♦MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION♦
BOARD OF RETIREMENT MEETING MINUTES
♦JUNE 19, 2013 AT 8:30 A.M.♦

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:30 a.m.

ROLL CALL

Roll call was conducted with the following members present: Shari Schapmire, Lloyd Weer, Ted Stephens, Supervisor John McCowen, John Sakowicz, Richard Shoemaker, Bob Mirata, Tim Knudsen, Craig Walker, and Randy Goodman. Also present: Rich White, Retirement Administrator, Jeff Berk, Legal Counsel, Judy Zeller, Board Clerk, and Mary Anne Walker, Linea Solutions.

PUBLIC COMMENT: Holly Madrigal, John Dickerson, Jared Carter, and Supervisor Dan Gjerde addressed the Board regarding the assumed rate of return and amortization.

1) APPROVAL OF CONSENT AGENDA

Presenter/s: Chair Shari Schapmire referenced the Consent Agenda previously distributed to the Board which included the Minutes of the Board Meeting held May 8, 2013, Membership, Retirements Processed, the Retirement Administrator's report, and Communications.

Board Direction: Mr. Shoemaker requested that item 1-A (Minutes of the Board Meeting held May 8, 2013) be pulled from the Consent Agenda for separate action.

Board Action: Motion was made by Mr. Mirata to approve the remaining items on the Consent Agenda. Mr. Sakowicz seconded the motion and it was approved unanimously.

2) DISCUSSION AND POSSIBLE ACTION REGARDING ANY CONSENT AGENDA ITEM NEEDING SEPARATE ACTION

Presenter/s: Shari Schapmire referenced item 1-A of the Consent Calendar pulled by member Shoemaker. Board member Shoemaker asked staff about minute item 8) Benefits and Operations and how the spousal continuance works. Mr. White explained how the spousal continuance is paid after a retired member death.

Board Action: Motion was made by Mr. Mirata to approve the Minutes of the Board Meeting held May 8, 2013. Mr. Weer seconded the motion and it was approved unanimously.

3) DISCUSSION AND POSSIBLE ACTION REGARDING ACTUARIAL FUNDING POLICY (THE SEGAL COMPANY)

Presenter/s: Via teleconference Paul Angelo and Andy Yeung of The Segal Company referenced the Actuarial Funding Policy which was previously discussed and modified during the March and April Board meetings. The purpose of this Statement of Actuarial Funding Policy is to record the funding objectives and policies set by the Board of Retirement (Board) for the Mendocino County Employees' Retirement Association (MCERA). The Board established this policy to help ensure future benefit payments for members of MCERA. In addition, this document records certain policy guidelines established by the Board to assist in administering MCERA in a consistent and efficient manner. The goals of the Actuarial Funding Policy are to achieve long-term full funding of the cost of benefits provided by MCERA, to seek reasonable and equitable allocation of the cost of benefits over time, and to minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.

Mr. Stephens referenced page 3, Other Policy Considerations, item A, and asked what could be done about the 12 month implementation lag time of valuation contribution rates. He stated that if the contribution rate goes up (or down), we would collect the old rate for one more year which may cause a contribution loss (or gain). Mr. Angelo mentioned that most Boards believe this lag will average out over time, but two 1937 Act Retirement Systems (Orange and Kern) have implemented a policy of paying contributions adjusted to anticipate that contribution gain or loss. Mr. Weer asked why that was not a recommendation in Segal's report. Mr. Angelo stated that in theory it will self correct over time.

Mr. Stephens acknowledged that the downside is rates becoming more volatile. Under MCERA's policy, any contribution gain or loss would show up in the next valuation and would be amortized over 18 years. But, moving forward Mr. Stephens believed that MCERA should immediately correct for such delay. Mr. McCowen stated the Plan Sponsor does not need more volatility. Mr. Stephens stated that he would approve this policy if this one change was added. Mr. Angelo replied that Segal would need to come back to the Board with new language for this change in the funding policy. Mr. McCowen suggested that the policy approval could come back to the Board on the consent agenda.

Board Direction: The Segal Company will update the draft Actuarial Funding Policy which was previously approved to adjust for the lag in contributions earlier instead of waiting a year to incorporate recommended and approved rates. The Segal Company will provide the correct language and this item will be brought back to the Board for final approval on the consent agenda.

Board Action: Motion was made by Mr. Stephens to update the draft Actuarial Funding Policy, which was previously approved, and adjust for the lag earlier instead of waiting until the next actuarial study to incorporate new rates. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes 7 Noes 2 (McCowen, Walker) Abstain 0 Absent 0 (Motion Approved)

4) DISCUSSION AND POSSIBLE ACTION REGARDING ACTUARIAL TRIENNIAL EXPERIENCE STUDY (THE SEGAL COMPANY)

Presenter/s: Via teleconference Paul Angelo and Andy Yeung of The Segal Company addressed the Board regarding the next Actuarial Triennial Experience Study. This study would be done in the later part of calendar year 2014 and would cover the demographic experience for the period of July 1, 2011 through June 30, 2014 and the target allocation as of June 30, 2014.

Mr. Stephens previously asked that the Board discuss the timing of the experience and demographic study, especially the economic assumptions that include the investment return (discount) rate. Mr. Stephens stated that he only wants to discuss the assumed investment earnings rate today, not the triennial demographic experience study. Mr. Angelo stated that you can consider putting the review of the assumed earnings rate on a different time schedule or it can be done during the triennial study. The asset allocation study is also timed every three years. This is done ahead of the triennial study because assumed earnings rate is calculated based on MCERA's targeted asset allocation. There would be an issue if you use the current allocation to set the assumed earnings rate and you plan on changing the current asset allocation upon completion of the study. Mr. Stephens felt that the earnings assumption rate should be looked at now so that we don't lose time and mentioned that the Callan Associates modeling recommended a 6.66% assumed rate.

Mr. Angelo stated that an investment consultant does not advise you on how to value liabilities just as an actuary does not advise on asset allocation. We are fortunate that the 3 year experience study does coincide with the asset allocation study, but we can do that out of cycle, including an update on capital market assumptions. Mr. Stephens wanted to know if the calculation for the earnings rate could be done without doing the full study. Mr. Angelo replied that there is more to setting economic assumptions than just setting the investment earnings assumption because a review of the economic assumptions should include the inflation and the salary increase assumptions. Regarding the setting of the interest rate assumption, Segal uses different investment consultants' market return assumptions in the study. This provides a consistent basis to compare yourself to yourself over time. For the investment earnings assumption, the recommendation from Segal takes a long term view while the recommendation of the investment consultant may focus on the short term. Long term can be up to the 30 year range, and should be longer than 10-15 year range most investment consultants use.

Mr. Weer felt the need to see supporting documentation for the triennial experience study and all that affects its process. We need to think well into the future, long term. Mr. Shoemaker stated that we must have a meeting with sponsors before we make any changes. Supervisor McCowen felt uncomfortable going outside our normal process. We need to remember assumptions based on long term 30 years vs. 10 years. If we plan to change how the system operates to a 10 year plan we need to have that discussion and not throw away our current policies and procedures.

Board Direction: Staff will assist The Segal Company in performing an Actuarial Triennial Experience Study that will cover the demographic experience for the period of July 1, 2011 through June 30, 2014 and the target allocation as of June 30, 2014 as planned.

Board Action: Motion was made by Supervisor McCowen to approve the Segal Company to perform an Actuarial Triennial Experience Study that will cover the demographic experience for the period of July 1, 2011 through June 30, 2014 and the target allocation as of June 30, 2014. Mr. Mirata seconded the motion and it was approved by the following vote: Ayes 6 Noes 3 (Goodman, Sakowicz, Stephens) Abstain 0 Absent 0 (Motion Approved)

Board Action: Motion was made by Mr. Stephens to give Segal direction to calculate contribution rate if we went to a 7% rate of return, go to Callan for the probability of meeting 7%, and bring back at next meeting to discuss if we can implement in the contribution rates for fiscal year 2013/14. Mr. Mirata seconded the motion, but withdrew after some discussion. Mr. Sakowicz then seconded the motion which failed by the following vote: Ayes 1 (Stephens) Noes 8 Abstain 0 Absent 0 (Motion Failed)

5) DISCUSSION AND POSSIBLE ACTION REGARDING PENSION ADMINISTRATION SYSTEM

- **Report and Recommendation of Pension Administration System Ad Hoc Committee**

Presenter/s: Rich White referenced information previously distributed to the Board regarding the request for proposal for a Pension Administration System which was issued in May. He introduced Mary Anne Walker, Linea Solutions, who is our Information Technology Advisor. Mary Anne assisted us in the two month process of preparing a Request for Proposal. Four proposals were received which were evaluated and scored by an Ad Hoc Committee and staff.

Board members discussed the committee recommended vendor including risk, finding a different vendor if the chosen vendor does not work out, viability and strength of the vendor, if hosting fees will change in 10 years, and how much staff time will be saved. Mr. Sakowicz asked if the system can adapt to plan changes from defined benefit to defined contribution plans. Mr. White replied that business rules are adaptable, but we may need to purchase an additional module if any plan changes occurred. Currently we have the advantage to purchase after Pension Reform and include that in our system. Our data would be kept all in one place for first time in the history of MCERA.

Mr. White added that risk and the ability to continue services if the chosen vendor does not work out will be addressed in contract negotiations and the recommended vendor has shown viability and stability for long term. He acknowledged that the hosting fees may change in 10 years, but that we may find ourselves needing to make changes in the retirement system at that time. Staff time will be utilized to complete other projects that we don't have resources for now and the system will give a higher level of confidence and level of service to our members.

Mr. Goodman asked about the possibility of vendor termination of service and if we could address this issue in the contract. He also asked about the difference in a vendor hosted system vs. a system hosted at Information Services (IS). Mr. White stated that vendor termination would be negotiated in the contract and that IS is challenged due to lack of resources. Mr. White mentioned some of the capabilities of the system and addressed security.

Mr. Shoemaker asked if support fees are separate and what do we get for the Linea cost? Mr. White replied that support fees would be included and added that we need to include performance deadlines in the contract. Linea would provide project management and a business analyst for project oversight. He added that the Pension System contract is expected to be very large and we must use outside counsel. We are fortunate to have access to outside counsel that has experience with these types of contracts. We will do everything we can to protect our system and keep our implementation on a timeline.

Mr. Weer recommended the selection of a pension administration system and supports reasonable cost as an Ad Hoc Committee member.

Mr. Walker left the meeting at 11:00 a.m.

Board Direction: Staff will include Board concerns in the negotiation of contract.

Board Action: Motion was made by Supervisor McCowen to approve the recommended action to select the recommended vendor for the installation of the pension administration system, to authorize the Retirement Administrator to negotiate and enter into a contract with the selected vendor under the terms of the RFP proposal with the intent to include Board concerns in the negotiation of contract, and to adopt the proposed budget for the pension administration system project and revise the Fiscal Year 2013-2014 budget accordingly. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes 7 Noes 1 (Stephens) Abstain 0 Absent 1 (Motion Approved)

6) DISCUSSION AND POSSIBLE ACTION REGARDING AGREEMENT WITH LINEA SOLUTIONS, INC. FOR PENSION ADMINISTRATION PROJECT OVERSIGHT AND IMPLEMENTATION CONSULTING SERVICES

Presenter/s: Rich White referenced information previously distributed to the Board regarding an agreement with Linea Solutions for Pension Administration Project Oversight and Implementation Consulting Services. The need for Linea's consulting services was previously discussed during the May board meeting and was included in the adopted 2013/14 budget.

The implementation of a Pension Administration System (PAS) is a highly complex task which requires significant technical expertise, project management capabilities and oversight, communication skills, and quality control. Retirement System staff do not have the capabilities of managing a project of this magnitude. Linea Solutions is the IT consulting firm most familiar with our technology needs. They have conducted a detailed study of the Association's long-term technology requirements and prepared and coordinated the Request for Proposal (RFP) for the Pension Administration System.

The chosen vendor does not offer project management for us, only for their software. The project management provided by Linea will assist staff in documenting everything, sticking to the timeline for implementation, and develop policy.

Ms. Walker asked for authorization to contact three vendors that were not selected with the information discussed today and that they were not chosen for contract negotiation.

Board Direction: Ms. Walker is granted authorization to contact the three vendors who were not selected.

Board Action: Motion was made by Mr. Mirata to approve the statement of work with Linea Solutions, Inc. project oversight and implementation consulting services for the pension administration system in an amount of $490,500 for the 24 month period beginning July 2013 and to authorize the Administrator to enter into a contract for these services. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes 7 Noes 1 (Stephens) Abstain 0 Absent 1 (Motion Approved)

7) DISCUSSION AND POSSIBLE ACTION REGARDING AGREEMENT WITH HANSON BRIDGETT, LLP FOR LEGAL TAX CONSULTING SERVICES

Presenter/s: Rich White referenced information previously distributed to the Board regarding a letter of engagement from Hanson Bridgett, LLP, for legal tax consulting services. The fees for this engagement were previously discussed in May and was included in the adopted 2013/14 Fiscal Year Budget.

Board Action: Motion was made by Mr. Mirata to approve the Hanson Bridgett, LLP, letter of engagement for legal tax consulting services effective July 1, 2013 through June 30, 2014 for a maximum of $30,000. Mr. Knudsen seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1 (Motion Approved)

8) DISCUSSION AND POSSIBLE ACTION REGARDING AGREEMENT WITH FECHTER AND COMPANY FOR ACCOUNTING SERVICES

Presenter/s: Rich White referenced information previously distributed to the Board regarding an agreement with Fechter and Company for accounting services which was previously discussed during the May board meeting and was included in the adopted 2013/14 Fiscal Year Budget. Mr. McCowen confirmed that the accounting position had been approved by the Board of Supervisors. Mr. White stated that the position must go to civil service because the current job class specification if specifically for the Auditor/Controller's office and must be approved for Retirement. He expects that to happen in July and then we can begin recruitment.

Supervisor McCowen asked if the contract accountant could telecommute. Mr. White replied that the accountant must use our Peachtree accounting software which is hosted by the County and perform data entry in house. Travel time was previously negotiated with the original contract. Supervisor McCowen objected to the per diem rates that were negotiated for travel because they were based on rates for San Francisco.

Board Action: Motion was made by Mr. Mirata to approve the agreement with Fechter and Company for accounting services. Mr. Knudsen seconded the motion and it was approved by the following vote: Ayes 6 Noes 2 (McCowen, Stephens) Abstain 0 Absent 1 (Motion Approved)

9) MONTHLY FINANCIAL REPORT

- **Statement of Plan Net Assets**
- **Statement of Changes in Plan Net Assets**
- **Cash Flow Analysis**
- **Rental Income Net of Expenses**
- **Vendor Ledger**

Presenter/s: Rich White referenced preliminary reports from the month of April previously distributed to the Board including statement of plan net assets, statement of change in plan net assets, cash flow analysis, rental income net of expenses, and vendor ledger. The rental income report is new due to accounting changes. Page 3 of vendor ledger regarding Mondrian Investment Partners includes 3 entries due to a change to direct billing for quarterly investment fees which is now in place and we have caught up on billing which included 3 quarters. Mendocino Access TV is also caught up and includes 3 months of billing.

Mr. Goodman asked why they are not receiving a report on year to date change. Our investments are up $32 million and the report by investment was very helpful. Mr. Knudsen asked about rental income and whether it was imputed. Mr. White replied that the report includes actual and imputed rent and the calculation is based on square footage.

Supervisor McCowen asked staff to rethink having the vendor ledger marked confidential.

Board Direction: Staff will consider whether the vendor ledger should remain confidential and will include a year to date report in the monthly financials.

10) MONTHLY INVESTMENT REPORT

Presenter/s: Rich White referenced the monthly investment report previously distributed to the Board.

11) CLOSED SESSION

- **Pending disability applications update**
- **Kim Koskinen Writ of Mandamus**

REPORT OUT FROM CLOSED SESSION

Board Action: There was no action taken on any closed session items.

Mr. Berk left the meeting at 12:45 p.m.

12) GENERAL BOARD MEMBER DISCUSSION

Mr. Sakowicz asked if Board members would like a recording of his radio show with Joe Nation. He will provide copies. He stated for the record that he does not speak as a Retirement Board Member during his radio shows. Marty Lombardi will be his guest on Friday June 21, 2013.

ADJOURNMENT (1:00 pm)

Richard A. White, Jr.
Retirement Administrator

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(707) 467-6473
Fax: (707) 467-6472

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

Date: July 17, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator raw
Subject: Administrator Report

Meetings attended since the last Board of Retirement meeting:

- I attended the California Association of Public Retirement Systems (CALAPRS) Administrator Roundtable on June 21, 2013 in Burbank.
- I attended the Callan Regional Workshop on June 26, 2013 in San Francisco.
- I attended the Mendocino County Grand Jury empanelment on June 28, 2013.
- I met with Carmel Angelo, CEO, County of Mendocino on July 10, 2013.

Future meeting attendance:

- Nothing scheduled.

State Association of County Retirement Systems (SACRS):

The SACRS Board of Directors is interested in furthering better and timelier communication between the SACRS organization and the county retirement systems that it represents and recently adopted a policy of sharing the approved minutes of their Board meetings as one way in which to do this. I have included the minutes of the SACRS Board of Retirement meeting from March 18, 2013 for your information.

Update regarding Small Claims Court Judgment: MCERA v. Craig Lindburg:

The legal process necessary to recover the court judgment in favor of MCERA is underway and being monitored by staff.

SACRS
State Association of County Retirement Systems
Staff * Trustees * Affiliates * Success
A California Non Profit Corporation

SACRS Board of Directors Meeting Minutes
Monday, March 18, 2013
9:30 a.m. – Noon /Adjournment
1415 L Street, Suite#1000 Sacramento, CA
CC# (916) 449-6604

Meeting Minutes

Attendance Board: Doug Rose, SACRS President, Yves Chery, SACRS Vice President and Tom Ford, SACRS Treasurer
Conference Call: Ray McCray, SACRS Past President
Absent: John Kelly, SACRS Secretary
Guests: Rob Harkins, Casey Jones, Richard Stensrud, Christie Porter, Alana Thesis, Jim Marta, Susan Marshall
Staff: Sulema Peterson, Maria Barajas, Bob Palmer, Dodie Wishek, Jim Lites

Consent item

1. **Secretary's Report: John Kelly, SACRS Secretary**

a) January 2013 SACRS Board Meeting Minutes
Motion: A motion to approve the January BOD minutes was submitted by Doug Rose, SACRS President.
2nd: Ford
Yes: All
Absent: McCray & Kelly
Motion Passes

2. **Treasurer's Report: Tom Ford, SACRS Treasurer**

a) Financial Statements
b) Update on CSAC – Cal Trust Account
Motion: A motion to approve the Treasurers report was submitted by Tom Ford, SACRS Treasurer.
2nd: Chery
Yes: All
Absent: McCray & Kelly
Motion Passes
Direction to staff: Tom asked that future reports include a column that also identifies the percentage (%) of the budget.

Second Motion: A motion to approve the transfer of $250,000 to the CSAC Cal Trust Account was submitted by Tom Ford, SACRS Treasurer.
2nd: Chery
Yes: All
Absent: McCray & Kelly
Motion Passes
Direction to staff: Please transfer $250,000 from the SACRS Bank of Sacramento Account into the SACRS CSAC Cal Trust Account.

Additional discussion: Tom would like to update the SACRS Cash Policy, will review and get back to the BOD on suggestions/volunteers/ideas to improve.

New Business

3. **Doug Rose, SACRS President**

a) CERL – Rewrite option
No action, verbal update provided by Richard Stensrud, SACRS Legislative Committee Chair. The legislative committee likes the aspect of "independent interpretations" of the current 37 Act. If the Act was re-written, the new language could potentially create unintentional issues for Systems and how they operate/interpret/implement the 37 Act. The discussion included the potential of a volunteer attorney, possibly Harvey Leiderman, to re-write one section of the Act, as an example. Doug volunteered to contact Harvey to discuss. Bob Palmer was asked to bring up the subject at the Spring 2013 Conference during the Administrator's breakout to discuss with the SACRS systems Administrators to get their point of view.

b) Committee Appointments

Appointments are the following:

Maya Gladstern	Marin CERA Trustee	Program Committee
Maya Gladstern	Marin CERA Trustee	Nomination Committee representing the Program Committee

Step-Downs are the following:

Doug Rose	San Diego CERA Trustee	Nomination Committee
Yves Chery	Los Angeles CERA Trustee	Nomination Committee
Yves Chery	Los Angeles CERA Trustee	Bylaws Committee

c) PEPRA Litigation
No action, verbal update on PEPRA litigation that

4. Bob Palmer, SACRS Executive Director

a) GASB – Auditors
No action, item will be revisited in the fall. Shari Orange County TTC said she'd offer assistance from the Auditors association.

b) Dental RFI – Update
No action, verbal update on SACRS Dental RFI, questions and time line.

c) Bankruptcies & 37 Act Special Districts: Symposium being held on April 23, 2013 at the Burlingame Marriott. Panel to include Harvey Leiderman, Paul Angelo, Lance Kjeldgaard, Attorney's from Mannatt Phelps & Phillips, and reps from CalPERS.
   - Chapter 9 Bankruptcy
   - The language of the '37 Act on district terminations
   - How the Vallejo and Stockton cases with Cal PERS will parallel our issue

5. Audit Committee, Steve Delaney, Audit Committee Chair***Due to time limitations/schedule, SACRS Audit was presented by James Marta & Co- Jim Marta and Alana Thesis, prior to item #3.*

a) SACRS 2011-2012 Audit presented by James Marta & Co.
A verbal and written report was submitted by James Marta & Co.,
Motion: A motion to approve the SACRS Financial Audit was submitted by Yves Chery, SACRS Vice President.
2nd: Ford
Yes: All
Absent: McCray & Kelly
Motion passes

6. Nomination Committee, Raymond McCray, Nomination Committee Chair

a) 2013 – 2014 Elections Update
No action, see notices that were sent to all SACRS Trustees and SACRS Administrators.

7. Legislative Committee Update: - Richard Stensrud, SACRS Legislative Committee Chair & Mike Robson, Trent Smith, Edelstein Gilbert Robson & Smith

a) SACRS 2013 sponsored legislation

b) Other Retirement Legislation Update
No action, verbal update on current legislation –a discussion on the "mandatory re-appointment" of trustees on Boards – Doug would like to see it a mandate to re-appoint, and a discussion regarding the LACERA Real Estate bill/assistance from Authors office/Annette's participation with timely info. Also discussed was the concept of bringing in a P.R firm or adding some PR tasks to Jim Lites consulting duties. The group discussed the concept of being in front of the news instead of responding to issues that include us and/or that involve issues that affect our membership.

8. Sulema H. Peterson, SACRS Administrator

a) Fall 2012 Conference – Balance Due
No action. Update only.

b) SACRS 2015 Conference Options
Motion: A motion was submitted by Tom Ford, SACRS Treasurer to approve the following as SACRS Future Conference Sites for 2015:

- Spring 2015
  Anaheim Marriott
  700 West Convention Way, Anaheim, CA 92802
  $189 room rate for attendees
- Fall 2015
  San Diego Marriott Marquis & Marina
  333 West Harbor Drive, San Diego, CA 92101
  $229 room rate for attendees

2nd: Rose
Yes: All
Absent: McCray & Kelley
Motion Passes

c) SACRS UC Berkeley Program 2013
- Contract option
- Update on curriculum

Motion: A motion was submitted by Tom Ford, SACRS Treasurer to accept the 2 year contract for the UC Berkeley Program offered by SACRS. The fees for 2 sessions were negotiated, to include a reduced fee if booked at the same time, a savings of $20,000 over the two years.
2nd: Rose
Yes: All
Absent: McCray & Kelley
Motion Passes

d) VSP Update
No action. Update only

e) Membership Report
No action. Update only

9. Next SACRS Board of Directors meeting
Friday, May 17, 2013 – SACRS Spring Conference – Napa Valley Marriott Hotel and Spa, Napa, CA

Roundtable & Adjournment

Minutes respectfully submitted by:

John Kelley, SACRS Secretary
Sulema H. Peterson, SACRS Administrator

Richard A. White, Jr.
Retirement Administrator

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

Date: July 17, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator
Subject: ACTUARIAL FUNDING POLICY

Summary:

The Board of Retirement approved the MCERA Actuarial Funding Policy at your June meeting, with one exception which was to revise the language in the policy with respect to the handling of any expected actuarial gains/losses due to the 12 month lag between the date of the valuation and the date of the contribution rate implementation and to return the item to the Board as a consent calendar item.

This item contains the revised policy language that addresses the issue.

Staff Recommendation:

Adopt actuarial funding policy statement on the 'lag between date of actuarial valuation and date of contribution rate.'

Discussion:

The first draft of the actuarial funding policy was as follows:

A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In order to allow the employer to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of MCERA's UAAL in the following valuation.

Any change in contribution rate requirement that results from plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

The revised language for your approval today is:

A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In order to allow the employer to more accurately budget for pension contributions and for other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. However, the UAAL contribution rates in the current actuarial valuation are adjusted to account for the delay in implementing any changes in contribution rates during this 12-month period.

Any change in contribution rate requirement that results from plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

raw
Attachment

SEGAL

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

VIA E-MAIL & USPS

June 26, 2013

Mr. Richard A. White
Retirement Administrator
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

Re: Mendocino County Employees' Retirement Association
Statement of Actuarial Funding Policy – Second Draft

Dear Rich:

Following the Board's direction provided at the meeting on June 19, we have updated the first draft of the actuarial funding policy statement attached to our letter dated May 30 to include a new feature to anticipate the contribution rate impact that would result from the 12-month lag between the date of the valuation and the date of the contribution rate implementation. That change can be found on page 3 of the policy under subcategory A. of the "Other Policy Considerations".

The updated statement is provided as Attachment A to this letter.

Please give us a call if you have any questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary

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

/hy
Enclosure

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Attachment A

Mendocino County Employees' Retirement Association

Statement of Actuarial Funding Policy – Second Draft

Introduction

The purpose of this Statement of Actuarial Funding Policy is to record the funding objectives and policies set by the Board of Retirement (Board) for the Mendocino County Employees' Retirement Association (MCERA). The Board establishes this Statement of Actuarial Funding Policy to help ensure future benefit payments for members of MCERA. In addition, this document records certain policy guidelines established by the Board to assist in administering MCERA in a consistent and efficient manner.

This Statement of Actuarial Funding Policy supersedes any previous statements. It is a working document and may be modified as the Board deems necessary.

Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by MCERA;
2. To seek reasonable and equitable allocation of the cost of benefits over time; and,
3. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.

Funding Requirement and Policy Components

MCERA's annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

I. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period;

II. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and

III. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

I. Actuarial Cost Method:

The Entry Age[1] actuarial cost method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability.

II. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Valuation Value of Assets, shall be recognized in level amount over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed 25% of the Market Value of Assets.

The Board acknowledges the occasional need for and reserves the right to consider future ad-hoc adjustments to the asset smoothing method to achieve a more level pattern of recognition of the net deferred investment gains or losses after a period of significant market change followed by a period of market correction, upon receiving the necessary analysis from its actuary.

III. Amortization Policy:

- The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2012 shall continue to be amortized over its declining 30-year schedule (with 27 years remaining as of June 30, 2012);
- Any new UAAL as a result of actuarial gains or losses identified in the actuarial valuation as of June 30, 2013 or later will be amortized over a period of 18 years;
- Any new UAAL as a result of change in actuarial assumptions or methods, effective with the actuarial valuation as of June 2013 or later will be amortized over a period of 18 years;
- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
  a. with the exception noted in b. below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;
  b. the increase in UAAL resulting from a temporary retirement incentive will be funded over 5 years;
- UAAL shall be amortized over "closed" amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation;
- UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of estimated covered payroll, based on the current actuarial assumption for general payroll increase;

[1] This method has also been referred to as the Entry Age Normal method but following recent guidance from both GASB and the California Actuarial Advisory Panel, it is referred to as the Entry Age actuarial cost method in this policy.

- In addition to the UAAL contribution rate, an amortization amount equal to the UAAL contribution rate times the covered payroll (as estimated in the actuarial valuation that establishes such UAAL contribution rate) shall be calculated for each employer. The final UAAL payment by each employer shall be equal to the UAAL contribution rate times the actual covered payroll or the above amortization amount, if greater; and
- If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of CalPEPRA), such actuarial surplus and any subsequent surpluses will be amortized over an "open" amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

Other Policy Considerations

A. Lag between Date of Actuarial Valuation and Date of Contribution Rate Implementation

In order to allow the employer to more accurately budget for pension contributions and for other practical considerations, the contribution rates determined in each valuation (as of June 30) will apply to the fiscal year beginning 12 months after the valuation date. However, the UAAL contribution rates in the current actuarial valuation are adjusted to account for the delay in implementing any changes in contribution rates during this 12-month period.

Any change in contribution rate requirement that results from plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

B. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
- Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board's reasonable estimate of anticipated experience under MCERA and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

C. Glossary of Terms

Actuarial Funding Method – A technique to allocate present value of projected benefits among past and future periods of service.

Actuarial Accrued Liability – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.

Normal Cost – The portion of the present value of projected benefits that is attributed to current service by the actuarial funding method.

Entry Age Actuarial Cost Method – A funding method that calculates MCERA's Normal Cost as a level percentage of pay over the working lifetime of the plan's members.

Actuarial Value of Assets – The market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

Valuation Value of Assets – The value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

Unfunded Actuarial Accrued Liability – The portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Actuarial Accrued Liability from the Valuation Value of Assets.

Valuation Date – June 30 of every year.

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EMPLOYEES' RETIREMENT ASSOCIATION
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UKIAH, CALIFORNIA 95482-5027

Date: July 17, 2013
To: Board of Retirement
From: Judy Zeller, Retirement Specialist
Subject: Board Member Education Update

Quarterly Trustee Education Update:

Annual reporting is required and will be accomplished by reporting to the Board and posting to our internet website each year. At this time staff would like to provide a quarterly update on the progress of our trustees towards their educational requirements and provide you with a list of 2013 Educational Conferences which you may attend. The next quarterly update will be provided in October 2013.

2013 Trustee Conference/Seminar Attendance and Educational Hours Credited

	Bob Mirata	Craig Walker	John Sakowicz	Lloyd Weer	Randall Goodman	Richard Shoemaker	Shari Schapmire	Ted Stephens	Tim Knudsen	John McCowen
Ethics Training		2.00			2.00			2.00		
1/28/13 Callan Institute	8.00		8.00				8.00			
5/8/13 Board Fiduciary Training	1.00		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
5/12-17/13 Spring SACRS	13.50		10.00	9.00	9.00	10.00				
6/26/13 Callan Workshop	2.00			2.00						
Totals	24.50	2.00	19.00	12.00	12.00	11.00	9.00	3.00	1.00	1.00

2013 Educational Conferences:

July 29-31, 2013	SACRS Public Pension Investment Program	Berkeley, CA
September 13, 2013	CALAPRS Trustee Roundtable	San Jose, CA
October 29-30, 2013	Callan Introduction to Investments	San Francisco, CA
November 12-15, 2013	SACRS 2013 Fall Conference	Indian Wells, CA
January 27-29, 2014	Callan Thirty-Fourth National Conference	San Francisco, CA
March 1-4, 2014	CALAPRS General Assembly	Rancho Mirage, CA