value						
Fidelity Low Priced Stock Fund	2,891,675	4,491,530	1,599,855	5,443,053	(951,523)	1/31/2013
Royce - Total Return Fund	3,227,636	4,293,265	1,065,629	5,197,692	(904,427)	12/31/2012
Total Mid Cap Value	**6,119,311**	**8,784,795**	**2,665,483**	**10,640,745**	**(1,855,951)**	
Total mid cap equities	**13,452,353**	**17,693,470**	**4,241,117**	**21,744,297**	**(4,050,827)**	
Large Cap Growth						
American Fund-Growth Fund of America (Note 1)	-	-	-	-	-	
Harbor Capital Appreciation Fund	15,048,486	18,083,485	3,035,000	11,594,744	6,488,742	12/31/2012
Janus - Research Fund	15,719,160	19,447,314	3,728,154	10,802,586	8,644,728	1/31/2013
Total Large Cap Growth	**30,767,646**	**37,530,800**	**6,763,154**	**22,397,330**	**15,133,469**	
Large Cap Value						
Selected Funds	9,607,544	11,093,234	1,485,690	10,473,772	619,462	12/31/2012
Dodge & Cox - Stock Fund	16,293,630	19,640,230	3,346,600	15,650,479	3,989,751	12/31/2012
American Fund - Investment Company of America	9,692,727	11,734,922	2,042,195	10,984,909	750,013	12/31/2012
ROBECO	14,500,000	17,315,351	2,815,351	14,932,945	2,382,407	1/31/2013
Vanguard - Growth & Income Fund (Note 1)	-	-	-	-	-	
Total Large Cap Value	**50,093,901**	**59,783,737**	**9,689,836**	**52,042,105**	**7,741,632**	
Total Large Cap Equities	**80,861,547**	**97,314,536**	**16,452,990**	**74,439,435**	**22,875,101**	
International Stock						
American Funds - EuroPacific	14,901,330	18,110,674	3,209,344	15,969,498	2,141,176	12/31/2012
Harbor international	16,670,291	18,049,527	1,379,236	14,985,382	3,064,145	12/31/2012
Columbia Management - International Fund	6,023,328	9,422,863	3,399,535	8,118,937	1,303,926	1/31/2013
Janus Overseas	18,707,173	17,452,977	(1,254,197)	12,124,352	5,328,625	1/31/2013
Mondrian	17,299,962	18,478,085	1,178,123	14,290,410	4,187,675	1/31/2013
Oakmark	12,513,038	15,346,260	2,833,222	11,652,195	3,694,065	12/31/2012
Total International Stock	**86,115,123**	**96,860,387**	**10,745,264**	**77,140,773**	**19,719,614**	
Real Estate						
RREEF - Comingled Fund	6,651,482	6,521,174	(130,308)	6,362,464	158,710	12/31/2012
RREEF - America REIT II	12,204,725	13,707,076	1,502,351	12,813,966	893,110	12/31/2012
Cornerstone Fund	9,890,877	11,017,635	1,126,758	10,560,063	457,572	12/31/2012
Total Real Estate (Note 2)	**28,747,084**	**31,245,885**	**2,498,801**	**29,736,493**	**1,509,392**	
Total managed investments	**320,829,298**	**365,343,102**	**44,513,804**	**317,472,861**	**47,870,241**	
Other Real Estate						
625 Kings Court (Note 2)	901,112	738,992	(162,120)	738,992	-	
Total Invested Funds	**$ 321,730,410**	**$ 366,082,094**	**$ 44,351,684**	**$ 318,211,853**	**$ 47,870,241**	

	Balance Beg of Year	Balance End of Period	Change
Cash in County Treasury	$ 2,634,522	$ 4,008,208	$ 1,373,686
Total all available funds	**$ 324,364,932**	**$ 370,090,302**	**$ 45,725,371**

Note 1 This fund was liquidated in full as part of the December 2012 rebalance

Note 2 The real estate category on the Balance Sheet combine both managed and other real estate

Mendocino County Employee Retirement Association
Investment Portfolio - Target Analysis
January 31, 2013

	A	B	C	D	F	G	H
	Market Value of Investments	**Cash Reserved**	**Total Available**	**Percent of Portfolio**	**Target % (2010 Study)**	**Target In Dollars**	**Difference In Dolars**
Domestic Fixed Income							
PIMCO - Total Return Institutional	$ 49,244,925		$ 49,244,925	13.48%	14.000%	$ 51,148,034	$ (1,903,109)
Dodge & Cox - Income Fund	47,111,003		47,111,003	12.90%	14.000%	51,148,034	(4,037,031)
Total Domestic Fixed Income	**96,355,928**	-	**96,355,928**	**26.37%**	**28.000%**	**102,296,069**	**(5,940,140)**
Small Cap Equities Growth							
Alliance Bernstein - US Small Cap Growth Fund	4,709,946		4,709,946	1.29%	1.000%	3,653,431	1,056,515
RS Investments - Small Cap Growth Fund Y	3,857,382		3,857,382	1.06%	1.000%	3,653,431	203,951
Managers - Micro-Cap Institutional	7,242,161		7,242,161	1.98%	1.900%	6,941,519	300,642
Total Small Cap Equities Growth	**15,809,488**	-	**15,809,488**	**4.33%**	**3.900%**	**14,248,381**	**1,561,107**
Small Cap Value							
Prudential	10,063,407		10,063,407	2.75%	1.900%	6,941,519	3,121,889
Total Small Cap Value	**10,063,407**	-	**10,063,407**	**2.75%**	**1.900%**	**6,941,519**	**3,121,889**
Total Small Cap Equities	**25,872,896**	-	**25,872,896**	**7.08%**	**5.80%**	**21,189,900**	**4,682,996**
Mid Cap Growth							
Morgan Stanley	4,204,246		4,204,246	1.15%	1.400%	5,114,803	(910,558)
Janus - Enterprise Fund	4,704,430		4,704,430	1.29%	1.400%	5,114,803	(410,374)
Total Mid Cap Growth	**8,908,675**	-	**8,908,675**	**2.44%**	**2.800%**	**10,229,607**	**(1,320,932)**
Mid Cap Value							
Fidelity Low Priced Stock Fund	4,491,530		4,491,530	1.23%	1.400%	5,114,803	(623,274)
Royce - Total Return Fund	4,293,265		4,293,265	1.18%	1.400%	5,114,803	(821,538)
Total Mid Cap Value	**8,784,795**	-	**8,784,795**	**2.40%**	**2.800%**	**10,229,607**	**(1,444,812)**
Total Mid Cap Equities	**17,693,470**	-	**17,693,470**	**4.84%**	**5.60%**	**20,459,214**	**(2,765,744)**
Large Cap Growth							
American Fund-Growth Fund of America (Note 1)	-		-	0.00%	0.000%	-	-
Harbor Capital Appreciation Fund	18,083,485		18,083,485	4.95%	3.000%	10,960,293	7,123,192
Janus - Research Fund	19,447,314		19,447,314	5.32%	3.000%	10,960,293	8,487,021
Total Large Cap Growth	**37,530,800**	-	**37,530,800**	**10.27%**	**6.000%**	**21,920,586**	**15,610,214**
Large Cap Value							
Selected Funds	11,093,234		11,093,234	3.04%	3.000%	10,960,293	132,941
Dodge & Cox Stock Fund	19,640,230		19,640,230	5.38%	4.400%	16,075,096	3,565,134
American Fund - Investment Company of America	11,734,922		11,734,922	3.21%	3.000%	10,960,293	774,629
ROBECO	17,315,351		17,315,351	4.74%	4.400%	16,075,096	1,240,255
Vanguard - Growth & Income Fund (Note 1)	-		-	0.00%	0.000%	-	-
Total Large Cap Value	**59,783,737**	-	**59,783,737**	**16.36%**	**14.80%**	**54,070,779**	**5,712,958**
	97,314,536	-	**97,314,536**	**26.64%**	**20.80%**	**75,991,365**	**21,323,171**
International Stock							
American Funds - EuroPacific	18,110,674		18,110,674	4.96%	4.700%	17,171,126	939,548
Harbor international	18,049,527		18,049,527	4.94%	4.700%	17,171,126	878,401
Columbia Management - International Fund	9,422,863		9,422,863	2.58%	2.500%	9,133,578	289,286
Janus Overseas	17,452,977		17,452,977	4.78%	4.700%	17,171,126	281,851
Mondrian	18,478,085		18,478,085	5.06%	4.700%	17,171,126	1,306,959
Oakmark	15,346,260		15,346,260	4.20%	3.800%	13,883,038	1,463,223
Total International Stock	**96,860,387**	-	**96,860,387**	**26.51%**	**25.100%**	**91,701,119**	**5,159,268**
Real Estate							
RREEF - Comingled Fund	6,521,174		6,521,174	1.78%	1.700%	6,210,833	310,342
RREEF - America REIT II	13,707,076		13,707,076	3.75%	4.200%	15,344,410	(1,637,334)
Cornerstone Fund	11,017,635		11,017,635	3.02%	2.800%	10,229,607	788,028
Total Real Estate (Note 2)	31,245,885	-	31,245,885	8.55%	**8.700%**	31,784,850	(538,965)
Total managed investments	365,343,102	-	365,343,102	100%	94.000%	343,422,516	21,920,586
Other Real Estate							
625 Kings Court (Note 2)	738,992		738,992	0.202%	0.000%	-	-
Total Invested Funds	**366,082,094**	-	**366,082,094**	**100.202%**	**94.000%**	**343,422,516**	**21,920,586**
Cash in County Treasury	4,008,208		2,992,074	0.811%	0.000%	-	-
Total all available funds	**370,090,302**	-	**369,074,168**	**101.013%**	**94.000%**	**343,422,516**	**21,920,586**

Note 1 This fund was liquidated in full as part of the December 2012 rebalance

Note 2 The real estate category on the Balance Sheet combine both managed and other real estate

Rich White - Re-branding of RREEF Alternatives

From: RREEF ClientRelations <rreef.clientrelations@rreef.com>
To: <022113rebrand@list.db.com>
Date: 2/21/2013 9:38 AM
Subject: Re-branding of RREEF Alternatives

Classification: Public

CHANGED FROM: Classification: For internal use only

Dear Client,

Following Deutsche Bank's creation of a new business division that combines all of its asset and wealth management capabilities, I wanted to take the opportunity to inform you that these businesses have now been unified under one identity – the Deutsche Asset & Wealth Management name and the platinum Deutsche Bank logo.

Accordingly, our global RREEF real estate, infrastructure and commodities investment businesses, now part of the Alternatives and Real Assets platform, will also adopt the new Deutsche Asset & Wealth Management brand in place of the RREEF name and the RREEF logo. Given the scale of this exercise, its implementation will occur in phases – but you can expect to begin to see the new branding in your day-to-day interactions with our organization in the coming days, weeks and months.

While RREEF's valued brand has served us well for nearly four decades, the incorporation of our legacy brand into Deutsche Asset & Wealth Management marks the beginning of an exciting new chapter for our organization – and one that further underscores Deutsche Bank's commitment to our platform. We are pleased that our leading alternative investment capabilities have been identified as a critical component of Deutsche Asset & Wealth Management's strategy, and I continue to believe there will be significant advantages for our clients, our platform and our employees to be part of this integrated model.

As we look ahead, our team of dedicated professionals located around the world is focused on maintaining the same client-centric culture and commitment to delivering strong performance that you have come to expect from our organization. We thank you for your continued support, and as always, we welcome your feedback on how we can better serve you, and explore new ways we can provide you with investment solutions to meet your needs.

Sincerely,

Pierre Cherki
Head of Alternatives and Real Assets

Richard A. White, Jr.
Retirement Administrator

Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date:	March 20, 2013
To:	Board of Retirement
From:	Richard White, Retirement Administrator
Subject:	Administrator Report

Meetings attended since the last Board of Retirement meeting:

- Andy Yeung, The Segal Company, and I attended the Board of Supervisor meeting on February 26.
- Katy Richardson, Senior Retirement Specialist and I attended the Board meeting of the Russian River Cemetery District on February 26.
- I attended the CALAPRS General Assembly in San Francisco (March 3-5).
- I attended the County Finance Committee meeting on March 13.
- I met with Supervisor Dan Gjerde and Supervisor Dan McCowen on March 14.

PEPRA Update:

The pension reform legislation has been implemented by the County of Mendocino and this Board, which includes the assessment of compensation policy considered by the Board today.

There is an article in the Communications section about a couple of legal challenges to the pension reform legislation.

There are a couple of 'cleanup' bills being considered in the State legislature that were introduced prior to the February 22nd deadline. A full discussion of these bills and others will take place at the SACRS Spring Conference in May. (PERS or STRS only bills are not included)

- AB 1380 (Committee on Public Employees, Retirement and Social Security)
  - Prohibits the ability to retire at age 50, or safety members at 20 years of service any age, or general members at 30 years of service any age for a member who is subject to the PEPRA for that member's membership in the county retirement system;
  - Authorizes a member who is subject to the PEPRA and has completed 5 years of service and has reached the minimum retirement age applicable to that member, or has reached 70 years of age, to retire upon filing a written application with the board, as specified.

- AB 160 (Alejo)
    - Exempts from PEPRA certain multiemployer plans authorized by Taft Hartley and regulated by ERISA, and retirement plans for public employees whose collective bargaining rights are protected by Section 5333(b) of Title 49 of the United States Code and agreements entered into under that

- SB 13 (Negrete-McLeod)
    - Indicates it is declaratory of existing law set forth in PEPRA, and that it should be applied concurrently with the initial operation of that Act;

    - Adds to the definition of new member the exemption of concurrent membership within 6 months of beginning employment with a new employer;

    - Adds the ability of a retirement system to adopt resolutions or regulations to modify its plans in accordance with PEPRA;

    - Clarifies that an employer is not precluded from offering a defined contribution plan on or after January 1, 2013, if the employer did not offer one prior to that date;

    - Clarifies the calculation of normal cost to include either a single rate of contributions or age based rates;

    - Clarifies the pensionable compensation limit CPI adjustment to be calculated each September and compared to the September of the prior year;

    - Clarifies that the retirement system may limit the contributions to pensionable compensation;

    - Clarifies that the calculation of the normal cost rate shall be established based on the actuarial assumptions used to determine the liabilities and costs as part of the annual actuarial valuation, including retirement formula, eligibility and vesting criteria, ancillary benefit provisions and automatic cost of living adjustments;

    - Clarifies that a new member may be required to pay more than 50% of normal cost if the greater contribution rate has been agreed to through the collective bargaining process;

    - Removes the safety member industrial disability benefit from the PEPRA section 7522.66 (thereby ensuring it is not applied to system members other than PERS);

    - Clarifies the PERS industrial disability section to reference an annuity from a member's accumulated *additional* contributions;

- Clarifies that the exemption from the 180 day waiting period for a retiree to return to work for an agency covered under the same retirement system without reinstatement for a public safety officer or firefighter only applies if the retiree is hired for functions regularly performed by a safety officer or firefighter;

- Clarifies that the forfeiture provisions for a felony conviction arising out of performing public agency job duties for judicial officers are in addition to other forfeiture provisions for judges;

- Removes Social Security integration from the PEPRA plans (does not impact OCERS).

- SB 24 (Walters)
  - Eliminates the requirement that the Legislature approve a defined benefit plan adopted on or after 1-1-13 that provides a lower benefit age factor at normal retirement age and lower normal cost for employees hired on or after 1-1-13;

  - Add a fiscal necessity option for adopting a benefit formula that is lower than the PEPRA formulas.

Error Correction Project Update:

The Superior Court and the Russian River Cemetery District have finished their procedures with the error correction project. The County of Mendocino had a substantially larger number of members to work with and a more complex process to complete but they have been working very hard to complete their procedures and it looks like the project is nearing a conclusion for the County, as well.

FPPC Form 700 Update:

The annual Form 700 Statement of Economic Interests is due to the Clerk-Recorder by April 2, 2013. This form is required from all Board members and is to be filed directly with the Clerk-Recorder. Please also let Judy Zeller know that you have filed the Form 700 or if you have any questions.

Update on IRS Determination Letter and Voluntary Correction Program Filing:

Board members will find in their packet a detailed update from outside tax counsel, Judy Boyette of Hanson Bridgett, who continues to represent us in the IRS process.

- The update memo from counsel discusses the background and status of the IRS review that we initiated two years ago to ensure we take any necessary steps to maintain the qualified status of the system.

- We continue to work with the IRS and await their review and determinations.

- It should be noted that we are not alone in this discussion – every 37 Act county system has filed using this IRS process and most have filed similar applications for assistance using the "voluntary correction program," or VCP, as have hundreds of public pension systems across the country. The backlog is significant. Not surprisingly, the IRS has not yet contacted counsel about MCERA's specific filing although there have been discussions about issues that involve all of the 37 Act systems.

- The IRS is also facing a learning curve. They were largely unschooled in the realm of public pension plans, as a number of the IRS rules that apply to private sector pension fund do not apply to public plans. Most provisions they are reviewing were drafted decades ago, and even the State Legislature did not know that tax rules might apply to plans established by State law.

- Counsel reports that the IRS is beginning to provide some information regarding general issues, and we expect to be contacted in the normal IRS process. We cannot predict exactly when that will be.

Future meeting attendance:

- I will be team teaching a session at the CALAPRS Principles of Pension Management for Trustees course for public pension funds trustees on March 27.

HansonBridgett

Memorandum

TO: Board of Retirement
Mendocino County Employees' Retirement Association

FROM: Judith W. Boyette

DATE: March 14, 2013

RE: **Update on IRS Determination Letter and Voluntary Correction Program Filing**

At the request of the Retirement Board, this memorandum has been prepared to summarize the IRS filing process that MCERA has undertaken and provide a public update on the status of that process.

The IRS has two standard procedures for working with tax qualified retirement plans. One is designed to help employers correct operational errors in applying the extremely complicated IRS rules; it is called the "voluntary correction program" or "VCP"). The second is designed to help employers write plan documents that meet these complex rules; it is called the "determination letter procedure". Private sector employers and plans have used these procedures successfully for many years. Public sector employers have rarely used them, for many reasons including that a number of the IRS rules do not apply to public sector plans.

Recently the IRS began to encourage all public sector retirement systems to file an application for an IRS determination letter and to use the VCP process in the same way as private sector retirement plans have done. Because of IRS encouragement, every California retirement system operating under the County Employees' Retirement Law of 1937 (the "CERL" or "37 Act") filed an application with the IRS for a determination letter and almost all also filed under the VCP process by January 2011. MCERA filed an application for a determination letter and a related VCP filing on January 31, 2011.

The IRS has been slow to respond because it was unschooled in public plans and it has taken significant effort to review these applications from public retirement systems all across the country, including those of the 37 Act systems . The IRS has recently begun to respond on general issues related to the CERL for one 37 Act system. This is the beginning of the IRS communication. We expect to be contacted concerning MCERA's filing made in 2011 as part of the normal process with the IRS, but we cannot predict precisely when because MCERA is one of twenty 37 Act systems currently being reviewed by the IRS.

The CERL is a complicated statute that is over 850 pages long. It is not unexpected that as a result of the IRS process some of the provisions may require technical change, especially since most of the provisions were enacted long before the IRS paid attention to public retirement plans and the California Legislature was unaware that the tax rules might apply to plans established by California law.

As part of its IRS filing, MCERA described its operations, including the operation of a retiree medical program that was part of the retirement system. The CERL provides rules for 37 Act systems to provide retiree medical benefits; those rules were enacted over 50 years ago and retirement systems have relied on them to establish operating rules. One part of the CERL allows a 37 Act system to provide retiree medical benefits with "excess earnings"-- CERL section 31592.4. Still other sections of the CERL, including sections 31592.2 and 31691, also allow a retirement system, such as MCERA, to provide retiree health benefits. As part of the IRS filing process for all of the 37 Act systems, it was determined that the provisions in the CERL did not contain all of the IRS requirements for this type of program. Therefore, even if the 37 Act systems had operated in full compliance with the CERL's requirements for providing retiree medical benefits, there are issues with the CERL language that may require correction as part of the IRS process for all of the systems, including MCERA.

In reviewing its retiree medical benefit operations as part of the IRS filing, MCERA discovered that it may not have complied with the requirements of CERL section 31592.4 with respect to approximately $9.6M of "excess earnings" that were "advanced" and applied to fund retiree medical benefits in fiscal years 2006/07 and 2007/08. In addition, in July 2010, there was an approximately $9.6M write-off applied to MCERA's accounting records intended to reflect the believed likelihood that excess earnings would not be generated for the foreseeable future. In taking these actions, MCERA had relied on advice from its professional advisors at the time and acted in good faith.

In order to make certain that appropriate corrective actions were continuing to be taken, the MCERA Board asked its current actuary, outside auditor and legal counsel to review these issues and report to the Retirement Board with recommendations for any further possible corrections. In response to these recommendations and as part of its recent review of MCERA's current financial and actuarial reports, the Retirement Board has taken the following steps intended to address the excess earnings issue:

- Confirmed that writing off the $9.6M was an appropriate action since the economic reality under MCERA's new excess earnings policy was that there are not likely to be excess earnings in the foreseeable future that could be used to offset the previously advanced $9.6M.

- Committed to recognize the $9.6M as a separate obligation that must be funded with amortization over an appropriate period and committed to making no changes in the future that would lengthen the committed schedule for repaying this amount by the County. The Board also determined that the treatment of this amount should be appropriately reflected in MCERA's valuation report and financial statements.

- Approved the treatment of the remaining $658,654 that had been set aside as retiree medical funds in the excess earnings transaction that was not in accordance with the CERL as assets available to pay pension benefits and not retiree medical benefits. These funds should not have been treated as available to be used for retiree medical benefits since they did not meet the CERL definition of "excess earnings" and this correction was therefore made.

- Continue to work with the IRS (and other systems operating under the CERL) to ensure that any changes to the CERL and to MCERA's separate operating procedures are made in a manner that is compliant with the IRS requirements.

We will continue to update the Board of Retirement as the IRS filing process moves forward in the next several months. Please let me know if you have any questions about the process or if we can be of further assistance to the Board.

cc: Robert A. Blum

JWB:JWB

****

Richard A. White, Jr.
Retirement Administrator

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: March 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator RAW
Subject: Communications

The following pension related articles are included for the Board's reading.

1. Wall Street Journal article dated March 11, 2013: "SEC Says Illinois Hid Pension Troubles."

2. The Sacramento Bee article dated February 24, 2013: "Many aging boomers balk at retirement."

3. The State Worker article dated February 13, 2013: "State to defend pension reform law from county union lawsuits."

4. The Sacramento Bee article dated February 14, 2013: "Labor unions move to challenge California pension changes for public workers."

THE WALL STREET JOURNAL.
WSJ.com

MARKETS Updated March 11, 2013, 7:22 p.m. ET

SEC Says Illinois Hid Pension Troubles

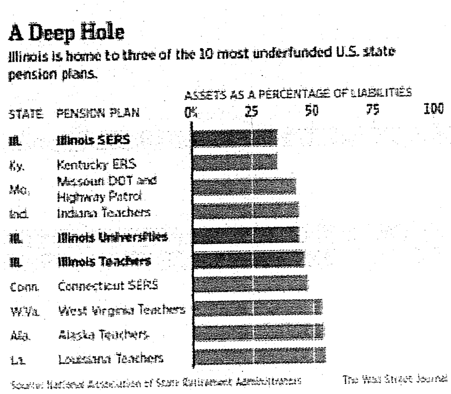
By MICHAEL CORKERY And JEANNETTE NEUMANN

For years, Illinois officials misled investors and shortchanged the state pension system, leaving future generations of taxpayers to foot the bill, U.S. securities regulators allege.

The Securities and Exchange Commission on Monday charged Illinois with securities fraud, marking only the second time the agency has filed civil-fraud charges against a state.

But the agency and the state also announced that a settlement had already been reached in which Illinois won't pay a penalty or admit wrongdoing.

The action was part of a broader push by the SEC to bring greater transparency and accountability to the municipal-bond market, as the agency alleged the state failed to adequately disclose to investors the risks of its underfunded pensions systems.



The action also shows in detail how political decisions left the state with only 40 cents of assets for every dollar of pension liabilities—a financial hole Illinois officials are now scrambling to fill.

Yet no matter how harmful the pension practices were to the state's finances, SEC officials say they could only pursue charges against Illinois for what it failed to tell bond investors, who bought bonds worth $2.2 billion.

Most states comply with governmental accounting standards, which "Illinois did not follow," Elaine Greenberg, head of the SEC's municipal securities and public pensions unit, said in an interview. "But the SEC cannot order a state to follow any particularly methodology."

Governor Pat Quinn's Office of Management and Budget said the state has been working to enhance its disclosure practices since 2009.

States and cities across the U.S. face high pension costs. Rallying investment returns have helped make up the shortfalls at some plans, but others have cut benefits to workers to fill the deficit.

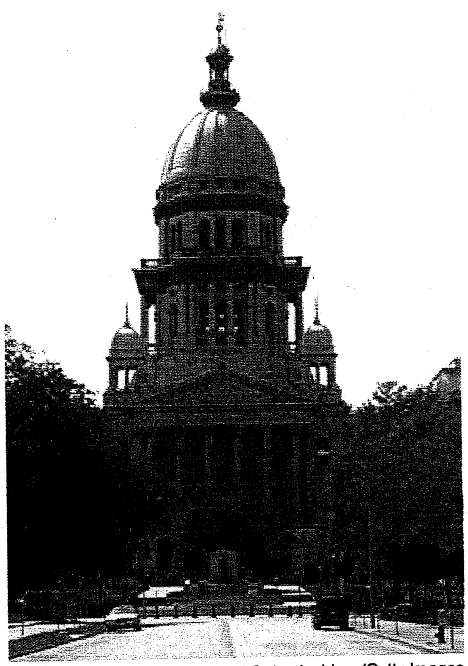
Illinois has one of the most underfunded pension systems in the U.S.

The SEC's 11-page, cease-and-desist order reveals new details about the financial and legislative practices that led to the state's current predicament.

The state's five public-employee pension plans manage the retirement benefits for clerical workers, teachers, judges, college professors and lawmakers. Collectively, their funding level stands at 40%. Nationally, the average funding level is about 75%.

The SEC settlement comes as Mr. Quinn, a Democrat, has pushed repeatedly to overhaul the state's pension system. Spiraling pension costs threaten to crowd out spending on other state services and are a major factor in Illinois's low credit rating. Standard & Poor's Ratings Services cut Illinois's rating one notch to A- in January, making it the lowest-rated U.S. state by S&P.

"This is one more weight on the scale," Illinois State Senator Daniel Biss, a Democrat, said of the SEC order.



Michael Ochs Archives/Getty Images

The Illinois State Capitol Building, in Springfield, Ill.

More

Heard: Muni Market Still in Need of a Minder

But an overhaul, which could result in deep cuts for current workers and retirees, has remained elusive. Workers have argued that they shouldn't bear the burden for past mistakes.

The problems date back to 1994, when Illinois lawmakers passed a funding plan that would allow the state to amortize, or spread the pension costs, over 50 years. Most pensions use a 30-year amortization period.

State officials also ignored the common practice of calculating contributions to the plans based on what is known as the "Actuarially Required Contribution."

Instead, Illinois left it to lawmakers to decide how much to contribute to the funds each year.

In some years, the state took "pension holidays," lowering its planned pension contributions by about half.

By 2009, actuaries and a consultant hired by the state began warning that the underfunding could lead to the system's insolvency, according to the SEC order.

The consultant said in a document that the state's pension system was so underfunded that it would likely "never be able to afford the level of contributions" required to reach 90% funded.

Yet, these concerns weren't disclosed to investors in bond-offering documents, the SEC said.

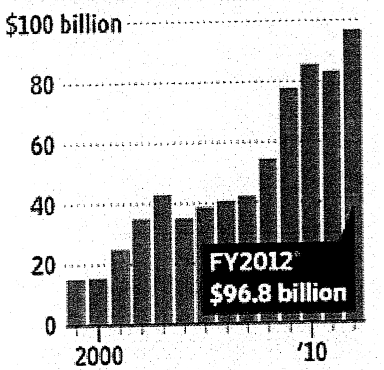
As it prepared its bond documents, the state made little effort to collect "potentially pertinent" information from the pension system's actuaries, the SEC said.

The state said it had worked to improve its practices after the SEC cited New Jersey for pension-disclosure issues in August

2010.

Rising Tide

Illinois's public-pension fund liabilities are nearing $100 billion



*Fiscal years ended June 30
Source: Illinois Commission on Government Forecasting and Accountability
The Wall Street Journal

The SEC accused New Jersey of allegedly misleading investors that the state was adequately funding two of its pension systems—the agency's first securities-fraud case against a state. The SEC said the state didn't disclose that it had abandoned a five-year plan to fund the pension plans. New Jersey neither admitted nor denied wrongdoing but said it would improve its disclosures.

When New Jersey settled with the SEC, it didn't pay a fine, either. The SEC often doesn't fine governments because the costs are ultimately borne by taxpayers, according to people familiar with the agency's practices. In its Illinois order, the SEC noted that the state had taken steps to improve its disclosures, including the creation of a special "disclosure committee" that will sign off on bond-offering disclosures.

Illinois expects to sell approximately $500 million in bonds in early April, a state official said Monday. The sale was put off in January when S&P downgraded the state's credit rating.

The SEC's action on Monday was unlikely to spur changes in the state, Mr. Biss and other lawmakers said.

The order applies to alleged securities fraud from 2005 to 2009, not current practices. Pressure from credit-rating firms hasn't prodded lawmakers toward a consensus, leaving some legislators to doubt whether Monday's order would, either.

Many lawmakers agree the pension system needs to be overhauled, Mr. Biss said, but disagree on the best way to do that. "The hardest questions now aren't whether but what," he said.

—Kelly Nolan contributed this article.

Write to Michael Corkery at michael.corkery@wsj.com and Jeannette Neumann at jeannette.neumann@wsj.com

A version of this article appeared March 12, 2013, on page A1 in the U.S. edition of The Wall Street Journal, with the headline: SEC Says Illinois Hid Pension Troubles.

THE SACRAMENTO BEE sacbee.com

Many aging boomers balk at retirement

acreamer@sacbee.com

Published Sunday, Feb. 24, 2013

Even after four decades in practice, Sacramento family law attorney Hal Bartholomew, 66, has no wish to retire.

"It's disappointing to talk to someone who can't wait to retire," he said. "I really enjoy what I do."

Retirement is nowhere on the horizon for 52-year-old Michael Monk, either – but for entirely different reasons. His small construction company went under during the recession, and he and his wife liquidated their savings to pay bills. Their plans to retire in their 60s evaporated, as well.

Now he's working toward his teaching credential, hoping to find a full-time job as a high school government teacher. "I can work as long as my health lets me teach," he said. "Teaching is my retirement."

In huge numbers, members of the baby boom generation – born from 1946 through 1964 – tell researchers that they don't plan to retire. In one recent AARP survey, nearly 70 percent of baby boomers reported they intend to work past the traditional retirement age of 65.

Those numbers have given rise to a fair amount of happy talk about how this generation is poised to reinvent retirement. Yet the retirement picture, like so much else for the nation's 78 million graying baby boomers, is complex.

On the one hand, baby boomers like to work: Despite a generational stereotype portraying them as free spirits who reject tradition, boomers in the prime of their working years have enthusiastically embraced the work ethic, often defining themselves by their careers.

Throwing on the career brakes at age 65 simply sounds counterintuitive to many baby boomers. The working world has long embraced them, largely because they're better educated than the generations that came before or since, with almost 30 percent holding at least a bachelor's degree and another 30 percent having attended college.

But it's also true that, with the death of traditional company pensions and more recently the biggest economic downturn since the Great Depression, the baby boom generation in many ways has no choice but to redefine what retirement means.

Many would leave the daily grind of jobs if they could. But ongoing financial obligations to aging parents and grown children, as well as financial burdens left by the recession, have combined to make many boomers' retirement prospects more difficult.

"The reason that older participation in the workforce increased has nothing to do with the health and well-being of people that age," said social critic Susan Jacoby, author of "Never Say Die: The Myth and Marketing of the New Old Age."

"It's an economic need."

The average retirement age in the United States hit a low of 62 in the mid-1990s, when the majority of boomers' parents were retiring; today, it is 64 and climbing, according to the Bureau of Labor Statistics.

Seniors' portion of the workforce has risen as well. By 2020, according to Bureau of Labor Statistics figures, baby boomers will account for more than 25 percent of the workforce, up from 16 percent today.

That figure rivals the share of older adults who continued working past age 65 in 1951, before Social Security was fully phased in for all professions and people could count on retirement income.

In short, what most baby boomers face is far from their parents' version of retirement, which began early – at age 55, for many – and has lasted for many decades' worth of bridge games and golf excursions.

For public sector employees whose benefits include a defined monthly retirement income, that sort of retirement remains possible. But across the country, public employee ranks are thinning, and public pension reforms are beginning to reshape their retirement landscape, as well.

"Benefits for retirement have been declining in the private sector," said Chris Hoene, executive director of the California Budget Project, "and now the public sector is following suit."

People fear outliving money

For millions of private sector workers nearing retirement, the shift in their economic future has already occurred.

The nation's three-decade transition away from defined benefit pensions and company-funded retiree health benefits has stripped from millions of boomer-aged Americans the kind of retirement security their parents took for granted.

"Everyone I know is terrified of outliving their money," said AARP's national jobs expert Kerry Hannon, who blogs for Forbes on retirement issues.

"Most people are going to need to work in some fashion past what we think of as retirement age, and that will primarily be a financial decision."

The reasons are familiar.

In 1980, 80 percent of Americans working in the private sector relied on companies' traditional defined benefit plans as the foundation of their retirement finances, according to Employee Benefit Research Institute figures.

Then private companies latched onto tax-deferred 401(k) plans – the retirement savings accounts originally created to help executives shelter extra money in addition to their pensions – as a way to shed the burden of providing benefits to retirees.

By 2005, EBRI says, only one-third of private sector workers had either traditional pensions or a combination of a company pension plus 401(k).

Half of all working Americans have no retirement plans in place at all.

In a sense, millions of baby boomers have helped test whether the 401(k) is a reliable financial model for retirement.

The answer? Most people haven't saved enough to make it work.

Experts say the average 401(k) balance now is about $75,000: Stock market gains in recent months have helped offset the fact that up to one-fourth of people tapped into their retirement savings during the tough recession years.

Even so, EBRI estimates that retirees will need an average 401(k) balance of $900,000 to support them in the extended longevity of their old age.

For boomers hit hard by the recession like Michael Monk – starting over with a new career in his 50s, without a cushion of savings or a pension – continued employment is the only option.

"There are a lot of aging baby boomers who want to find work and can't," said Jacoby. "When you look at the economic losses of the past five years, you realize that the baby boomers who still have jobs will have to be carried out feet first."

Many boomers enjoy work

For many other boomers, it's not just about money. In their 50s and early 60s, a lot of baby boomers are in the most productive years of their careers and want to continue working as long as they can. For them, delaying retirement, at heart, amounts to a lifestyle choice.

Lauren Peters, 56, is a registered nurse who doesn't plan to tap into her company-provided pension for another dozen years.

A widow who lives in Land Park, Peters is director of the Kaiser Permanente outpatient women's health clinics in the region. She has two teenage daughters to put through college in the next decade.

"I have a great job," she said. "I'm highly energized by my work. But I also feel it's important for my daughters to see as they break into the working world that I can be a role model as a career woman."

In fact, if every baby boomer were to retire on schedule, experts say, the resulting brain drain of skills would threaten the country's economic growth.

"There will be a shortage of replacement workers," said University of Southern California demography professor Dowell Myers. "It used to be that early retirement was the best way to upgrade the workforce. Get the old guys out after 55, and your new workers would be better educated.

"But the baby boomers are the best educated generation in history. They're perfectly qualified to undertake continuing in their jobs. They have wisdom and job experience. You'd only retire them if you could replace them with someone younger and cheaper."

He estimates that most boomers will delay retirement – many by working part-time – by about five years.

Some professions easily lend themselves to longer careers. Bartholomew, the family law attorney, insists he simply won't retire.

"The concept of retirement is something I don't plan on doing," he said. "I like dealing with people and helping them with their problems. This is what I really want to be doing."

But for people in fields outside of white-collar careers, working well into their senior years can present a burden. Not everyone, even in the hard-driven baby boom generation, is in love with their work, after all. And some jobs cause a lot of physical wear and tear on employees.

Think construction and, in some cases, nursing. Think repetitive office jobs.

"People are generally pretty healthy at 60," said Jacoby, who is 67. "But in your 60s, things start to go wrong. Anyone in their 60s knows that.

"I see people working at the checkout counter at the grocery. They're my age. You think they want to stand on their feet at 70? They're not sitting in a nice ergonomically designed chair all day. And they've done a lifetime of that work."

Geri Esposito, former chairwoman of the Sacramento County Adult and Aging Commission, thinks working into old age is much too onerous for some workers.

"You think of people in labor-intensive jobs they can no longer do," said Esposito. "Repetitive jobs. Line jobs. To force them to work beyond what's already a difficult wait for them will kill them."

Now 68 – a year older than the oldest boomers – Esposito delayed retirement, too. She has been retired for only the past two years from her position as executive director of the California Society for Clinical Social Work.

"I would have told you I'd probably die at my desk," she said. "I was a professional social worker who worked on building services for people who needed them. It was so painful to watch that dismantled during the recession.

"I realized I couldn't do it any more."

Her retirement isn't lavish – she has a small pension plus Social Security and Medicare – but it's adequate. She plays tennis, lunches with friends and participates in a monthly political discussion group.

She has watched other friends jump into retirement, then quickly leap back into the working world, and she has resisted that urge herself.

"Going back to work is how some people handle the anxiety of transition," Esposito said. "This is a new life. I think they never got past the period of paralysis after retirement. This, 'Oh, now what?' is the most natural thing."

Call The Bee's Anita Creamer, (916) 321-1136.

- Read more articles by Anita Creamer

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THE State Worker

Chronicling civil-service life for California state workers

February 13, 2013

State to defend pension reform law from county union lawsuits

After staying out of the fray for several months, Gov. **Jerry Brown** has asked attorney general **Kamala Harris** to defend California's new public pension law from lawsuits filed by employee unions in at least four counties.

The litigation targets the quasi-independent pension boards in **Alameda, Contra Costa, Marin and Merced** counties for applying part of the law to all members, including those in the systems before the statute took effect on Jan. 1.

While the lawsuits vary in the particulars, they share a common union contention that **"compensation earnable"** -- various types of pay considered for pension purposes -- can't be altered for those existing members. In Merced, for example, a union representing county sheriff's employees and the **American Federation of State, County and Municipal Employees** filed suit after the local pension board said the the new law excluded cashed-out vacation pay when calculating retirement benefits for anyone who retired after Jan. 1.

The Merced pension board didn't send attorneys to court to defend its interpretation of the law. Neither did Attorney General **Kamala Harris** nor the Brown administration. The judge hearing the case told the Merced fund to continue calculating retiring members' pensions under the old rules while the court sorts things out.

This week the Brown administration told the counties that Harris would get involved at his direction, said **Vincent P. Brown**, chief executive officer of the **Alameda County Employees' Retirement Association.**

"We've been waiting and waiting," he said this morning. He thinks that the common element in the four lawsuits, the compensation earnable question, could be combined into a single case at some point.

A copy of the attorney general's motion to intervene in the Alameda case on Moday makes clear that Harris is acting at the governor's request.

"I believe we will be filing similar notices in other cases today," said Harris' spokeswoman **Lynda Gledhill**.

Unlike most public employers in California offer retirement benefits through CalPERS or CalSTRS, the four counties in litigation are "1937 Act" counties that administer their own pension systems within boundaries set by the state. Sacramento County, which is one of the 20 entities in that group, is not being sued.

PHOTO: *Kamala Harris speaks to Bee reporters during her 2010 run for attorney general. / Sacramento Bee file,*

THE SACRAMENTO BEE sacbee.com

Labor unions move to challenge California pension changes for public workers

jortiz@sacbee.com

Published Thursday, Feb. 14, 2013

Before they sought to persuade voters last year to raise taxes, Gov. Jerry Brown and Democratic legislative leaders agreed on sweeping changes in pension law they said would save California government significant money over time.

Just months after the election, however, the overhaul is under attack on two fronts across the state, as labor unions challenge elements of the package in one local agency after another.

In January, a measure surfaced in the Legislature to exempt thousands of regional public transportation workers from the law after mass transit unions began filing objections to the changes with the federal Labor Department. The unions argue that agencies receiving federal money must bargain such changes.

Separately, lawsuits are now challenging aspects of the pension law in a handful of the quasi-independent 20 county retirement systems that operate from Mendocino to Los Angeles.

Unions are suing pension boards in Alameda, Contra Costa, Marin and Merced counties to overturn parts of the new law that restricted how pensions are calculated for workers in the systems before the changes took effect on Jan. 1.

A leading pension reform advocate, Dan Pellissier, said Tuesday the legal challenges by labor unions expose a thousand-cuts strategy intended to eviscerate the law. He said they are seeking to undermine the law via judges and union-backed politicians.

"The unions have been throwing a bunch of weak arguments at the wall and seeing which ones stick, hoping to give sympathetic decision-makers something to latch on to," he said.

Steve Maviglio, spokesman for a public employee union coalition that publicly opposed pension reform last year, said labor leaders in his group have moved on.

Members of the coalition, Californians for Retirement Security, are focused on upcoming labor negotiations for their combined 1.5 million members, he said, and any notion that the unions have a coordinated plan to legally undercut the law is "pure helicopter theory."

The pension law requires that all state and local employees pay at least half the normal cost of their pensions. Those hired on or after Jan. 1 will have to work longer to retire and receive less generous benefits, including a cap on their pay for pension purposes.

The new law is projected to save up to $60 billion over 30 years.

But supporters of the changes have been concerned that Democratic politicians won't stand up for the new pension rules they created last year. State government is benefiting from higher taxes voters agreed to in November when they approved Proposition 30, change supporters say, eliminating political pressure to prove they are good stewards of public money.

Neither the pension boards targeted by the lawsuits, Attorney General Kamala Harris nor Gov. Jerry Brown – who championed the law – have yet sent attorneys to counter those unions' complaints in court.

After staying out of the fray for several months, Brown this week told the counties that he has asked Harris to defend the public pension law.

"We've been waiting and waiting," said Vincent Brown, chief executive officer of the Alameda County Employees' Retirement Association.

Brown spokesman Gil Duran said the governor "will take all necessary steps to preserve the pension reform enacted in 2012."

While the lawsuits vary in the particulars, they share a common union contention that the types of pay considered for pension purposes can't be altered for existing members.

In Merced, for example, a union representing county sheriff's employees and the American Federation of State, County and Municipal Employees filed suit after the local pension board said the new law would not use accumulated vacation pay when calculating retirement benefits for anyone who retired after Jan. 1.

The unions argue that employees have worked with the understanding that the pay would count. Many saved up vacation days in anticipation of higher pensions.

For years, in fact, the Merced County Employees' Retirement Association encouraged employees to build up their vacation time before they retired. Its member handbook included a section titled "Optimizing Your Retirement," which reminded employees that "you will receive up to 160 hours of your vacation payoff amount applied towards your final compensation in addition to getting paid for it, which will increase your final average salary."

The new law led to "a rash of people retiring" before the year's end so they could get the leave credit, said Merced pension plan administrator Maria Arevalo.

In Marin County, the lawsuit specifics differ since the local pension system didn't allow accrued vacation to figure into pensions.

Instead, public employee unions there have sued the county pension board to keep other kinds of compensation in pension calculations, such as the extra payments employees receive if they don't take their employer's health insurance. The unions also want to keep on-call pay and similar after-hours money in their retirement formulas.

Last month the Teamsters and two other unions backed the bill that would exclude 20,000 local and regional mass-transit workers statewide from Brown's pension reform package.

Assemblyman Luis Alejo, D-Watsonville, introduced the measure after the unions complained to federal authorities that the new pension law violated their collective bargaining rights. Under federal law, an agency must preserve employees' bargaining rights or similar workplace processes or forfeit mass-transit grant money.

About $2 billion in annual funding for mass transit upkeep and construction is at stake, according to Alejo. The unions' complaints so far have held up roughly $40 million for Sacramento Regional Transit District's light-rail extension into Elk Grove.