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Mr. Jim Andersen
Interim Retirement Administrator
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, California 95482

**Re: Mendocino County Employees' Retirement Association
FY 2015-2016 Retirement Plan Contributions with Adjustments to Reflect a
Two-Year or Three-Year Phase-in of Employer Contribution Rates**

Dear Jim:

On October 15, 2014, as part of the Board's deliberations on the actuarial assumptions for use in the June 30, 2014 valuation, the Board also discussed the possibility of phasing in the cost impact of the new actuarial assumptions (adopted as recommended in the June 30, 2014 triennial experience study) on the employer contributions over either a two- or three-year period, beginning with the 2015-2016 fiscal year. The recommended (i.e., pre-phase-in) contribution rates for Fiscal Year 2015-2016 are contained in Segal's June 30, 2014 report entitled *Actuarial Valuation and Review as of June 30, 2014*, dated November 17, 2014. This letter provides the "phased-in" contribution rates for Fiscal Year 2015-2016.

Note that subsequent to the October 15, 2014 Board meeting and after further discussion with MCERA staff, we have included in the phase-in calculation the impact of the change in the actuarial assumptions and the method to reflect, for the first time in this valuation, the value of 100% of the cost-of-living adjustments (COLA) continuing to survivors of retirees who elected the unmodified option prior to September 17, 2014, as reaffirmed by Resolution No. 2014-04.

INCREMENTAL PHASE-IN CONTRIBUTION RATES FOR 2015-2016

Table A below shows the full impact of the newly adopted actuarial assumptions and method on the employer contributions for fiscal year 2015-2016. This is the portion of the increase in the contribution rates developed in the June 30, 2014 valuation that would be phased-in over either two or three years.

Table A: Full Impact of the New Actuarial Assumptions/Method

Plan	Increase in Rate (% of payroll)
General Tier 1	7.21%
General Tier 2/3	7.06%
General Tier 4	6.94%
Safety Tier 1	14.79%
Safety Tier 2	13.54%
Safety Tier 3	12.60%
Probation Tier 1	Not Calculated*
Probation Tier 2	9.48%
Probation Tier 3	8.97%
All Categories Combined	8.13%

* There were no Probation Tier 1 active members reported for the June 30, 2014 valuation.

The incremental increases in the employer contribution rates for the first year of the phase-in are simply one-half of the rates shown in Table A for a two-year phase in, or one-third of the rates shown in Table A for a three-year phase-in. These first-year phase-in rates are shown below in Table B, and the rates would apply to contributions for Fiscal Year 2015-2016:

Table B: First-Year Phase-In of the Impact of the New Actuarial Assumptions/Method

Plan	Increase in Rate (% of payroll)	
	Two-Year Phase-In	Three-Year Phase-In
General Tier 1	3.61%	2.40%
General Tier 2/3	3.53%	2.35%
General Tier 4	3.47%	2.31%
Safety Tier 1	7.40%	4.93%
Safety Tier 2	6.77%	4.51%
Safety Tier 3	6.30%	4.20%
Probation Tier 1	Not Calculated*	
Probation Tier 2	4.74%	3.16%
Probation Tier 3	4.49%	2.99%
All Categories Combined	4.07%	2.71%

* There were no Probation Tier 1 active members reported for the June 30, 2014 valuation.

Note that the actual rate impact for the remaining year(s) of the phase-in would be slightly higher than simply adding another one-half (for the two-year phase-in) or another one-third (for the three-year phase-in) of the full increases to the contribution rates for the preceding year. This is due to interest that would accrue on the portion of the total contribution rate increase

that would not be made because of the phase-in. The actual incremental increase in the contribution rate due to the phase-in for the remaining year(s) would be reflected in the new contribution rates determined at the time of each such future valuation.

In addition to the impact of the additional interest that would accrue, the rates for the remaining year(s) of the phase-in would increase due to the delay in paying the rates that reflect the full impact of the new actuarial assumptions/method.

PHASED-IN CONTRIBUTION RATES FOR 2015-2016

The phased-in contribution rates for Fiscal Year 2015-2016 are provided in a table attached to this letter. In the table, we have also provided the current employer contribution rates payable for Fiscal Year 2014-2015 (based on the June 30, 2013 valuation results) and the rates developed in the June 30, 2014 valuation, which reflect the full impact of the new actuarial assumptions/method. The after phase-in rates are developed by taking the rates determined in the June 30, 2014 valuation minus the rates in Table A (the full impact of the new actuarial assumptions/method) plus the rates in Table B (the first-year incremental phase-in rates). Under the two-year phase-in, this is the same as excluding one-half (or 50%) of the full impact of the new actuarial assumptions/method from the current 2014 valuation (i.e., 50% of the Table A amounts). Under the three-year phase-in, this is the same as excluding two-thirds (or 66.7%) of the full impact of the new actuarial assumptions/method from the current 2014 valuation (i.e., 66.7% of the Table A amounts).

It should be noted that the rates provided in the attachment would have to be supplemented by Segal Consulting with breakdowns between normal cost and UAAL as well as between basic and COLA if a contribution phase-in is approved by the Board.

I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

If you have any questions, please let us know.

Sincerely,



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Associate Actuary

DNA/gxk
Enclosure

MCERA

2-Year Phase-In of Incremental Employer Contribution Rates Resulting from New Actuarial Assumptions/Method Adopted for the 2014 Valuation

Summary of Employer Contribution Rates as of June 30, 2014						
Employer Contribution Rates:	June 30, 2014				June 30, 2013	
	Employer Contribution Rates for FY 2015/2016 After Reflecting Full Impact of New Actuarial Assumptions/Method		Employer Contribution Rates for FY 2015/2016 After Reflecting 2-Year Phase-In of Impact of New Actuarial Assumptions/Method		Employer Contribution Rates for FY 2014/2015	
	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate ⁽²⁾	Estimated Annual Amount ⁽¹⁾	Total Rate	Estimated Annual Amount ⁽¹⁾
General Tier 1	32.96%	\$350,000	29.36%	\$312,000	25.22%	\$268,000
General Tier 2/3	30.19%	10,991,000	26.66%	9,706,000	24.07%	8,763,000
General Tier 4	26.32%	1,896,000	22.85%	1,646,000	20.26%	1,459,000
Safety Tier 1	62.53%	42,000	55.14%	37,000	46.55%	32,000
Safety Tier 2	54.16%	4,118,000	47.39%	3,603,000	40.31%	3,065,000
Safety Tier 3	44.19%	371,000	37.89%	318,000	33.71%	283,000
Probation Tier 1			Not Calculated ⁽³⁾			
Probation Tier 2	33.41%	832,000	28.67%	714,000	24.90%	620,000
Probation Tier 3	24.17%	49,000	19.69%	40,000	18.14%	37,000
All Categories Combined	33.38%	18,649,000	29.31%	16,376,000	26.00%	14,527,000

⁽¹⁾ Based on June 30, 2014 projected annual compensation.

⁽²⁾ Represents the employer rates during the first year of the phase-in. Rates for the second year of the phase-in will be higher than the full impact rates due to (a) interest that would accrue on the portion of the total contribution rate increase that would not be made because of the phase-in, and (b) the delay in paying the rates that reflect the full impact of the new actuarial assumptions/method.

⁽³⁾ There were no Probation Tier 1 active members reported for the June 30, 2014 valuation.

3-Year Phase-In of Incremental Employer Contribution Rates Resulting from New Actuarial Assumptions/Method Adopted for the 2014 Valuation

Summary of Employer Contribution Rates as of June 30, 2014						
Employer Contribution Rates:	June 30, 2014				June 30, 2013	
	Employer Contribution Rates for FY 2015/2016 After Reflecting Full Impact of New Actuarial Assumptions/Method		Employer Contribution Rates for FY 2015/2016 After Reflecting 3-Year Phase-In of Impact of New Actuarial Assumptions/Method		Employer Contribution Rates for FY 2014/2015	
	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate ⁽²⁾	Estimated Annual Amount ⁽¹⁾	Total Rate	Estimated Annual Amount ⁽¹⁾
General Tier 1	32.96%	\$350,000	28.15%	\$299,000	25.22%	\$268,000
General Tier 2/3	30.19%	10,991,000	25.48%	9,277,000	24.07%	8,763,000
General Tier 4	26.32%	1,896,000	21.69%	1,562,000	20.26%	1,459,000
Safety Tier 1	62.53%	42,000	52.67%	36,000	46.55%	32,000
Safety Tier 2	54.16%	4,118,000	45.13%	3,431,000	40.31%	3,065,000
Safety Tier 3	44.19%	371,000	35.79%	300,000	33.71%	283,000
Probation Tier 1			Not Calculated ⁽³⁾			
Probation Tier 2	33.41%	832,000	27.09%	675,000	24.90%	620,000
Probation Tier 3	24.17%	49,000	18.19%	37,000	18.14%	37,000
All Categories Combined	33.38%	18,649,000	27.95%	15,617,000	26.00%	14,527,000

⁽¹⁾ Based on June 30, 2014 projected annual compensation.

⁽²⁾ Represents the employer rates during the first year of the phase-in. Rates for the second and third years of the phase-in will be higher due to (a) interest that would accrue on the portion of the total contribution rate increase that would not be made because of the phase-in, and (b) the delay in paying the rates that reflect the full impact of the new actuarial assumptions/method.

⁽³⁾ There were no Probation Tier 1 active members reported for the June 30, 2014 valuation.