

**BOB MIRATA**  
CHAIRMAN  
B.O.S. APPOINTEE

**SHARI SCHAPMIRE**  
VICE-CHAIRMAN  
TREASURER TAX COLLECTOR

**TIM KNUDSEN**  
SECRETARY  
ELECTED RETIRED MEMBER

**SUPERVISOR KENDALL SMITH**  
B.O.S. APPOINTEE

**JOHN SAKOWICZ**  
B.O.S. APPOINTEE

**TED STEPHENS**  
B.O.S. APPOINTEE

**LLOYD WEER**  
ELECTED  
GENERAL MEMBER

**RANDY GOODMAN**  
ELECTED GENERAL  
MEMBER

**CRAIG WALKER**  
ELECTED SAFETY  
MEMBER

**RICHARD SHOEMAKER**  
ELECTED RETIRED  
ALTERNATE MEMBER



**RICH WHITE**  
RETIREMENT  
ADMINISTRATOR

**JEFF BERK**  
LEGAL COUNSEL

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# **MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION BOARD MEETING AGENDA JULY 18, 2012 – 8:30 A.M.**

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## **ROLL CALL (8:30 A.M.)**

### **PUBLIC COMMENT (Estimated Time 5 min.)**

Members of the public are welcome to address the board on subjects within the jurisdiction of the Board of Retirement regarding items both on and off the agenda. The board is prohibited by law from taking action on matters not on the agenda, but may ask questions to clarify the speaker's comment and/or briefly answer questions. The board limits testimony on matters not on the agenda to 5 minutes per person and not more than 10 minutes for a particular subject at the discretion of the Chair of the Board. To best facilitate public expression please complete the speaker form available at the entrance to the boardroom and present to the Clerk to the Board. If you wish to submit written comments please provide 13 copies to the Clerk to the Board prior to the start of the meeting. Public speakers are reminded to announce their names before they address the board.

- 1) PROCLAMATION HONORING JIM ANDERSEN FOR HIS SERVICE AS RETIREMENT ADMINISTRATOR (Estimated Time 5 min.)**
- 2) APPROVAL OF THE MINUTES OF THE BOARD MEETING HELD JUNE 20, 2012 (Estimated Time 5 min.)**
- 3) DISCUSSION AND POSSIBLE ACTION REGARDING THE SCOPE OF PROFESSIONAL SERVICES RELATING TO THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR FISCAL YEAR ENDED JUNE 30, 2012 (Estimated Time 10 min.)**
  - Report from Budget Ad Hoc Committee**

**◆RETIREMENT BOARD MEETING AGENDA◆**  
**◆JULY 18, 2012 - 8:30 A.M.◆**

- 4) DISCUSSION AND POSSIBLE ACTION REGARDING THE ACTUARIAL VALUATION FOR JUNE 30, 2012 (Estimated Time 30 min.)
- Actuarial Assumptions for Fiscal Year 2012-2013
  - Ad Hoc adjustment to MCERA Asset Smoothing
- 5) DISCUSSION AND POSSIBLE ACTION REGARDING RESPONSE TO THE GRAND JURY REPORT (Estimated Time 30 min.)
- 6) MONTHLY FINANCIAL REPORTS (Estimated Time 30 min.)
- Billings for fees and services
  - Report on the adopted 2012/2013 Budget
  - Report on 2011/2012 Budget vs actual as of May 31, 2012
- 7) MONTHLY INVESTMENT REPORT (Estimated Time 5 min.)
- May 2012 Final report
  - Action may be taken to terminate or hire investment managers at any meeting

**BREAK (Approximately 10:30 A.M.) (Estimated Time 10 min.)**

- 8) RETIREMENT ADMINISTRATOR'S REPORT (Estimated Time 10 min.)
- Member retirements and withdrawals of contributions by inactive members
  - Administrator's report
- 9) CLOSED SESSION (Approximately 10:50 A.M.) (Estimated Time 45 min.)
- Confidential Billings for fees and services
  - Pending disability applications:
    - A) Goss, Tim (05/10/12) Sheriff SCD
    - B) Hudson, Gary (09/07/10) Sheriff SCD
    - C) Mounts, Paul (6/8/12) General Services SCD
    - D) Wilson, Rebecca (6/8/12) Social Services SCD
    - E) Yee, Peggy (06/05/12) Social Services SCD

**REPORT OUT FROM CLOSED SESSION (Estimated Time 5 min.)**

- 10) COMMUNICATIONS (Estimated Time 5 min.)
- 11) GENERAL BOARD MEMBER DISCUSSION (Estimated Time 5 min.)
- Conference/Training attendance

**ADJORNMENT (Approximate Time 11:50 A.M.)**

(Pursuant to Government Code Section 54954, this agenda was posted 72 hours prior to the meeting.)

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆JUNE 20, 2012 AT 8:30 A.M.◆

**1) CALL TO ORDER**

Bob Mirata, Board Chair, called the meeting to order at 8:30 A.M.

Roll call was conducted with the following members present: Shari Schapmire, Randy Goodman, Lloyd Weer, John Sakowicz, Supervisor Kendall Smith, Ted Stephens, Bob Mirata, Tim Knudsen and Richard Shoemaker. Also present: Rich White, Retirement Administrator, and Judy Zeller, Clerk to the Board. Absent by prior arrangement: Craig Walker.

**2) PUBLIC COMMENT:** John Sakowicz spoke to the Board regarding attending the June 13, 2012 SCERA Investment Committee meeting and their presentation on alternative investments.

**Board Direction:** Supervisor Smith asked Board members to review the Spring SACRS DVD session on Alternative Investments. The Board will continue to monitor Mutual Funds and will take opportunity to review information on Alternative Investments when available.

**3) APPROVAL OF THE MINUTES OF BOARD MEETINGS HELD MAY 16, 2012**

Upon motion by Board member Supervisor Smith, seconded by Board member Goodman; **IT IS ORDERED** that the minutes of the May 16, 2012 Board meeting are approved.

**4) DISCUSSION AND POSSIBLE ACTION REGARDING AUTHORIZED SIGNATURE RESOLUTION 12-0620**

**Presenter/s:** Rich White referenced information previously distributed to the Board.

**Board Action:** Motion was made by Board member Supervisor Smith to approve the Authorized Signature Resolution 12-0620. Board member Sakowicz seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1.

**5) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2011 AND 2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

**Presenter/s:** Rich White referenced information previously distributed to the Board.

**Board Action:** Motion was made by Board member Knudsen to approve the June 30, 2011 and 2010 CAFR. Board member Schapmire seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1.

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
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◆ JUNE 20, 2012 AT 8:30 A.M. ◆

**6) DISCUSSION AND POSSIBLE ACTION REGARDING AMENDMENT TO AGREEMENT WITH JIM ANDERSEN FOR TRANSITIONAL SERVICES**

**Presenter/s:** Rich White referenced information previously distributed to the Board.

**Board Action:** Motion was made by Board member Supervisor Smith to approve the amended agreement with Jim Andersen for transitional services. Board member Goodman seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1.

**7) DISCUSSION AND POSSIBLE ACTION REGARDING AMENDMENT TO THE MEMORANDUM OF UNDERSTANDING BETWEEN THE COUNTY ASSESSOR/CLERK RECORDER AND MCERA**

**Presenter/s:** Rich White referenced information previously distributed to the Board.

**Board Action:** Motion was made by Board member Supervisor Smith to approve the amendment to the MOU between the County Assessor/Clerk Recorder and MCERA. Board member Weer seconded the motion and it was approved by the following vote: Ayes 7 Noes 0 Abstain 1 Absent 1.

Board member Goodman recused himself from the 2012/2013 budget discussion. Board member Sakowicz left the meeting at 10:15 A.M. during discussion of the budget.

**8) DISCUSSION AND POSSIBLE ACTION REGARDING THE 2012/2013 DRAFT BUDGET**

- a) Reorganization to create a fiscal position
- b) Schedule of Administrative and Investment expenses
- c) Cash Management Plan
- d) Strategic Workshop Meeting

**Presenter/s:** Rich White referenced information previously distributed to the Board.

**Board Direction:** Staff will prepare a 2012/2013 Budget report including the cost of a Retirement Strategic Workshop, the cost of a transitional services agreement contract amendment with Jim Andersen, and the cost of three months of fiscal services under a memorandum of understanding with the Assessor's office and bring back for review in July. This report will include a comparison of the 2011/12 Budget and what was actually spent as of May 31, 2012, a report from staff on actual time spent on additional staff projects outside

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
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normal business operations, and a projection of administrative expenses going into the future approximately five (5) years. Staff will make quarterly reports to the board on the budget.

**Board Action:** Motion was made by Board member Stephens to direct this back to staff to have staff include all costs we are talking about with the emphasis on reducing the overall budget from the 30% I see without the other costs included. Board member Knudsen seconded the motion, but after some discussion and a brief recess, he withdrew his second motion. Mr. Knudsen stated that he had misunderstood the motion made by Mr. Stephens. The motion failed due to the lack of a second motion.

Motion was made by Board member Stephens to adopt a budget today with a reduction of \$100,000 dollars from the projected \$246,000 increase. Staff will bring this back next month to tell us if it is doable and to provide actual expenses, as near as possible, for the year compared to the 2011/2012 actual budget and if we can't reduce the budget by the \$100,000 we will revote on it in July. The motion failed due to the lack of a second motion.

Motion was made by Board member Supervisor Smith to approve the Fiscal Year 2012/2013 Budget including the cost of a Retirement Board Strategic Workshop, the cost of a transitional services agreement contract amendment with Jim Andersen, and the cost of three months of fiscal services under a Memorandum of Understanding (MOU) with the Assessor's office, and a return to the Board after the closing of the 2012 fiscal year for Board reconsideration of the adopted budget. Board member Weer seconded the motion and it was approved by the following vote: Ayes 5 Noes 1 Abstain 1 Absent 2.

**9) INVESTMENTS/FINANCIALS**

- a) **Presentation of financial statements**
- b) **Action may be taken to terminate or hire investment managers at any meeting**

**Presenter/s:** Randy Goodman referenced the final April 31, 2012 and preliminary May 31, 2012 financial statements.

**10) PRESENTATION OF RETIREMENT ADMINISTRATOR'S REPORT**

- a) **Withdrawal of contributions by terminating employees**
- b) **Billings for fees and services**
- c) **Presentation of Administrator's report**

**Presenter/s:** Rich White addressed the Board.

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◆ JUNE 20, 2012 AT 8:30 A.M. ◆

**Automation**

Linea Solutions started the first phase of the Electronic Data Management System (EDMS) on May 15, 2012 and good progress has been made. The board will receive regular status updates on the progress of the EDMS project as this project proceeds.

**Mendocino County Civil Grand Jury Report**

MCERA has received a report from the Mendocino County Civil Grand Jury entitled (MCERA Evaluation - Time to take the next step" which addressed certain issues of concern to the Grand Jury. As required by law, MCERA must provide a response to the Grand Jury on its finding and recommendation. Work on this document is now taking place. The board will review and approve our response prior to submitting it to the Grand Jury.

**Legislative Update**

Information on legislation pertinent to public pension systems and recent information on certain bills prepared by Julie Wyne, Assistant CEO and Legal Counsel of OCERS, was provided to board members with Ms. Wyne's permission. Visit <http://www.co.mendocino.ca.us/retirement/pdf/current/06202012Agenda+Backup.pdf> for the Retirement Administrator's report which includes complete information on the legislation.

**Outreach**

A recent article published in the Contra Costa Times was provided to the Board. This article reported on what was described as a "statewide" problem relating to how benefits are calculated for members retiring under an optional benefit formula. Visit [http://www.contracostatimes.com/news/ci\\_20874772/daniel-borenstein-contra-costa-pension-overpayments-statewide-problem](http://www.contracostatimes.com/news/ci_20874772/daniel-borenstein-contra-costa-pension-overpayments-statewide-problem) for the full article.

**Contribution Correction Project**

Hanson Bridgett has provided an opinion on employment tax treatment of refunded employee contributions. This opinion was requested to provide information on the appropriate employment tax treatment of the two types of excess contributions that must be corrected in the Correction of Contribution Rates Project. This information will be submitted to the County and to the Courts to assist them in processing refunds of employee contributions.

**Board Direction:** Staff will provide an updated report on the review of excess earnings from Gallina and The Segal Company, and provide County Counsel's report presented at the December 2011 Joint Board meeting so that adopted resolutions may be noted and benefits provided by resolution may be reviewed.

Board member Shoemaker left the meeting at 11:15 A.M.

**11) CLOSED SESSION (11:15 A.M.)**

**a) Pending disability applications:**

- 1) Hudson, Gary (09/07/10) Sheriff SCD
- 2) Goss, Tim (05/10/12) Sheriff SCD

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
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- 3) Mounts, Paul (6/8/12) General Services SCD
- 4) Wilson, Rebecca (6/8/12) Social Services SCD
- 5) Yee, Peggy (06/05/12) Social Services SCD

**12) REPORT OUT FROM CLOSED SESSION (12:25 P.M.)**

**Board Direction:** The Board provided direction to staff on closed session items a2, a3, a4, and a5.

**Board Action:** There was no action taken on closed session item a1.

There being no further business Bob Mirata, Chair, adjourned the meeting at 12:30 P.M.

PENDING BOARD APPROVAL

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: July 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Recommendation of the MCERA Budget & Audit Ad Hoc Committee regarding the scope of professional services relating to the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2012

Recommendation: Adopt the recommendation of the MCERA Budget & Audit Committee to contract with GALLINA LLP to perform a detailed review of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2012 at a cost of \$4,950.

Discussion: At the completion of each fiscal year, MCERA is responsible for the preparation and issuance of the annual financial report of the Association which is known as the Comprehensive Annual Financial Report (CAFR). As described in the introductory section of the CAFR, "MCERA management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of financial information within this CAFR, including all disclosures."

MCERA will be responsible for the CAFR for the fiscal year which ended June 30, 2012. In anticipation of this staff solicited input from the system's external auditor about expanding their scope of professional services thinking that this might be an opportunity to enhance the production of the CAFR. The CAFR is viewed as a reliable and consistent report about the financial condition of MCERA and the use of the external auditor to assist with oversight of the CAFR production might add to the credibility and confidence in MCERA with our stakeholders.

The existing contract with GALLINA, LLP for external auditing services includes what is termed a cursory review of the CAFR and MCERA did use this service last year.

The MCERA Budget & Audit Ad Hoc Committee met on July 9, 2012 to explore the GALLINA, LLP proposals for the professional services relating to the CAFR.

The first proposal by GALLINA, LLP was to provide a detailed review of the CAFR as produced by MCERA staff to ensure completeness and compliance with the GFOA Certificate for Excellence award. The detailed review of the CAFR to

ensure accuracy and completeness and is an added oversight of the document by GALLINA, LLP. The cost for this proposal was \$4,950.

The second proposal by GALLINA, LLP was to prepare and produce the CAFR for MCERA and compare the report to the GFOA Certificate for Excellence Award. This scope of service would ensure the timely completion and proper preparation of the CAFR.

This proposal would make GALLINA, LLP responsible for most of the production work associated with the CAFR and would thus also limit the amount of MCERA staff resources used to produce the CAFR. The cost of the production of the CAFR, plus the printing of thirty copies of the CAFR, was \$12,950.

The Budget & Audit Ad Hoc Committee recommended that the MCERA Board of Retirement engage GALLINA, LLP for the detailed review of the CAFR.

The Committee did also recommend that the opportunity to have GALLINA, LLP prepare and produce the CAFR be revisited in the next few weeks as the staffing and resources of MCERA may dictate that this scope of professional services be engaged for this fiscal year. Staff will monitor this and report back to the Committee and Board in a timely manner.

Attachments:

- Proposal from GALLINA LLP for professional services.



GALLINA<sup>LLP</sup>

CERTIFIED PUBLIC ACCOUNTANTS

June 29, 2012

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

Dear Richard and Jim:

Thank you for again allowing us the opportunity to prepare a proposal for professional services relating to the *Comprehensive Annual Financial Report* for Mendocino County Employees' Retirement Association for the fiscal year ended June 30, 2012. As we discussed by telephone, we have prepared our fee proposal both for the review of the Comprehensive Annual Financial Report and also for the preparation of the Comprehensive Annual Financial Report so that the Ad Hoc Committee may determine the level of service that it wishes for our to provide.

**Review of the Comprehensive Annual Financial Report  
for the fiscal year ending June 30, 2012**

**\$4,950**

GALLINA LLP will perform a detailed review of the Comprehensive Annual Financial Report prepared by MCERA staff and will compare the Report to the *Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting Pension and Other Postemployment Benefit System Cash and Investment Pools Preparer Checklist*. GALLINA LLP will provide a written listing of its review comments and recommendations and will be available to discuss findings and comments with MCERA staff. GALLINA LLP will review one set of changes to the Comprehensive Annual Financial Report after the findings and comments have been addressed by MCERA staff. Reviews of subsequent revisions will be billable at standard hourly billing rates.

**Preparation of the Comprehensive Annual Financial Report  
for the fiscal year ending June 30, 2012**

**\$12,950**

GALLINA LLP will prepare the Comprehensive Annual Financial Report and will compare the Report to the *Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting Pension and Other Postemployment Benefit System Cash and Investment Pools Preparer Checklist*. GALLINA LLP will utilize information from Callan Associates and The Segal Group Inc. to prepare the Supplementary Information, Investment and Actuarial sections of the Comprehensive Annual Financial Report. GALLINA LLP will fully prepare the Introduction, Financial, Basic Financial Statements and Statistical sections of the Comprehensive Annual Financial Report, with the exception of the Transmittal Letter, Management Discussion and Analysis and Statistical sections, which will require input and supporting documentation to be provided by MCERA staff.

GALLINA LLP will include two sets of changes to the Comprehensive Annual Financial Report after the Report has been reviewed by MCERA staff and a final copy of the Comprehensive Annual Financial Report in both printed and electronic format. Subsequent revisions will be billable at standard hourly billing rates. GALLINA LLP will produce up to 30 copies of the Comprehensive Annual Financial Report.

We appreciate your continued confidence in our abilities to assist the Association in meeting its external reporting needs. We understand that selecting a CPA firm is an important decision. We thank you for the opportunity and we look forward to working with you on this and any other future engagements.

Very truly yours,

GALLINA LLP



Crystal A. Ekanayake  
Partner

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 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Actuarial Assumptions for Determining Optional Forms, Annuity Benefits, and Reserves – 2012/2013 Plan Year.

Recommended Action: Adopt the recommended actuarial assumptions for determining Optional Forms, Annuity Benefits, and Reserves for MCERA Plan Year 2012/2013.

Background:

The MCERA Board of Retirement adopted actuarial assumptions for the June 30, 2011 actuarial valuation and Segal Company is recommending that the Board adopt actuarial assumptions for use "in determining optional forms of benefits and reserves" that would be implemented coincident with the effective date of the contribution rates calculated using the aforementioned adopted actuarial assumptions, which is July 1, 2012. The adoption of these actuarial assumptions by the Board is consistent with and considered "best practice" by the IRS.

As detailed in the attached letter from Segal, the assumptions that the MCERA Board of Retirement is being asked to adopt are "identical to those used in the June 30, 2011 valuation except that they have been converted to a unisex basis."

The MCERA Board of Retirement should note the Segal comment on page two of the attached letter referencing the limited application of the Cost of Living (COLA) assumption and the description that the COLA "does not affect the calculation of optional benefits permitted under the 1937 Act." In light of recent media coverage of another 1937 Act system and that Board of Retirement's discussion on the COLA impact on optional benefits, it is important that the MCERA Board of Retirement be assured that although the issue is currently under review by that other system, the adoption of these actuarial assumptions is in "accordance with the requirements of the statutes" which govern MCERA and "consistent with long-established practice utilized by Segal."<sup>1</sup> The MCERA Board of Retirement may want to review this issue with Segal and with legal counsel at a later time.

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<sup>1</sup> Memorandum dated June 22, 2012 prepared by Paul Angelo, The Segal Company for the Administrators of the 1937 CERL systems responding to and disputing claims in the article dated June 16, 2012 by Contra Costa Times columnist Daniel Borenstein about the actuarial assumptions used to determine benefit amounts under optional form of payment.

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Mr. Andy Yeung, Segal Company will be available via telephone conference line to address any issues and answer questions of the MCERA Board of Retirement.



THE SEGAL COMPANY  
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Andy Yeung, ASA, MAAA, FCA, EA  
Vice President & Associate Actuary  
ayeung@segalco.com

VIA E-MAIL AND USPS

May 21, 2012

Mr. James M. Andersen  
Retirement Administrator  
Mendocino County Employees' Retirement Association  
625B Kings Court  
Ukiah, CA 95482

**Re: Actuarial Assumptions for Determining Optional Forms, Annuity Benefits, and Reserves – 2012/2013 Plan Year**

Dear Jim:

Based on the actuarial assumptions adopted by the Board for the June 30, 2011 actuarial valuation, we are providing our recommended assumptions for determining optional forms, annuity benefits, and reserves.

Based on the current practice at Segal's other county employees retirement system clients, new assumptions for use in determining optional forms of benefits and reserves would normally be implemented coincident with the effective date of the contribution rates calculated using the new assumptions, which is July 1, 2012 in this case. The new assumptions are identical to those used in the June 30, 2011 valuation except that they have been converted to a unisex basis. For your reference, we have also provided the current assumptions being used in the prior actuary's Retirement Allowance Program (RAP).

**The recommended assumptions are:**

- Interest rate: 7.75% per annum
- Anticipated annual cost-of-living adjustment:
  - 3.00%

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MAY 22 2012  
The Mendocino County Employees  
Retirement Association



- We understand from the information we have collected from the Association that the anticipated COLA assumption has only been used in the past to calculate reserves. The assumption does not affect the calculation of the breakdown of the total unmodified benefit into the annuity and pension components. It also does not affect the calculation of optional benefits permitted under the 1937 Act.

➤ Mortality Tables (shown in the attachment)

### **Service Retirement**

General Members: RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females, weighted 30% male and 70% female.

Safety and Probation Members: RP-2000 Combined Healthy Mortality Table, with no setback for males and set forward one year for females, weighted 80% male and 20% female.

General Beneficiaries: RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females, weighted 70% male and 30% female.

Safety and Probation Beneficiaries: RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females, weighted 20% male and 80% female.

### **Disability Retirement**

General Members: RP-2000 Combined Healthy Mortality Table, set forward two years for both males and females, weighted 30% male and 70% female.

Safety and Probation Members: RP-2000 Combined Healthy Mortality Table, set forward four years for both males and females, weighted 80% male and 20% female.

All Beneficiaries: See table used for Beneficiaries with service retirement.

Please note that we will send the above mortality rates, together with instructions on how to update the RAP, in a separate e-mail to you.

**The current assumptions<sup>1</sup> are:**

- Interest rate: 8.00% per annum
- Anticipated annual cost-of-living adjustment:
  - 3.00%
- Mortality Tables (shown in the attachment)

**Service Retirement**

|                                     |   |
|-------------------------------------|---|
| General Members:                    | 1994 Group Annuity Mortality Table for Males, set back three years. |
| Safety and Probation Members:       | 1994 Group Annuity Mortality Table for Males, with no setback.      |
| General Beneficiaries:              | 1994 Group Annuity Mortality Table for Males, set back three years. |
| Safety and Probation Beneficiaries: | 1994 Group Annuity Mortality Table for Females, with no setback.    |

**Disability Retirement**

|                               |  |
|-------------------------------|--|
| General Members:              | 1981 Disability Table for General members, set back two years. |
| Safety and Probation Members: | 1981 Disability Table for Safety members, with no setback.     |
| All Beneficiaries:            | See table used for Beneficiaries with service retirement.      |

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<sup>1</sup> As displayed on the "Assumption" and "ANN" tabs of MCERA's RAP spreadsheet, Version 2.3. Segal has not confirmed the accuracy or application of these assumptions. It is our understanding that these assumptions have been used in the RAP since July 1, 1999.

Mr. James M. Andersen  
May 21, 2012  
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Please let us know if you have any questions.

Sincerely,

  
Andy Yeung

DNA/kek  
Enclosure

cc: Katy Richardson

## Mendocino County Employees' Retirement Association

Mortality Rates for Optional Forms, Annuity Benefits, and Reserves  
Based on Assumptions Adopted for June 30, 2011 Actuarial Valuation

| Age | General Member<br>Service Retirement | Safety and<br>Probation Member<br>Service Retirement | General Beneficiary | Safety and<br>Probation<br>Beneficiary | General Member<br>Disability<br>Retirement | Safety and<br>Probation Member<br>Disability<br>Retirement |
|-----|--------------------------------------|--|---------------------|--|--|--|
| 1   | 0.000591                             | 0.000584   | 0.000617            | 0.000584                               | 0.000302                                   | 0.000242   |
| 2   | 0.000591                             | 0.000400   | 0.000617            | 0.000584                               | 0.000229                                   | 0.000230   |
| 3   | 0.000452                             | 0.000327   | 0.000557            | 0.000425                               | 0.000208                                   | 0.000220   |
| 4   | 0.000324                             | 0.000260   | 0.000384            | 0.000308                               | 0.000196                                   | 0.000202   |
| 5   | 0.000253                             | 0.000239   | 0.000312            | 0.000238                               | 0.000186                                   | 0.000195   |
| 6   | 0.000215                             | 0.000228   | 0.000251            | 0.000206                               | 0.000168                                   | 0.000198   |
| 7   | 0.000200                             | 0.000217   | 0.000231            | 0.000192                               | 0.000161                                   | 0.000204   |
| 8   | 0.000189                             | 0.000201   | 0.000220            | 0.000181                               | 0.000162                                   | 0.000212   |
| 9   | 0.000173                             | 0.000195   | 0.000208            | 0.000164                               | 0.000166                                   | 0.000223   |
| 10  | 0.000163                             | 0.000198   | 0.000193            | 0.000155                               | 0.000172                                   | 0.000236   |
| 11  | 0.000161                             | 0.000205   | 0.000189            | 0.000155                               | 0.000181                                   | 0.000249   |
| 12  | 0.000164                             | 0.000213   | 0.000191            | 0.000157                               | 0.000190                                   | 0.000263   |
| 13  | 0.000169                             | 0.000224   | 0.000198            | 0.000162                               | 0.000200                                   | 0.000278   |
| 14  | 0.000177                             | 0.000237   | 0.000206            | 0.000170                               | 0.000209                                   | 0.000290   |
| 15  | 0.000185                             | 0.000251   | 0.000217            | 0.000178                               | 0.000219                                   | 0.000303   |
| 16  | 0.000195                             | 0.000264   | 0.000229            | 0.000187                               | 0.000226                                   | 0.000314   |
| 17  | 0.000205                             | 0.000278   | 0.000241            | 0.000195                               | 0.000232                                   | 0.000324   |
| 18  | 0.000214                             | 0.000291   | 0.000254            | 0.000204                               | 0.000237                                   | 0.000332   |
| 19  | 0.000222                             | 0.000303   | 0.000267            | 0.000211                               | 0.000242                                   | 0.000338   |
| 20  | 0.000228                             | 0.000314   | 0.000278            | 0.000215                               | 0.000246                                   | 0.000341   |
| 21  | 0.000233                             | 0.000324   | 0.000289            | 0.000219                               | 0.000250                                   | 0.000342   |
| 22  | 0.000238                             | 0.000332   | 0.000299            | 0.000223                               | 0.000254                                   | 0.000345   |
| 23  | 0.000243                             | 0.000339   | 0.000308            | 0.000227                               | 0.000258                                   | 0.000350   |
| 24  | 0.000248                             | 0.000342   | 0.000315            | 0.000231                               | 0.000263                                   | 0.000361   |
| 25  | 0.000253                             | 0.000344   | 0.000321            | 0.000235                               | 0.000271                                   | 0.000379   |
| 26  | 0.000258                             | 0.000347   | 0.000325            | 0.000241                               | 0.000282                                   | 0.000408   |
| 27  | 0.000263                             | 0.000353   | 0.000327            | 0.000246                               | 0.000297                                   | 0.000461   |
| 28  | 0.000270                             | 0.000364   | 0.000332            | 0.000254                               | 0.000318                                   | 0.000520   |
| 29  | 0.000279                             | 0.000382   | 0.000338            | 0.000264                               | 0.000365                                   | 0.000584   |
| 30  | 0.000292                             | 0.000417   | 0.000350            | 0.000277                               | 0.000414                                   | 0.000649   |
| 31  | 0.000308                             | 0.000469   | 0.000368            | 0.000294                               | 0.000465                                   | 0.000713   |
| 32  | 0.000348                             | 0.000528   | 0.000403            | 0.000334                               | 0.000515                                   | 0.000776   |
| 33  | 0.000395                             | 0.000592   | 0.000454            | 0.000380                               | 0.000564                                   | 0.000834   |
| 34  | 0.000444                             | 0.000657   | 0.000512            | 0.000428                               | 0.000612                                   | 0.000891   |
| 35  | 0.000494                             | 0.000721   | 0.000572            | 0.000474                               | 0.000659                                   | 0.000946   |
| 36  | 0.000543                             | 0.000784   | 0.000634            | 0.000520                               | 0.000708                                   | 0.001004   |
| 37  | 0.000592                             | 0.000843   | 0.000695            | 0.000566                               | 0.000760                                   | 0.001068   |
| 38  | 0.000640                             | 0.000901   | 0.000755            | 0.000611                               | 0.000818                                   | 0.001142   |
| 39  | 0.000690                             | 0.000958   | 0.000812            | 0.000659                               | 0.000884                                   | 0.001227   |
| 40  | 0.000743                             | 0.001018   | 0.000869            | 0.000711                               | 0.000961                                   | 0.001323   |
| 41  | 0.000800                             | 0.001084   | 0.000927            | 0.000769                               | 0.001046                                   | 0.001431   |
| 42  | 0.000865                             | 0.001159   | 0.000988            | 0.000835                               | 0.001139                                   | 0.001537   |
| 43  | 0.000939                             | 0.001245   | 0.001055            | 0.000910                               | 0.001239                                   | 0.001652   |
| 44  | 0.001020                             | 0.001342   | 0.001132            | 0.000993                               | 0.001341                                   | 0.001775   |
| 45  | 0.001110                             | 0.001451   | 0.001218            | 0.001083                               | 0.001448                                   | 0.001906   |
| 46  | 0.001206                             | 0.001558   | 0.001315            | 0.001179                               | 0.001562                                   | 0.002046   |
| 47  | 0.001309                             | 0.001674   | 0.001422            | 0.001280                               | 0.001683                                   | 0.002330   |
| 48  | 0.001413                             | 0.001798   | 0.001529            | 0.001384                               | 0.001815                                   | 0.002537   |
| 49  | 0.001524                             | 0.001931   | 0.001644            | 0.001494                               | 0.002031                                   | 0.002774   |
| 50  | 0.001643                             | 0.002081   | 0.001767            | 0.001612                               | 0.002213                                   | 0.003042   |
| 51  | 0.001772                             | 0.002363   | 0.001899            | 0.001740                               | 0.002420                                   | 0.003443   |
| 52  | 0.001938                             | 0.002575   | 0.002052            | 0.001909                               | 0.002656                                   | 0.003978   |
| 53  | 0.002147                             | 0.002818   | 0.002320            | 0.002104                               | 0.002989                                   | 0.004450   |
| 54  | 0.002345                             | 0.003100   | 0.002529            | 0.002299                               | 0.003423                                   | 0.005003   |
| 55  | 0.002572                             | 0.003517   | 0.002768            | 0.002522                               | 0.003842                                   | 0.005644   |
| 56  | 0.002861                             | 0.004056   | 0.003052            | 0.002813                               | 0.004328                                   | 0.006409   |
| 57  | 0.003250                             | 0.004539   | 0.003464            | 0.003197                               | 0.004892                                   | 0.007304   |
| 58  | 0.003695                             | 0.005107   | 0.003983            | 0.003622                               | 0.005563                                   | 0.008337   |
| 59  | 0.004154                             | 0.005767   | 0.004462            | 0.004077                               | 0.006373                                   | 0.009539   |
| 60  | 0.004691                             | 0.006560   | 0.005023            | 0.004607                               | 0.007287                                   | 0.010748   |

**Mendocino County Employees' Retirement Association**  
**Mortality Rates for Optional Forms, Annuity Benefits, and Reserves**  
Based on Assumptions Adopted for June 30, 2011 Actuarial Valuation (continued)

| Age | General Member<br>Service Retirement | Safety and<br>Probation Member<br>Service Retirement | General Beneficiary | Safety and<br>Probation<br>Beneficiary | General Member<br>Disability<br>Retirement | Safety and<br>Probation Member<br>Disability<br>Retirement |
|-----|--------------------------------------|--|---------------------|--|--|--|
| 61  | 0.005322                             | 0.007472   | 0.005678            | 0.005233                               | 0.008357                                   | 0.012131   |
| 62  | 0.006094                             | 0.008535   | 0.006467            | 0.006001                               | 0.009417                                   | 0.013718   |
| 63  | 0.006963                             | 0.009733   | 0.007370            | 0.006861                               | 0.010615                                   | 0.015293   |
| 64  | 0.007981                             | 0.010965   | 0.008424            | 0.007870                               | 0.011991                                   | 0.016986   |
| 65  | 0.009037                             | 0.012380   | 0.009594            | 0.008898                               | 0.013337                                   | 0.018814   |
| 66  | 0.010178                             | 0.013960   | 0.010808            | 0.010021                               | 0.014773                                   | 0.021113   |
| 67  | 0.011489                             | 0.015549   | 0.012202            | 0.011311                               | 0.016343                                   | 0.023372   |
| 68  | 0.012837                             | 0.017269   | 0.013735            | 0.012612                               | 0.018381                                   | 0.025958   |
| 69  | 0.014234                             | 0.019190   | 0.015286            | 0.013971                               | 0.020376                                   | 0.028904   |
| 70  | 0.015763                             | 0.021481   | 0.016968            | 0.015462                               | 0.022650                                   | 0.032212   |
| 71  | 0.017660                             | 0.023789   | 0.018884            | 0.017354                               | 0.025195                                   | 0.035888   |
| 72  | 0.019667                             | 0.026419   | 0.021118            | 0.019304                               | 0.027991                                   | 0.039928   |
| 73  | 0.021837                             | 0.029401   | 0.023398            | 0.021446                               | 0.031024                                   | 0.044346   |
| 74  | 0.024263                             | 0.032741   | 0.025988            | 0.023832                               | 0.034327                                   | 0.049217   |
| 75  | 0.026937                             | 0.036460   | 0.028908            | 0.026444                               | 0.037945                                   | 0.054643   |
| 76  | 0.029844                             | 0.040556   | 0.032162            | 0.029265                               | 0.041953                                   | 0.060670   |
| 77  | 0.033026                             | 0.045044   | 0.035774            | 0.032340                               | 0.046432                                   | 0.067789   |
| 78  | 0.036524                             | 0.050000   | 0.039750            | 0.035718                               | 0.051426                                   | 0.075648   |
| 79  | 0.040388                             | 0.055517   | 0.044113            | 0.039457                               | 0.057158                                   | 0.084276   |
| 80  | 0.044691                             | 0.061650   | 0.048938            | 0.043629                               | 0.063552                                   | 0.093727   |
| 81  | 0.049493                             | 0.068892   | 0.054313            | 0.048289                               | 0.070670                                   | 0.104095   |
| 82  | 0.054856                             | 0.076890   | 0.060292            | 0.053498                               | 0.078596                                   | 0.115513   |
| 83  | 0.061018                             | 0.085678   | 0.067317            | 0.059443                               | 0.087439                                   | 0.128102   |
| 84  | 0.067900                             | 0.095312   | 0.075092            | 0.066102                               | 0.097302                                   | 0.141933   |
| 85  | 0.075577                             | 0.105881   | 0.083658            | 0.073557                               | 0.108249                                   | 0.156967   |
| 86  | 0.084146                             | 0.117505   | 0.093079            | 0.081913                               | 0.120289                                   | 0.173063   |
| 87  | 0.093690                             | 0.130295   | 0.103443            | 0.091252                               | 0.133334                                   | 0.188736   |
| 88  | 0.104275                             | 0.144303   | 0.114859            | 0.101629                               | 0.147200                                   | 0.204808   |
| 89  | 0.115925                             | 0.159472   | 0.127421            | 0.113051                               | 0.161153                                   | 0.221016   |
| 90  | 0.128585                             | 0.175647   | 0.141159            | 0.125441                               | 0.175314                                   | 0.237114   |
| 91  | 0.142103                             | 0.191339   | 0.155999            | 0.138630                               | 0.189402                                   | 0.252895   |
| 92  | 0.156245                             | 0.207371   | 0.171767            | 0.152365                               | 0.203167                                   | 0.268200   |
| 93  | 0.170263                             | 0.223489   | 0.187124            | 0.166048                               | 0.216404                                   | 0.282930   |
| 94  | 0.184285                             | 0.239456   | 0.202753            | 0.179667                               | 0.228937                                   | 0.297026   |
| 95  | 0.198058                             | 0.255069   | 0.218403            | 0.192972                               | 0.240624                                   | 0.310443   |
| 96  | 0.211364                             | 0.270172   | 0.233838            | 0.205746                               | 0.251352                                   | 0.323138   |
| 97  | 0.224013                             | 0.284671   | 0.248857            | 0.217801                               | 0.261033                                   | 0.335869   |
| 98  | 0.235839                             | 0.298514   | 0.263305            | 0.228973                               | 0.269594                                   | 0.348248   |
| 99  | 0.246719                             | 0.311659   | 0.277081            | 0.239128                               | 0.278972                                   | 0.359641   |
| 100 | 0.256560                             | 0.324612   | 0.290123            | 0.248169                               | 0.289654                                   | 0.369413   |
| 101 | 0.265289                             | 0.337802   | 0.302385            | 0.256015                               | 0.301143                                   | 0.376932   |
| 102 | 0.274751                             | 0.350557   | 0.314639            | 0.264778                               | 0.312939                                   | 0.381562   |
| 103 | 0.285737                             | 0.362243   | 0.327389            | 0.275324                               | 0.324547                                   | 0.384545   |
| 104 | 0.297736                             | 0.372226   | 0.339993            | 0.287172                               | 0.335468                                   | 0.387488   |
| 105 | 0.310250                             | 0.379871   | 0.351845            | 0.299852                               | 0.345908                                   | 0.390309   |
| 106 | 0.322782                             | 0.384545   | 0.362337            | 0.312893                               | 0.356209                                   | 0.392923   |
| 107 | 0.334834                             | 0.387488   | 0.370864            | 0.325826                               | 0.366081                                   | 0.395249   |
| 108 | 0.345908                             | 0.390309   | 0.376818            | 0.338180                               | 0.375232                                   | 0.397203   |
| 109 | 0.356209                             | 0.392923   | 0.381232            | 0.349953                               | 0.383372                                   | 0.398701   |
| 110 | 0.366081                             | 0.395249   | 0.385463            | 0.361235                               | 0.390211                                   | 0.399662   |

**Mortality Tables:**

General Member Service Retirement:

RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females, weighted 30% male and 70% female.

Safety and Probation Member Service Retirement:

RP-2000 Combined Healthy Mortality Table, with no setback for males and set forward 1 year for females, weighted 80% male and 20% female.

General Beneficiary:

RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females, weighted 70% male and 30% female.

Safety and Probation Beneficiary:

RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females, weighted 20% male and 80% female.

General Member Disability Retirement:

RP-2000 Combined Healthy Mortality Table, set forward 2 years for both males and females, weighted 30% male and 70% female.

Safety and Probation Member Disability Retirement:

RP-2000 Combined Healthy Mortality Table, set forward 4 years for both males and females, weighted 80% male and 20% female.

**SEGAL**

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 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Ad Hoc Adjustment to Asset Smoothing

Recommended Action: Adopt the Segal Company recommended Ad Hoc Adjustment to the MCERA asset smoothing policy.

**Discussion:**

At the time of the June 30, 2011 actuarial valuation, Segal Company observed that contribution rates would be stabilized over the next few years if an Ad Hoc adjustment was made by the MCEA Board of Retirement to the asset smoothing component of the actuarial funding policy.

As described by Segal, the modification would be to adopt a more level recognition of the \$3.1 million in deferred investment gains over the same period as now in effect which will result in more stable rates of return on an actuarial value basis and more stable employer and member contribution rates. This adjustment is labeled as an "ad hoc adjustment" to the current policy because it does not change either the amount or the period of recognition for the deferred losses. The recommendation would not change the ongoing underlying asset smoothing component and is consistent with recommendations made to other Segal 1937 Act clients.

The cost of this report and its presentation to Board of Retirement is estimated to be \$4,000 to \$5,000 and which can be absorbed within the current Fiscal Year 2012/2013 budget.

Paul Angelo and Andy Yeung, Segal Company will be available via telephone conference line to address any issues and answer questions of the MCERA Board of Retirement.

Attachment



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

VIA E-MAIL AND USPS

July 6, 2012

Mr. Richard White  
Retirement Administrator  
Mendocino County Employees' Retirement Association  
625-B Kings Court  
Ukiah, CA 95482-5027

**Re: Mendocino County Employees' Retirement Association  
Proposal to Review Ad Hoc Adjustment to Asset Smoothing Method**

Dear Rich:

As we discussed, we have outlined in this letter our proposal to prepare a discussion to review an ad hoc adjustment to the asset smoothing method as outlined on page iii of our June 30, 2011 actuarial valuation report.

### **Background**

In our June 30, 2011 actuarial valuation report, we made the observation that the contribution rates over the next several years could be made more stable if the Board adopts our recommendation of an ad hoc adjustment to the asset smoothing component of MCERA's actuarial funding policy. That adjustment would be to adopt a more level recognition of the \$31 million in deferred investment gains over the same period as now in effect. Our analysis and recommendation would be provided in a short report that includes a comparison of the employer's projected contribution rates for the next 5 valuations (starting with June 30, 2012) both before and after the above modification.

### **Fee Proposal**

We estimate that our cost to prepare the above report and present it to the Board by teleconference to be about \$4,000 to \$5,000. Our actual billing would be based on our actual time charges. If instead of presenting the report in a teleconference, there is a need to present the report in-person, we have estimated an additional fee for the both of us to be in attendance of \$3,000 to \$4,000.

Benefits, Compensation and HR Consulting Offices throughout the United States and Canada



Founding Member of the Multinational Group of Actuaries and Consultants, a global affiliation of independent firms

Mr. Richard White  
July 6, 2012  
Page 2

Please do not hesitate to contact us with 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

AY/hy

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 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: MCERA Actuarial Valuation for June 30, 2012

Recommended action: Receive report

Discussion: The Actuarial Valuation for June 30, 2012 will be prepared by the MCERA actuary, The Segal Company, and the process for completing this report has begun. Katy Richardson and I participated in a June 26, 2012 conference call with Andy Yeung, Vice President & Associate Actuary and Dirk Adamson, Actuarial Associate where the initial planning process was discussed and assignments were agreed upon. The MCERA Board of Retirement can expect to receive periodic updates on the progress of this report.

This is an informational item only and no action of the MCERA Board of Retirement is required at this time.

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 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Response to the Mendocino County Civil Grand Jury Report

**Recommended Action:** Approve the response to the Mendocino County Civil Grand Jury Report and direct staff to file report as required by law.

**Discussion:**

The Board is aware that the Mendocino County Civil Grand Jury issued a report entitled "MCERA Evaluation – Time to take the next step" which addressed certain issues of concern to the Grand Jury. As required by law, MCERA must provide a response to the Grand Jury on its findings and recommendation by August 8, 2012.

We believe that it is in the best interests of the members, retirees and beneficiaries of MCERA that we submit a serious, thoughtful and complete response to the Grand Jury which is beneficial to their oversight role which includes the input of our professional service providers.

While we hope to have the response completed for the Board's review prior to the meeting on July 18, 2012 and we are making every effort to do this, it is possible that the Board may not have the response report until the day of your meeting. There will be sufficient time allocated at the Board meeting to allow for your complete review and discussion of the response to the Grand Jury before you take formal action.

Attachments

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## **MCERA Evaluation**

### **Time to take the next step**

**April 18, 2012**

#### ***Summary***

Mendocino County is currently trying to dig its way out of a pension deficit that was created by excessive benefit enhancements, lack of solid accounting practices, below average market results, and poor understanding of long-term costs. The Mendocino County Employees' Retirement Association (MCERA) and the County Board of Supervisors (BOS) lacked thorough understanding and vetting of the audit, actuarial, and financial information used to make pension benefit and funding decisions. Prior to independent management established in 2008, MCERA and the BOS conducted business with a relatively simple approach: to increase pension benefits and other post-employment benefits (OPEB), regardless of financial sustainability.

MCERA has made great strides in improving its business and financial practices since 2008. Giant steps have been taken to increase transparency and reporting accuracy of Mendocino's pension obligations and investments. MCERA transitioned from a body with limited long-term vision to a more mature, process-oriented organization. MCERA is well positioned to support the BOS in actively managing the County's pension obligations going forward.

It is time for the BOS to "step up", with information in hand provided by MCERA, and take the necessary steps to actively manage the County's pension obligations into a sustainable state. There is an abundance of research and advice on how to create sustainable pension benefits. The BOS must provide the political will for County Counsel, the CEO, and MCERA to work on pension sustainability and to advise the BOS on enacting financially successful pension strategies.

The time has come to get out of the cul-de-sac and stop wishing for unrealistic market returns to restore pension sustainability. Proactive benefit management and timely adjustments to changing economic conditions are required.

#### ***Methods***

The 2011-2012 Grand Jury (GJ) conducted an overview of MCERA from its inception to its present state with emphasis on organization, accuracy of the financial information reported, and management of the financial obligations going forward. The GJ attended MCERA and BOS meetings and interviewed past and current County and MCERA staff. The GJ reviewed MCERA and BOS resolutions pertaining to pension benefits and Pension Obligation Bonds (POB). All relevant material such as Government Accounting Standards Board (GASB) regulations, actuarial and auditor reports, and previous GJ reports were reviewed by the GJ.

#### ***Disclaimer***

A member of the GJ committee was recused in mid-term.

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## **Background**

Mendocino County is one of 20 California counties that established retirement benefits under the County Employees' Retirement Law of 1937. The County Tax Collector was the administrator for MCERA until 2008. In 2007-2008 MCERA shifted from an arm of county government to an independent organization. In 2008, an independent administrator was hired to fulfill the increased emphasis on the fiduciary and administrative activities of the retirement board. In 2008, MCERA began taking steps to eliminate accounting and actuarial practices that did not accurately reflect the financial status of the pension plan. An independent audit published in June 2009 revealed that MCERA's previous actuary systematically underestimated the costs and liabilities of the pension plan.

Prior to 2007-2008, lack of knowledgeable stewardship by MCERA and the BOS contributed to increased pension liabilities. "Excess earnings" were filtered off and used to fund OPEB (*i.e.* health benefits). Since then, audit, actuarial, and financial consultants have been replaced, resulting in more transparent and reasonable accounting practices adopted by the new consultants. In 1998, health care benefits were eliminated for post 1998 hires.

Sustainability of public pension funds is problematic statewide, and Mendocino is no exception. This is the result of less money coming into the fund due to attrition and job cutbacks and more money going out to an increased retirement population.

Additional factors that contribute to the pension fund imbalance are:

1. Cost of Living Adjustments (COLA)
2. Salary and pension enhancements including:
  - a) Eligible retirement age reduced from 55 to 50
  - b) Salary enhancements that increase final year's base pay
  - c) Management Safety Members: 3% @ 55 (3% of final year's base salary times the number of years employed)
  - d) Safety Members: 2% @ 50
3. The failure of county government to establish pension reserves in good economic times
4. Poorer than expected returns on pension fund investments during some years, particularly following the financial crisis in 2007-2008

The BOS and MCERA are working to increase the long-term viability of the public pension plan. However, the GJ is convinced that most of the financial and demographic trends are headed in an unsustainable direction. The visibility of pension liability will increase with the implementation of a revised government accounting standard in 2013, GASB 25, which creates a new line item called Net Pension Liability (NPL) on the county's balance sheet. This new number will most likely reflect the county's largest obligation.

## **Findings**

1. MCERA is responsible for the investment of retirement funds.
2. The County, under the direction of the BOS, is responsible for negotiating public employee benefits.

3. In 1998, retiree health benefits were discontinued for new employees after the date of the resolution.
4. The county continues to partially fund non-Medicare eligible retirees.
5. The county has 1044 active employees.
6. The county has 1174 retired employees.
7. COLA increases are allowed up to 3% per year.
8. Declines in the funded ratio due to market conditions, growing pension liabilities, and the opportunity to reduce interest costs on pension liabilities resulted in the issuance of POBs in 1996 and 2002.
9. This year's POB deficit is \$82.98 million.
10. The Buck Consulting firm and MCERA collaborated in 2005 on questionable actuarial practices to justify "excess earnings" of \$9.6 million.
11. Some of the 2005 "excess earnings" were diverted to fund health care.
12. Ultimately, this \$9.6 million was written off as a loss in FY 2010-2011.
13. The IRS is currently reviewing the county's diversion of "excess earnings" as part of the Volunteer Correction Program (VCP). The VCP is associated with the maintenance of tax-exempt status.
14. In February 2007, the BOS and the Board of Retirement Ad Hoc Committee recommended hiring an independent MCERA Administrator.
15. The MCERA Administrator was hired in October 2008.
16. The new administrator position was created to establish an organization with supporting policies and procedures that increase the effectiveness and transparency of MCERA.
17. The hiring of a full time director and staff increased MCERA salary costs from \$167,000 a year in 2007 to \$322,000 a year in 2010.
18. The creation of an independent MCERA has increased the effectiveness and the cost of its operation with the creation of Comprehensive Annual Financial Reports (CAFR), a web presence, and televised meetings.
19. Since 2008, the following changes have been made through a formal Request For Proposal (RFP) process:
  - In October 2009 the financial consultant Peter Chan was replaced by Callan Associates
  - In March 2011 the actuarial consultants Buck Consulting was replaced by Segal Company
  - In July 2011 the audit consultant Jim Sligh was replaced by Gallina LLP.
20. MCERA's unfunded actuarial accrued liability (UAAL) as of June 30, 2010 was \$91,784,613. In this year's actuarial valuation, the UAAL has increased to \$124,912,676.
21. The revised GASB reporting standards, to be implemented in 2013, will reflect a current financial market value of pension assets and liabilities.
22. MCERA liquidates investment assets on an "as needed" basis to meet pension requirements.
23. Decision making information has not been readily available to MCERA due to failure to produce cash flow reports.
24. The CAFR is produced a full year after the financial reporting period, too late for planning purposes.
25. MCERA has lowered its 8% projected investment return rate to 7.75%, which has a 54% probability of fulfillment over the next 28 years.

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## ***Recommendations***

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The Grand Jury recommends that:

1. MCERA have a thorough understanding and a documented account of all fixed monthly pension costs. (Findings 1, 22-24)
2. MCERA encourage the BOS to revisit pension benefits to renegotiate and reduce benefits for new hires. (Findings 1-2, 20)
3. BOS have a working knowledge of the county's pension obligations and current investment return trends. (Findings 2, 20-21, 24-25)
4. BOS examine alternative pension strategies and proposals to reduce liabilities and increase funding. (Findings 2-7, 17, 20)
5. BOS examine pension benefits for new hires and renegotiate to reduce benefits, which are not sustainable. (Findings 2, 20, 25)
6. BOS authorize and support the creation of an initial plan to manage pension sustainability. (Findings 2, 4-6, 9, 12-13, 20, 25)
7. MCERA produce reports that facilitate better financial management to sustain principle assets and eliminate the need to sell off investment assets to pay for obligations. (Findings 1, 22, 23-24)
8. MCERA participate in the early trial implementation of the revised GASB 25 offered by the IRS. (Findings 13, 21)

## ***Discussion***

The current actuarial report states that Mendocino County has a UAAL of \$124.9 million. The UAAL was \$91.7 million the previous year. The trend is heading higher. In reviewing 2011 retiree benefits, it was found that many retirees are receiving almost as much, if not more, in retirement pay than when they were actively employed by the county. MCERA is becoming aware of the challenges it now faces in managing pension finances, but the County bears the burden of its vested entitlements.

The BOS are responsible for negotiating retiree benefits. MCERA is responsible for administrating the retirement investments. Poor record keeping and financial planning by MCERA and the BOS, compounded by the market downturn, created a large unfunded pension liability. The main reasons for the poor business practices by the BOS and MCERA are:

- Government accounting standards have not demanded transparency of actual liabilities
- Actuarial practices supported the reporting of questionable financial gains
- The due diligence required to oversee sustainable financial management was not performed

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GASB is in the process of revising pension liability calculations and reporting requirements. Mendocino County will be required to adhere to the new standard in 2013. This will allow for a more standardized market valuation of data and a greater pension liability will most likely be reported.

MCERA is now positioned to produce more accurate and timely information. It is time for the BOS to leverage the knowledge MCERA can make available. The BOS must take steps to manage retirement benefits to a sustainable level.

***Required Responses***

Mendocino County Employees' Retirement Association (Findings 1-4, 7, 10-25; Recommendations 1-2, 7-8)

Board of Supervisors, Mendocino County (Findings 2-9, 13-17; Recommendations 3-6)

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## **GLOSSARY**

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### **Actuarial**

The computation of risks, rates, and the like according to probabilities indicated by recorded facts.

### **Audit**

An examination of accounts and accounting records, comparing charges with vouchers, verifying balance sheet and income items, and stating the results. Usually performed by an impartial third party.

### **Cost Of Living Adjustments (COLA)**

Inflationary percentage increases.

### **County's Pension Obligations**

The county owned portion of vested retirement entitlements.

### **Excess Earnings**

Investment earnings that exceed expected returns for that particular year. (Proven to be a debatable actuarial assumption)

### **GASB Regulations**

The Government Accounting Standards Board is a body of national, state, and local government organizations and the Financial Accounting Foundation established to set accounting and financial reporting standards tailored specifically to state and local governments.

### **Liquidates Investment Assets**

When assets are sold off to pay obligations.

### **Other post-employment benefits (OPEB)**

Benefits other than a retirement pension check.

### **Probability of Fulfillment**

The predicted possibility that a goal will be reached over an extended period of time. Usually 30 years in this type of actuarial prediction.

### **Safety Members**

Includes Law Enforcement personnel such as Sheriff Deputies, Probation officers, and Correctional officers.

### **Sustainability**

Being able to bear or keep up an action or process.

### **Unfunded Accrued Actuarial Liability (UAAL)**

The amount of actuarial projected pension obligation not covered by assets.

### **Vetting**

To subject to expert appraisal or correction.

County of Mendocino  
Grand Jury  
www.co.mendocino.ca.us/grandjury

Post Office Box 939  
Ukiah, CA 95482  
grandjury@co.mendocino.ca.us

Jim Andersen, Interim Administrator  
Mendocino County Employee's Retirement Association  
625 B Kings Court  
Ukiah, CA 95482

Date: May 10, 2012

**RE: Report Titled: *MCERA Evaluation***  
**Dated: April 18, 2012**

Your response to the attached report by the 2011/2012 Mendocino County Civil Grand Jury is required pursuant to Penal Code §933.05 (enclosed). Penal Code §933.05 also requires that your response to the Findings and Recommendations contained in the report be in writing and be submitted within **60 days for individual responses from elected officials or agency heads** or within **90 days for governing bodies** (including such entities as school boards, city councils and the Board of Supervisors).

Penal Code §933.05(f) specifically prohibits disclosure of the contents of this report by a public agency or its officers or governing body prior to the release to the public. The report will be released to the public and posted on the grand jury website two (2) or more days after the date of this letter.

The Penal Code is specific as to the format of responses. Complete and sign the enclosed Response Form and attach any additional comments as required.

Should you have any questions after reviewing the enclosures, please contact me at **grandjury@co.mendocino.ca.us** or at the address above.

Sincerely,

Carol Rosenberg  
2011/2012 Foreperson  
Mendocino County Grand Jury

## ***For Your Information***

### **SUMMARY OF PENAL CODE 933.05**

Penal Code § 933.05 provides for only two (2) acceptable responses with which agencies and/or departments (respondents) may respond with respect to the **findings** of a Grand Jury report :

1. The respondent agrees with the finding.
2. The respondent disagrees wholly or partially with the findings, *in which case the respondent shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.*

Penal Code § 933.05 provides for only four (4) acceptable responses with which agencies and/or departments (respondents) may respond with in respect to the **recommendations** of the Grand Jury.

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be in the future, with a timeframe for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis, with a timeframe for the matter to be prepared for discussion by the officer or head of the agency/department being investigated or reviewed, including the governing body of the public agency when applicable. *This timeframe shall not exceed six (6) months from the date of publication of the Grand Jury Report.*
4. The recommendation will not be implemented because it is not warranted or is not reasonable, with a detailed explanation therefore.

However, If a finding and/or recommendation of the Grand Jury addresses **budgetary** or **personnel** matters of a county agency/department head and the Board of Supervisors shall respond if requested by the Grand Jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address **all** aspects of the findings or recommendations affecting his or her agency/department.

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# Grand Jury Report

## RESPONSE FORM

**Grand Jury Report Title :** MCERA Evaluation

**Report Dated :** April 18, 2012

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**Response Form Submitted By:**

Mendocino County Employee's Retirement Association  
625 B Kings Court  
Ukiah, CA 95482

**Response MUST be submitted, per Penal Code §933.05, no later than:**  
August 8, 2012

**I have reviewed the report and submit my responses to the FINDINGS portion of the report as follows:**

- I (we) agree with the Findings numbered:  
\_\_\_\_\_
- I (we) disagree wholly or partially with the Findings numbered below, and have **attached, as required**, a statement specifying any portion of the Finding that are disputed with an explanation of the reasons therefore.  
\_\_\_\_\_

**I have reviewed the report and submit my responses to the RECOMMENDATIONS portion of the report as follows:**

- The following Recommendation(s) have have been implemented and **attached, as required**, is a summary describing the implemented actions:  
\_\_\_\_\_
- The following Recommendation(s) have not yet been implemented, but will be implemented in the future, **attached, as required** is a time frame for implementation:  
\_\_\_\_\_

GRAND JURY REPORT  
RESPONSE FORM  
PAGE TWO

- The following Recommendation(s) require further analysis, and **attached as required**, is an explanation and the scope and parameters of the planned analysis, and a time frame for the matter to be prepared, discussed and approved by the officer and/or director of the agency or department being investigated or reviewed: (This time frame shall not exceed six (6) months from the date of publication of the Grand Jury Report)
- 

- The following Recommendations will NOT be implemented because they are not warranted and/or are not deemed reasonable, **attached, as required** is an explanation therefore:
- 

*I have completed the above responses, and have attached, as required the following number of pages to this response form:*

Number of Pages attached: \_\_\_\_\_

*I understand that responses to Grand Jury Reports are public records. They will be posted on the Grand Jury website: [www.co.mendocino.ca.us/grandjury](http://www.co.mendocino.ca.us/grandjury). The clerk of the responding agency is required to maintain a copy of the response.*

*I understand that I must submit this signed response form and any attachments as follows:*

**First Step:** E-mail (word documents or scanned pdf file format) to:

- The Grand Jury Foreperson at: [grandjury@co.mendocino.ca.us](mailto:grandjury@co.mendocino.ca.us)
- The Presiding Judge: [grandjury@mendocino.courts.ca.gov](mailto:grandjury@mendocino.courts.ca.gov)

**Second Step:** Mail all originals to:

Mendocino County Grand Jury  
P.O. Box 939  
Ukiah, CA 95482

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

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: July 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Monthly Financial Reports for July, 2012

Recommended action: Receive and file.

Discussion:

Included in the Board of Retirement agenda packet is the Adopted Budget for Fiscal Year 2012/2013 and the Year-to-Date Approved Budget for Fiscal Year 2011/2012 through May, 2012.

1. Year-to-Date Approved Budget for Fiscal Year 2011/2012 through May, 2012.

At your last meeting, the Board of Retirement requested a report of the Fiscal Year 2012 current budget with the year-to-date totals showing actual spending versus the budget. The report indicates that TOTAL Administrative and Investment cost through May, 2012 is at 87.32% of the authorized budget amount or \$192,498 below budget.

The actual Administrative Budget, which excludes the Investment Budget, is at 68.20% of the authorized budget. However, the automation project accounts for a significant portion of the budget and was budgeted at \$210,118. Unfortunately, the project could not start on the anticipated date and costs have yet to be incurred, so it would be expected to see a corresponding low actual expense figure at this point in the fiscal year. Even so, when the automation project is removed the year-to-date Administrative actual expenses are still below budget (90.63% used).

As detailed in the report, Salaries and Benefits costs were slightly below budget mainly due to the retirement of Administrator Jim Andersen at the end of the third quarter while Service and Supplies and Disability showed increased costs over budget.

Some of the increase in the Services and Supplies category was due to the hiring of Mr. Andersen as the Interim Administrator which, although the expenditure was approved by the Board of Retirement during the fiscal year, the approved budget was not adjusted to reflect this.

The system experienced increased usage with most of its contractors during the fiscal year, including Legal Services, Actuarial Services and Disability Services. In many cases, the use of our professional service contractors took place with projects and issues outside the scope of the original contract which makes these difficult to anticipate and budget for. Our professional service provider relationships are rendered to MCERA under an additional billing contract consistent with the type of professional service provider used.

The year-to-date (May 2012) actual adjusted Administrative expenses for MCERA of \$579,219 are below the Government Code Section 31580.2 statutory imposed administrative cap on expenses which is \$2,000,000.

The June 30, 2012 fiscal year end reports are being prepared and are not available for this meeting due to the customary delays involved in closing year end statements.

## 2. Adopted Budget for Fiscal Year 2012/2013

The Board adopted the Budget for Fiscal Year 2012/2013 at the June 20, 2012 meeting directing staff to incorporate the approved additions to the budget and return the budget for review at this meeting.

Some of the noteworthy and material items in this budget are included here as a review from the initial budget presentation made to the Board at your May, 2012 meeting.

1. Salaries and benefits include adding a 1.0 FTE Administrative Services Manager II or a new position with an equivalent salary that reflects the unique fiscal responsibilities required by MCERA as a retirement system. The increased cost of salaries and benefits of adding the 1.0 FTE position (compared to the current MOU with the Assessor) is roughly \$52,000.
2. Salaries and benefits also include \$15,000 for an extra-help position, consistent with the Linea Solutions contract, to help prepare files for imaging.
3. After one full year of contracting with the Sonoma County Counsel's Office for general counsel to MCERA, staff is recommending a budgeted expenditure of \$35,000. Staff has included an additional \$25,000 for services from Hanson Bridgett. Outstanding projects from Hanson Bridgett that will not be financed from the settlement proceeds with Buck Consultants include a review of excess earnings and amendment of the Voluntary Correction Plan (VCP) to the IRS based upon said review.
4. Imputed rent has been included in the budget as staff believes it is the proper application of accounting principals and should be considered when determining MCERA's position relative to the administrative expenditure cap.
5. Professional advisor costs for processing disability applications have been maintained for 2012/13.

6. The 2012/13 budget anticipates that all costs associated with conversion of hard copy files to an electronic format will occur in the 2012/13 fiscal year. The Board originally directed that the automation project be split over two fiscal years; however, the Correction of Contribution Rates Project delayed the start date of the automation project, and pushed the activities and costs into the 2012/13 fiscal year.
7. Fees for financial auditing and actuarial services include an additional \$10,000 and \$20,000, respectively. The costs for GALLINA include a recommendation regarding any accounting entries to address historical accounting for excess earnings and assistance with the CAFR. The costs for Segal include a review of our funding policy, including an ad hoc change to the smoothing formula and alternatives to a single, 30 year UAAL amortization schedule with negative amortization. The Board may also wish to have Segal review its earnings crediting policy, however, Segal believes the funding policy is most critical and should occur before preparation of the next valuation study.

As previously referred to, the Government Code Section imposes an administrative cap of 21/100 of 1% of AAL OR \$ 2 Million whichever is greater. MCERA uses the \$2 Million administrative cap figure and the adopted budget for Fiscal Year 2012/2013 is \$1,114,828 or 55.74%. ( $\$1,114,828 / \$2,000,000$ ). The Board should note that certain administrative expenses and portions of certain administrative costs associated with the investment function can be excluded from the administrative cap figure but have not been so excluded for the purpose of indicating the full budgetary information.

The Board members will recall that the expenses for MCERA are all paid from investment income, consistent with the limits set forth in the Government Code; however, the spending plan has historically been split between budget unit 1920 in the County's general fund, and trust fund 2410-760466. The splitting out of expenses has occurred in part due to the history of the retirement system, which was a legal and accounting element of the County's general fund, as well as constraints of the County's finance system to pay salaries and benefits from the trust account. As of July 1, 2012 all other administrative and investment expenses included in the budget adopted by the Board of Retirement in June will be paid from the retirement system trust account.

Attachments

PROPOSED BUDGET 2011/12  
 APPROVED BY THE BOARD OF RETIREMENT 06/15/2011

| ACCOUNT #    | ACCOUNT                             | 2011/12<br>BUDGET | 5/31/2012<br>ACTUAL | BUCK<br>SETTLEMENT | 5/31/2012<br>ADJ ACTUAL | INCR/<br>DECR   | %<br>USED      |
|--------------|-------------------------------------|-------------------|---------------------|--------------------|-------------------------|-----------------|----------------|
| 1011         | REG SALARIES                        | 283,877           | 249,078             | -15,000            | 234,078                 | -49,799         | 82.46%         |
| 1012         | EXTRA HELP                          | 2,000             | 0                   | 0                  | 0                       | -2,000          | 0.00%          |
| 1021         | RETIREMENT                          | 51,201            | 41,400              | 0                  | 41,400                  | -9,801          | 80.86%         |
| 1022         | SOCIAL SECURITY                     | 15,737            | 13,315              | 0                  | 13,315                  | -2,422          | 84.61%         |
| 1023         | SOCIAL SECURITY B                   | 3,957             | 3,387               | 0                  | 3,387                   | -570            | 85.60%         |
| 1024         | RETIREMENT COLA                     | 22,838            | 18,243              | 0                  | 18,243                  | -4,595          | 79.88%         |
| 1030         | HEALTH INSURANCE                    | 48,689            | 41,130              | 0                  | 41,130                  | -7,559          | 84.47%         |
| 1031         | UNEMPLOYMENT INSURANCE              | 2,951             | 2,951               | 0                  | 2,951                   | 0               | 100.00%        |
| 1035         | WORKERS COMP                        | 1,498             | 1,256               | 0                  | 1,256                   | -242            | 83.85%         |
|              | <b>SUBTOTAL SAL &amp; BENEFITS</b>  | <b>432,748</b>    | <b>370,760</b>      | <b>-15,000</b>     | <b>355,760</b>          | <b>-76,988</b>  | <b>82.21%</b>  |
| 2060         | COMMUNICATIONS                      | 2,450             | 4,261               | 0                  | 4,261                   | 1,811           | 173.92%        |
| 2101         | GENERAL INSURANCE                   | 1,328             | 976                 | 0                  | 976                     | -352            | 73.49%         |
| 2150         | MEMBERSHIP                          | 6,000             | 4,500               | 0                  | 4,500                   | -1,500          | 75.00%         |
| 2170         | OFFICE EXPENSE                      | 11,550            | 15,234              | 0                  | 15,234                  | 3,684           | 131.90%        |
| 2183         | LEGAL EXPENSE                       | 50,000            | 82,752              | -29,606            | 53,146                  | 3,146           | 106.29% (1)    |
| 2189         | CONTRACTS                           | 9,750             | 14,390              | 0                  | 14,390                  | 4,640           | 147.59% (2)    |
| 2210         | RENTS AND LEASES                    | 0                 | 0                   | 0                  | 0                       | 0               | 0.00%          |
| 2250         | TRAVEL IN-COUNTY                    | 300               | 258                 | 0                  | 258                     | -42             | 86.00%         |
| 2253         | TRAVEL OUT OF COUNTY                | 0                 | 0                   | 0                  | 0                       | 0               | 0.00%          |
|              | BOARD EDUCATION                     | 20,000            | 18,633              | 0                  | 18,633                  | -1,367          | 93.17%         |
|              | <b>SUBTOTAL SVCS &amp; SUPPLIES</b> | <b>101,378</b>    | <b>141,004</b>      | <b>-29,606</b>     | <b>111,398</b>          | <b>10,020</b>   | <b>109.88%</b> |
|              | <b>TOTAL BU 1920</b>                | <b>534,126</b>    | <b>511,764</b>      | <b>-44,606</b>     | <b>467,158</b>          | <b>-66,968</b>  | <b>87.46%</b>  |
| 2410-76-0466 | DISABILITY DUE DILIGENCE            | 50,000            | 40,727              | 0                  | 40,727                  | -9,273          | 81.45%         |
| 2410-76-0466 | DISABILITY HEARINGS                 | 20,000            | 20,046              | 0                  | 20,046                  | 46              | 100.23%        |
| 2410-76-0466 | MEDICAL REVIEWS                     | 15,000            | 28,353              | 0                  | 28,353                  | 13,353          | 189.02% (3)    |
| 2410-76-0466 | AUTOMATION                          | 210,118           | 0                   | 0                  | 0                       | -210,118        | 0.00%          |
| 2410-76-0466 | AUDIT                               | 20,000            | 22,935              | 0                  | 22,935                  | 2,935           | 114.68% (4)    |
|              | <b>TOTAL ADMINISTRATIVE BUDGET</b>  | <b>849,244</b>    | <b>623,825</b>      | <b>-44,606</b>     | <b>579,219</b>          | <b>-270,025</b> | <b>68.20%</b>  |
|              | <b>STATUTORY CAP</b>                | <b>2,000,000</b>  | <b>2,000,000</b>    | <b>0</b>           | <b>2,000,000</b>        |                 |                |
|              | LESS IMPUTED RENT                   | -51,200           | -51,200             | 0                  | -51,200                 |                 |                |
|              | <b>BALANCE UNDER CAP</b>            | <b>1,099,556</b>  | <b>1,324,975</b>    | <b>44,606</b>      | <b>1,369,581</b>        |                 |                |
|              | <b>INVESTMENT BUDGET</b>            |                   |                     |                    |                         |                 |                |
| 2410-76-0466 | CUSTODIAL BANK FEES                 | 0                 | 0                   | 0                  | 0                       | 0               | 0.00%          |
| 2410-76-0466 | ALLIANCE BERNSTEIN FEES             | 35,000            | 29,150              | 0                  | 29,150                  | -5,850          | 83.29%         |
| 2410-76-0466 | INVESTMENT CONSULTANTS              | 140,000           | 105,000             | 0                  | 105,000                 | -35,000         | 75.00%         |
| MUTUAL FUND  | MONDRIAN FEES                       | 0                 | 78,356              | 0                  | 78,356                  | 78,356          | 0.00% (5)      |
| MUTUAL FUND  | CORNERSTONE FEES                    | 0                 | 27,500              | 0                  | 27,500                  | 27,500          | 0.00% (5)      |
| 2410-76-0466 | BUILDING EXPENSES                   | 17,500            | 23,580              | 0                  | 23,580                  | 6,080           | 134.74% (6)    |
| 2410-76-0466 | ACTUARY SERVICES                    | 90,000            | 97,051              | 0                  | 97,051                  | 7,051           | 107.83% (7)    |
| 2410-76-0466 | FIDUCIARY INSURANCE                 | 35,000            | 34,390              | 0                  | 34,390                  | -610            | 98.26%         |
|              | <b>SUBTOTAL INVESTMENTS</b>         | <b>317,500</b>    | <b>395,027</b>      | <b>0</b>           | <b>395,027</b>          | <b>77,527</b>   | <b>124.42%</b> |
|              | <b>TOTAL ADM &amp; INV BUDGET</b>   | <b>1,166,744</b>  | <b>1,018,852</b>    | <b>-44,606</b>     | <b>974,246</b>          | <b>-192,498</b> | <b>87.32%</b>  |

NOTES:

- (1) INCREASED UTILIZATION OF LEGAL COUNSEL INCREASED 2012/13 BUDGET BY \$10,000
- (2) JIM ANDERSEN INTERIM ADMINISTRATOR CONTRACT
- (3) UTILIZATION MORE THAN BUDGETED (NET DUE DILLIGENCE OVER BUDGET BY \$4,126)
- (4) JIM SLIGH & GALLINA VCP MEETING WITH HANSEN BRIDGET
- (5) MONDRIAN & CORNERSTONE FEES NOT BUDGETED
- (6) EXPENSES GREATER THAN BUDGETED, INCREASED TO \$25,000 FOR 2012/13
- (7) UTILIZATION OF SEGAL SERVICES IN EXCESS OF BUDGET

ADOPTED BUDGET 2012/13  
6/27/2012

| ACCOUNT #             | ACCOUNT                            | 2011/12<br>BUDGET | 2012/13<br>PROPOSED | INCR/<br>DECR  | FOR CAP<br>CALC  |
|-----------------------|------------------------------------|-------------------|---------------------|----------------|------------------|
| 1920-1011             | GROSS REG SALARIES (1)             | 283,877           | 319,616             | 35,740         | 319,616          |
| 1920-1012             | EXTRA HELP (2)                     | 2,000             | 15,000              | 13,000         | 15,000           |
| 1920-1021             | RETIREMENT (3)                     | 51,201            | 75,162              | 23,961         | 75,162           |
| 1920-1022             | SOCIAL SECURITY                    | 15,737            | 17,629              | 1,891          | 17,629           |
| 1920-1023             | SOCIAL SECURITY B                  | 3,957             | 4,390               | 433            | 4,390            |
| 1920-1024             | RETIREMENT COLA (3)                | 22,838            | 27,957              | 5,119          | 27,957           |
| 1920-1030             | HEALTH INSURANCE (4)               | 48,689            | 51,030              | 2,341          | 51,030           |
| 1920-1031             | UNEMPLOYMENT INSURANCE             | 2,951             | 3,215               | 264            | 3,215            |
| 1920-1035             | WORKERS COMP                       | 1,498             | 1,711               | 213            | 1,711            |
| <b>TOTAL 1920</b>     |                                    | <b>432,748</b>    | <b>515,710</b>      | <b>82,962</b>  | <b>515,710</b>   |
| 2410                  | COMMUNICATIONS                     | 2,450             | 2,450               | 0              | 2,450            |
| 2410                  | GENERAL INSURANCE                  | 1,328             | 1,328               | 0              | 1,328            |
| 2410                  | MEMBERSHIP                         | 6,000             | 6,000               | 0              | 6,000            |
| 2410                  | OFFICE EXPENSE                     | 11,550            | 13,000              | 1,450          | 13,000           |
| 2410                  | LEGAL EXPENSE (5)                  | 50,000            | 60,000              | 10,000         | 60,000           |
| 2410                  | CONTRACTS (12)                     | 9,750             | 22,250              | 12,500         | 22,250           |
| 2410                  | TRAVEL IN-COUNTY                   | 300               | 300                 | 0              | 300              |
| 2410                  | TRAVEL OUT OF COUNTY               |                   |                     | 0              | 0                |
| 2410                  | BOARD EDUCATION (7)                | 15,000            | 22,500              | 7,500          | 22,500           |
| 2410                  | STAFF MEETINGS/ED                  | 5,000             | 5,000               | 0              | 5,000            |
| <b>SUBTOTAL TOTAL</b> |                                    | <b>101,378</b>    | <b>132,828</b>      | <b>31,450</b>  | <b>132,828</b>   |
|                       |                                    | <b>534,126</b>    | <b>648,538</b>      | <b>114,412</b> | <b>648,538</b>   |
| 2410                  | DISABILITY DUE DILIGENCE (8)       | 50,000            | 50,000              | 0              | 50,000           |
| 2410                  | DISABILITY HEARINGS (8)            | 20,000            | 20,000              | 0              | 20,000           |
| 2410                  | MEDICAL REVIEWS (8)                | 15,000            | 15,000              | 0              | 15,000           |
| 2410                  | AUTOMATION (9)                     | 210,118           | 300,090             | 89,972         | 300,090          |
| 2410                  | AUDIT (10)                         | 20,000            | 30,000              | 10,000         | 30,000           |
|                       | <b>SUBTOTAL ADMIN EXPENDITURES</b> | <b>849,244</b>    | <b>1,063,628</b>    | <b>214,384</b> | <b>1,063,628</b> |
|                       | IMPUTED RENT (6)                   | 0                 | 51,200              | 51,200         | 51,200           |
|                       | <b>TOTAL ADMIN EXPENDITURES</b>    | <b>849,244</b>    | <b>1,114,828</b>    | <b>265,584</b> | <b>1,114,828</b> |
|                       | <b>ADMINSTRATIVE CAP (13)</b>      | <b>2,000,000</b>  |                     |                | <b>2,000,000</b> |
|                       | <b>BALANCE UNDER CAP</b>           | <b>1,150,756</b>  |                     |                | <b>885,172</b>   |
|                       | <b>NOT SUBJECT TO ADMIN CAP</b>    |                   |                     |                |                  |
| 2410                  | ALLIANCE BERNSTEIN FEES            | 35,000            | 39,000              | 4,000          |                  |
| 2410                  | INVESTMENT CONSULTANTS             | 140,000           | 140,000             | 0              |                  |
| MUTUAL FUND           | MONDRIAN FEES                      | 0                 | 105,000             | 105,000        |                  |
| MUTUAL FUND           | CORNERSTONE FEES                   | 0                 | 110,000             | 110,000        |                  |
| 2410                  | BUILDING EXPENSES                  | 17,500            | 25,000              | 7,500          |                  |
| 2410                  | ACTUARY SERVICES (11)              | 90,000            | 70,000              | -20,000        |                  |
| 2410                  | FIDUCIARY INSURANCE                | 35,000            | 35,000              | 0              |                  |
| <b>TOTAL NON CAP</b>  |                                    | <b>317,500</b>    | <b>524,000</b>      | <b>206,500</b> |                  |
| <b>TOTAL EXP</b>      |                                    | <b>1,166,744</b>  | <b>1,587,628</b>    | <b>420,884</b> |                  |

**TOTAL ADMINISTRATIVE EXPENSES AS PERCENT OF MARKET VALUE OF INVESTMENTS:**

|   | 6/30/2010   | 6/30/2011   | DIFF       |
|---|-------------|-------------|------------|
| MARKET VALUE OF INVESTMENTS (INCL CASH) | 299,861,611 | 354,754,811 | 54,893,200 |
| PERCENT OF ADMINISTRATIVE EXPENSES      | 0.2832%     | 0.2998%     | 0.0166%    |

NOTES:

- (1) INCLUDES 1.0 FTE FISCAL OFFICER
- (2) EXTRA HELP FOR AUTOMATION PROJECT
- (3) RETIREMENT RATE INCREASES.
- (4) HEALTH INSURANCE ADDED DEPENDENTS.
- (5) CONTINUANCE OF ATTORNEY SERVICES WITH SONOMA COUNTY (\$35K), HANSON BRIDGETT (\$25K).
- (6) BUDGET IMPUTED RENT FOR ADMINISTRATIVE CAP CALCULATION
- (7) BASED UPON UTILIZATION AND \$7,500 FOR BOR WORKSHOP
- (8) SAME AS LAST YEAR PENDING REVIEW OF DISABILITY PROCESS
- (9) LINEA CONTRACT/AUTOMATION COSTS, INCLUDES 2011/12 & 2012/13 COSTS
- (10) FEES AGREED WITH GALLINA: AUDIT \$20K/ADDITIONAL PROJECTS \$10K
- (11) FEES AGREED TO WITH THE SEGAL COMPANY: VALUATION \$50K/ADDITIONAL PROJECTS \$20K
- (12) ADDITIONAL \$12,500 FOR INTERIM RETIREMENT ADMINISTRATOR
- (13) GREATER OF \$2,000,000 OR 21/100TH OF 1% OF AAL (\$472,644,283 X .21% = \$992,553)

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 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Monthly Investment Report

Included in the item are the most recent Financial and Investment Reports through the end of May 2012. The May 2012 Final report will be provided at the July meeting. The June 30, 2012 fiscal year end report is being prepared and is not available for this meeting due to the customary delays involved in closing end-of-year statements.

RAW  
Attachments

COMPARISON OF COST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION  
MAY 2012 PRELIMINARY

|                                 | A                       | B                      | C                     | D                   | E                        | F                      | G                                   | H                                 |
|---------------------------------|-------------------------|------------------------|-----------------------|---------------------|--------------------------|------------------------|-------------------------------------|-----------------------------------|
|                                 | COST<br>VALUE           | MARKET<br>VALUE        | UNREALIZED<br>GAIN    | GAIN BY<br>CATEGORY | PRIOR MONTH<br>GAIN/LOSS | MONTHLY<br>CHANGE      | START OF<br>FISCAL YEAR<br>(MARKET) | FISCAL YEAR<br>CHANGE<br>(MARKET) |
| <b>FIXED INCOME</b>             |                         |                        |                       |                     |                          |                        |                                     |                                   |
| PIMCO                           | 41,936,987              | 46,549,621             | 4,612,634             |                     | 4,365,030                | 247,604                | 47,208,923                          | (659,302)                         |
| DODGE & COX INCOME              | 45,574,513              | 46,465,181             | 890,668               |                     | 856,678                  | 33,990                 | 50,473,381                          | (4,008,200)                       |
|                                 |                         |                        |                       | <u>5,503,302</u>    |                          |                        |                                     |                                   |
| <b>SMALL CAP GROWTH</b>         |                         |                        |                       |                     |                          |                        |                                     |                                   |
| ALLIANCE                        | 1,967,850               | 4,121,928              | 2,154,078             |                     | 2,542,495                | (388,417)              | 4,149,842                           | (27,914)                          |
| RS EMERGING<br>MANAGERS         | 2,500,101<br>5,825,409  | 3,549,698<br>6,666,972 | 1,049,597<br>841,563  |                     | 1,342,706<br>1,372,947   | (293,109)<br>(531,384) | 3,883,292<br>7,009,997              | (333,594)<br>(343,025)            |
|                                 |                         |                        |                       | <u>4,045,238</u>    |                          |                        |                                     |                                   |
| <b>SMALL CAP VALUE</b>          |                         |                        |                       |                     |                          |                        |                                     |                                   |
| VANGUARD SMALL CAP INDEX        | 0                       | -                      | -                     |                     | -                        | -                      | -                                   | -                                 |
| PRUDENTIAL TARGET               | 7,172,930               | 6,326,534              | (846,396)             |                     | (336,962)                | (509,434)              | 6,717,460                           | (390,926)                         |
|                                 |                         |                        |                       | <u>(846,396)</u>    |                          |                        |                                     |                                   |
| <b>MID CAP GROWTH</b>           |                         |                        |                       |                     |                          |                        |                                     |                                   |
| MORGAN STANLEY                  | 4,518,742               | 5,268,928              | 750,186               |                     | 1,223,214                | (473,028)              | 6,016,150                           | (747,222)                         |
| JANUS ENTERPRISE                | 5,232,908               | 5,613,416              | 380,508               |                     | 761,295                  | (380,787)              | 5,752,795                           | (139,379)                         |
|                                 |                         |                        |                       | <u>1,130,694</u>    |                          |                        |                                     |                                   |
| <b>MID CAP VALUE</b>            |                         |                        |                       |                     |                          |                        |                                     |                                   |
| FIDILITY LP STCK                | 3,917,670               | 5,246,128              | 1,328,458             |                     | 1,793,144                | (464,686)              | 5,497,767                           | (251,639)                         |
| ROYCE TOTAL RTN                 | 3,950,378               | 5,048,825              | 1,098,447             |                     | 1,430,815                | (332,368)              | 5,343,466                           | (294,641)                         |
|                                 |                         |                        |                       | <u>2,426,905</u>    |                          |                        |                                     |                                   |
| <b>LARGE CAP GROWTH</b>         |                         |                        |                       |                     |                          |                        |                                     |                                   |
| AMERICAN FUND                   | 8,491,910               | 10,459,907             | 1,967,997             |                     | 2,739,770                | (771,773)              | 10,762,588                          | (302,681)                         |
| HARBOR CAP APPRE                | 8,783,960               | 11,410,565             | 2,626,605             |                     | 3,607,002                | (980,397)              | 11,269,773                          | 140,792                           |
| JANUS RESEARCH                  | 8,617,378               | 10,634,467             | 2,017,089             |                     | 2,829,071                | (811,982)              | 10,986,434                          | (351,967)                         |
|                                 |                         |                        |                       | <u>6,611,691</u>    |                          |                        |                                     |                                   |
| <b>LARGE CAP VALUE</b>          |                         |                        |                       |                     |                          |                        |                                     |                                   |
| SELECTED AMERICAN               | 8,861,931               | 10,148,252             | 1,286,321             |                     | 1,982,088                | (695,767)              | 10,484,731                          | (336,479)                         |
| DODGE & COX                     | 13,893,630              | 14,915,203             | 1,021,573             |                     | 2,149,280                | (1,127,707)            | 15,957,294                          | (1,042,091)                       |
| INVEST CO AMERICA               | 9,282,865               | 10,553,826             | 1,270,961             |                     | 1,947,007                | (676,046)              | 10,682,563                          | (128,737)                         |
| ROBECO                          | 14,500,000              | 14,272,970             | (227,030)             |                     | 914,722                  | (1,141,752)            | 14,491,030                          | (218,060)                         |
| VAN GUARD GR&INC                | 9,606,724               | 11,005,935             | 1,399,211             |                     | 2,130,046                | (730,835)              | 10,831,151                          | 174,784                           |
|                                 |                         |                        |                       | <u>4,751,036</u>    |                          |                        |                                     |                                   |
| <b>INTERNATIONAL STOCK</b>      |                         |                        |                       |                     |                          |                        |                                     |                                   |
| EUROPACIFIC                     | 14,519,688              | 15,206,788             | 687,100               |                     | 2,423,665                | (1,736,565)            | 16,443,168                          | (1,236,380)                       |
| HARBOR INTL                     | 15,372,603              | 14,299,459             | (1,073,144)           |                     | 589,209                  | (1,662,353)            | 17,012,890                          | (2,713,431)                       |
| ACORN INTL                      | 5,840,163               | 7,791,951              | 1,951,788             |                     | 2,770,160                | (818,372)              | 8,952,037                           | (1,160,086)                       |
| ARTISAN                         | -                       | -                      | -                     |                     | -                        | -                      | -                                   | -                                 |
| JANUS INTL                      | 15,257,471              | 11,808,433             | (3,449,038)           |                     | (1,595,904)              | (1,853,134)            | 14,726,811                          | (2,918,378)                       |
| MONDRIAN                        | 15,417,360              | 13,375,466             | (2,041,894)           |                     | (558,543)                | (1,483,351)            | 14,874,406                          | (1,498,940)                       |
| OAKMARK                         | 11,229,477              | 10,961,248             | (268,229)             |                     | 1,127,082                | (1,395,311)            | 13,492,130                          | (2,530,882)                       |
|                                 |                         |                        |                       | <u>(4,193,417)</u>  |                          |                        |                                     |                                   |
| <b>REAL ESTATE</b>              |                         |                        |                       |                     |                          |                        |                                     |                                   |
| RREEF - COMMINGLED FUND         | 4,151,482               | 3,530,696              | (620,786)             |                     | (451,002)                | (169,784)              | 13,567,707                          | (10,037,011)                      |
| RREEF - AMERICA REIT II         | 11,653,305              | 12,747,624             | 1,094,319             |                     | 1,523,542                | (429,223)              | 16,238,535                          | (3,490,911)                       |
| CORNERSTONE                     | 9,972,499               | 10,217,048             | 244,549               |                     | 244,549                  | -                      | -                                   | 10,217,048                        |
|                                 |                         |                        |                       | <u>718,082</u>      |                          |                        |                                     |                                   |
| <b>TOTAL MANAGED INVEST.</b>    | <u>308,049,934</u>      | <u>328,197,069</u>     | <u>20,147,135</u>     | <u>20,147,135</u>   | <u>39,723,106</u>        | <u>(19,575,971)</u>    | <u>352,826,321</u>                  | <u>(24,629,252)</u>               |
| <b>OTHER REAL ESTATE</b>        |                         |                        |                       |                     |                          |                        |                                     |                                   |
| 625 B KINGS COURT               | 901,112                 | 738,992                | (162,120)             |                     | (162,120)                | -                      | 738,992                             | -                                 |
|                                 |                         |                        |                       | <u>(162,120)</u>    |                          |                        |                                     |                                   |
| <b>INVESTED FUNDS AVAILABLE</b> | <u>308,951,046</u>      | <u>328,936,061</u>     | <u>19,985,015</u>     | <u>19,985,015</u>   | <u>39,560,986</u>        | <u>(19,575,971)</u>    | <u>353,565,313</u>                  | <u>(24,629,252)</u>               |
|                                 |                         |                        |                       |                     |                          |                        |                                     |                                   |
|                                 | BEGINNING<br>MONTH CASH | ENDING<br>MONTH CASH   | INCREASE/<br>DECREASE | GAIN BY<br>CATEGORY | PRIOR MONTH<br>INC/DEC   | MONTHLY<br>CHANGE      | START OF<br>FISCAL YEAR<br>BALANCE  | FISCAL YEAR<br>CHANGE             |
| <b>CASH</b>                     | 1,844,108               | 5,193,358              | 3,349,250             |                     | -                        | 3,349,250              | 1,189,486                           | 4,003,872                         |
|                                 |                         |                        |                       | <u>3,349,250</u>    |                          |                        |                                     |                                   |
| <b>TOTAL FUNDS AVAILABLE</b>    | <u>310,795,154</u>      | <u>334,129,419</u>     | <u>23,334,265</u>     | <u>23,334,265</u>   | <u>39,560,986</u>        | <u>(16,226,721)</u>    | <u>354,754,799</u>                  | <u>(20,625,380)</u>               |

COMPARISON OF CAST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION  
MAY 2012 PRELIMINARY

|                                 | A                        | B             | C                  | D                | E               | F                     | G                  | H                     |
|---------------------------------|--------------------------|---------------|--------------------|------------------|-----------------|-----------------------|--------------------|-----------------------|
|                                 | MARKET VALUE INVESTMENTS | CASH RESERVED | TOTAL AVAILABLE    | PERCENT OF PORT. | % BY CLASS      | TARGET % (2010 STUDY) | TARGET AS DOLLARS  | DIFFERENCE AS DOLLARS |
| <b>FIXED INCOME</b>             |                          |               |                    |                  |                 |                       |                    |                       |
| PIMCO                           | 46,549,621               |               | 46,549,621         | 14.18%           |                 | 14.000%               | 45,947,590         | 602,031               |
| DODGE & COX INCOME              | 46,465,181               |               | 46,465,181         | 14.16%           |                 | 14.000%               | 45,947,590         | 517,591               |
|                                 |                          |               |                    |                  | <u>28.341%</u>  | <u>28.000%</u>        |                    |                       |
| <b>SMALL CAP GROWTH</b>         |                          |               |                    |                  |                 |                       |                    |                       |
| ALLIANCE                        | 4,121,928                |               | 4,121,928          | 1.26%            |                 | 1.000%                | 3,281,971          | 839,957               |
| RS EMERGING MANAGERS            | 3,549,698                |               | 3,549,698          | 1.08%            |                 | 1.000%                | 3,281,971          | 267,727               |
|                                 | 6,666,972                |               | 6,666,972          | 2.03%            |                 | 1.900%                | 6,235,744          | 431,228               |
|                                 |                          |               |                    |                  | <u>4.369%</u>   | <u>3.900%</u>         |                    |                       |
| <b>SMALL CAP VALUE</b>          |                          |               |                    |                  |                 |                       |                    |                       |
| VANGUARD SMALL CAP INDEX        | -                        |               | -                  | 0.00%            |                 | 0.000%                | -                  | -                     |
| PRUDENTIAL                      | 6,326,534                |               | 6,326,534          | 1.93%            |                 | 1.900%                | 6,235,744          | 90,790                |
|                                 |                          |               |                    |                  | <u>1.928%</u>   | <u>1.900%</u>         |                    |                       |
| <b>MID CAP GROWTH</b>           |                          |               |                    |                  |                 |                       |                    |                       |
| MORGAN STANLEY                  | 5,268,928                |               | 5,268,928          | 1.61%            |                 | 1.400%                | 4,594,759          | 674,169               |
| JANUS ENTERPRISE                | 5,613,416                |               | 5,613,416          | 1.71%            |                 | 1.400%                | 4,594,759          | 1,018,657             |
|                                 | -                        |               | -                  |                  |                 |                       |                    |                       |
|                                 |                          |               |                    |                  | <u>3.316%</u>   | <u>2.800%</u>         |                    |                       |
| <b>MID CAP VALUE</b>            |                          |               |                    |                  |                 |                       |                    |                       |
| FIDILITY LP STCK                | 5,246,128                |               | 5,246,128          | 1.60%            |                 | 1.400%                | 4,594,759          | 651,369               |
| ROYCE TOTAL RTN                 | 5,048,825                |               | 5,048,825          | 1.54%            |                 | 1.400%                | 4,594,759          | 454,066               |
|                                 |                          |               |                    |                  | <u>3.137%</u>   | <u>2.800%</u>         |                    |                       |
| <b>LARGE CAP GROWTH</b>         |                          |               |                    |                  |                 |                       |                    |                       |
| GROWTH FUND OF AMERICA          | 10,459,907               |               | 10,459,907         | 3.19%            |                 | 3.000%                | 9,845,912          | 613,995               |
| HARBOR CAP APPRE                | 11,410,565               |               | 11,410,565         | 3.48%            |                 | 3.000%                | 9,845,912          | 1,564,653             |
| JANUS RESEARCH                  | 10,634,467               |               | 10,634,467         | 3.24%            |                 | 3.000%                | 9,845,912          | 788,555               |
|                                 |                          |               |                    |                  | <u>9.904%</u>   | <u>9.000%</u>         |                    |                       |
| <b>LARGE CAP VALUE</b>          |                          |               |                    |                  |                 |                       |                    |                       |
| SELECTED AMERICAN               | 10,148,252               |               | 10,148,252         | 3.09%            |                 | 3.000%                | 9,845,912          | 302,340               |
| DODGE & COX                     | 14,915,203               |               | 14,915,203         | 4.54%            |                 | 4.400%                | 14,440,671         | 474,532               |
| INVEST CO AMERICA               | 10,553,826               |               | 10,553,826         | 3.22%            |                 | 3.000%                | 9,845,912          | 707,914               |
| ROBECO                          | 14,272,970               |               | 14,272,970         | 4.35%            |                 | 4.400%                | 14,440,671         | (167,701)             |
| VAN GUARD GR&INC                | 11,005,935               |               | 11,005,935         | 3.35%            |                 | 3.000%                | 9,845,912          | 1,160,023             |
|                                 |                          |               |                    |                  | <u>18.555%</u>  | <u>17.800%</u>        |                    |                       |
| <b>INTERNATIONAL STOCK</b>      |                          |               |                    |                  |                 |                       |                    |                       |
| AMERICAN - EUROPACIFIC          | 15,206,788               |               | 15,206,788         | 4.63%            |                 | 4.700%                | 15,425,262         | (218,474)             |
| HARBOR INTL                     | 14,299,459               |               | 14,299,459         | 4.36%            |                 | 4.700%                | 15,425,262         | (1,125,803)           |
| ACORN INTL                      | 7,791,951                |               | 7,791,951          | 2.37%            |                 | 2.500%                | 8,204,927          | (412,976)             |
| ARTISAN                         | -                        |               | -                  | 0.00%            |                 | 0.000%                | -                  | -                     |
| JANUS INTL                      | 11,808,433               |               | 11,808,433         | 3.60%            |                 | 4.700%                | 15,425,262         | (3,616,829)           |
| MONDRIAN                        | 13,375,466               |               | 13,375,466         | 4.08%            |                 | 4.700%                | 15,425,262         | (2,049,796)           |
| OAKMARK                         | 10,961,248               |               | 10,961,248         | 3.34%            |                 | 3.800%                | 12,471,489         | (1,510,241)           |
|                                 |                          |               |                    |                  | <u>22.378%</u>  | <u>25.100%</u>        |                    |                       |
| <b>REAL ESTATE</b>              |                          |               |                    |                  |                 |                       |                    |                       |
| RREEF - COMMINGLED FUND         | 3,530,696                |               | 3,530,696          | 1.08%            |                 | 1.700%                | 5,579,350          | (2,048,654)           |
| RREEF - AMERICA REIT II         | 12,747,624               |               | 12,747,624         | 3.88%            |                 | 4.200%                | 13,784,277         | (1,036,653)           |
| CORNERSTONE                     | 10,217,048               |               | 10,217,048         | 3.11%            |                 | 2.800%                | 9,189,518          | 1,027,530             |
|                                 |                          |               |                    |                  | <u>8.073%</u>   | <u>8.700%</u>         |                    |                       |
| <b>TOTAL MANAGED INVEST.</b>    | <u>328,197,069</u>       | <u>-</u>      | <u>328,197,069</u> | <u>100.000%</u>  | <u>100.000%</u> | <u>100.000%</u>       | <u>328,197,069</u> | <u>-</u>              |
| <b>OTHER REAL ESTATE</b>        |                          |               |                    |                  |                 |                       |                    |                       |
| 625 B KINGS COURT               | 738,992                  |               | 738,992            | 0.225%           |                 | 0.000%                | -                  | -                     |
|                                 |                          |               |                    |                  | <u>0.000%</u>   | <u>0.000%</u>         |                    |                       |
| <b>INVESTED FUNDS AVAILABLE</b> | <u>328,936,061</u>       | <u>-</u>      | <u>328,936,061</u> | <u>100.225%</u>  | <u>100.000%</u> | <u>100.000%</u>       | <u>328,197,069</u> | <u>-</u>              |
|                                 |                          |               |                    |                  |                 |                       |                    |                       |
|                                 | CASH BALANCE             | CASH RESERVED | TOTAL CASH BALANCE | PERCENT OF PORT. | % BY CLASS      | TARGET % (2010 STUDY) | TARGET AS DOLLARS  | DIFFERENCE AS DOLLARS |
| <b>CASH</b>                     | 1,007,447                |               | 1,007,447          | 0.305%           |                 | 0.000%                | -                  | -                     |
|                                 |                          |               |                    |                  | <u>0.000%</u>   | <u>0.000%</u>         |                    |                       |
| <b>TOTAL FUNDS AVAILABLE</b>    | <u>329,943,508</u>       | <u>-</u>      | <u>329,943,508</u> | <u>100.530%</u>  | <u>100.000%</u> | <u>100.000%</u>       | <u>328,197,069</u> | <u>-</u>              |

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 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Retirement Administrator's Report

Activities

I have listed some notable activities that I have participated in since your last Board meeting:

- I attended the CALAPRS Administrator Roundtable held on June 22, 2012 in San Jose. This session was well attended and the networking discussions proved beneficial. The organized part of the session included a presentation and discussion of "investment officer paradigms" led by Don Strake of NEPC Consulting which discussed the various ways that public pension systems organize their investment office operations. Another presentation led by two consultants from Aon Hewitt/Knupp discussed retiree healthcare strategies. A presentation on the processing of disability applications and an overview of legislation in Sacramento concluded the formal agenda.
- I met with Caryn Downing, Court Executive Officer Mendocino County Courts, on June 27, 2011 where I introduced myself to her and we discussed various matters related to MCERA.
- I attended the empanelment ceremony for the 2012-2013 Mendocino County Civil Grand Jury on Friday June 29, 2012 and congratulated Board Member Sakowicz on his service with last year's panel and his re-empanelment with this year's panel.
- I attended the Mendocino County Department Head meeting on July 11, 2012 and gave a status report, along with Lloyd Weer and Meredith Ford, on the contribution rate correction project.
- I met with Greg DeForrest and Gregg Ungerman of Callan Associates in my office on July 13, 2012 and discussed the MCERA investment trust fund.

The following is information or status reports on items of interest for the Board of Retirement.

Automation Project

The project work by Linea Solutions on the Electronic Data Management System (EDMS) is underway and proceeding according to plan with nothing noteworthy to report.

## Joint Meeting with MCERA Board of Retirement and Board of Supervisors

The MCERA Board of Retirement and the County Board of Supervisors held a joint meeting on December 12, 2011 and received a presentation from Jeanine Nadel, County Counsel regarding sections of the 1937 Act which have been adopted by the County of Mendocino. At the conclusion of the presentation both Boards requested that County Counsel modify the report to include whether each code section is a vested right or a meet-and-confer item. County Counsel is aware of this action item and attending to it as time and resources permit. The original presentation received by the MCERA Board of Retirement is included in this agenda item.

### Public Records Act (PRA) Requests:

The Board is aware that MCERA receives Public Records Act (PRA) requests for information which must be provided within certain time frames and there is limited ability to recover costs of providing the information. At this time, there is one open PRA request that is being complied by MCERA.

As previously reported to the Board, the current PRA is very similar to the PRA from the Los Angeles Times, requesting extensive information on our retirees. Working with our attorney, MCERA responded that it would take up to ninety (90) days to produce the information, that all allowable costs must be reimbursed, and to communicate to MCERA in a letter if they still wanted us to proceed prior to MCERA committing resources to the PRA. At this point, the information has been compiled by MCERA staff and we have notified the requesting entity of the costs of producing the data which must be paid for prior to MCERA releasing the information.

### Cost of Living increases in the Optional Benefit Calculations

I informed the Board at your June 2012 meeting about an article published in the Contra Costa Times reporting on a discussion item from the Contra Costa County Employees' Retirement Association (CCCERA) on the calculation of Optional Benefit Calculations and whether or not the calculation should include the Cost of Living adjustment. The article stated that the calculation method was used by many public pension systems in California and included methods used by The Segal Company who is the actuary for many 1937 Act systems, including CCCERA and MCERA.

Since your last Board meeting, The Segal Company published a memorandum that was distributed to all Administrators of 1937 Act systems which describes and explains the issue from their perspective – which is one of a professional actuarial firm. Essentially, The Segal Company takes the position that the claim in the article that CCCERA pensioners were overpaid because of “improper” calculations is “completely untrue.”

The Segal Company explains that the issue is what actuarial assumptions to include when determining the actuarial equivalent optional payment amounts. The letter explains what is meant by actuarial equivalent and states that “CCCERA’s calculations of the optional form of payment amounts are:

- Consistent with long-established practice utilized by Segal, by predecessor actuarial firms servicing CCCERA, and by actuaries serving other similar retirement systems, and
- In accordance with the requirements of the statutes governing these systems.

It is important that the MCERA Board of Retirement be assured that although the issue is currently under review by CCCERA, the adoption of these actuarial assumptions is in “accordance with the requirements of the statutes” which govern MCERA and “consistent with long-established practice utilized by Segal.”<sup>1</sup> The Board may want to review this issue with Segal and with legal counsel at a later time. The Segal Company memorandum is included in your Board materials.

Additionally, a question was raised by a member of the Board referring to a comment made in the aforementioned legal presentation to CCCERA referring to the legal requirement by plan sponsors to “disclose publicly the added costs to the system” when they grant benefits and benefit increases. The Board of Retirement should be aware that the responsibility to comply with this section of the CERL rests solely with the plan sponsor and the steps taken would be known by the plan sponsor. MCERA believes that there have not been any benefit increases that were not anticipated in our actuarial experience studies that have been granted by the County since the independence of MCERA.

### Legislative Update

Members of the Board have asked for information on legislation pertinent to public pension systems and I have included some recent information on certain bills for your review and comment. These materials were prepared by Julie Wyne, OCERS Assistant CEO of External and Legal Operations. Julie is also a member of the SACRS Legislative Committee and these materials are used with her permission.

SACRS Sponsored Bills and Legislative Committee meeting:

**AB 2664** (Committee on Public Employees, Retirement and Social Security), the electronic signature, LACERA correction of errors, and dental benefits bill, has been enrolled and is awaiting action by the Governor. I do not anticipate any obstacle to its enactment.

**AB 1519** (Wieckowski), the trustee education bill, has been chaptered. It will be effective January 1, 2013, and will require OCERS, and other '37 Act systems to establish a policy on trustee education that identifies the appropriate topics for board member education, establishes a means for determining the programs, training, and educational sessions that qualify as board member education, requires that all board members receive a minimum of 24 hours of board member education within the first two years of assuming office and for every subsequent two-year period the board member continues to hold membership on the board, and requires each board member to maintain a record of board member compliance with the policy.

The topics contained in the bill include fiduciary responsibilities, ethics, pension fund investments and investment program management, actuarial matters, pension funding, benefits administration, disability evaluation, fair hearings, pension fund governance and new board member orientation. Some other topics that could be included in the policy are conflicts of interest, disclosure requirements, and Brown Act compliance.

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<sup>1</sup> Memorandum dated June 22, 2012 prepared by Paul Angelo, The Segal Company for the Administrators of the 1937 CERL systems responding to and disputing claims in the article dated June 16, 2012 by Contra Costa Times columnist Daniel Borenstein about the actuarial assumptions used to determine benefit amounts under optional form of payment.

The policy and an annual report on Board member compliance with the policy must be placed on the agency's website.

### **Retirement Legislation:**

AB 1736 (Smyth) is a Brown Act bill that expands the closed session exceptions to include meetings with the Governor and his/her staff, the Secretary of California Emergency Management, Adjutant General of the National Guard, or the chief of staff or Joint Operations Director, Commissioner of the CHP, State Public Health Officer and any designees from those agencies to discuss matters posing a security threat.

According to the legislative analysis, "the impetus for this bill arises out of a controversial September 26, 2011 closed session meeting between the Governor and the Los Angeles County Board of Supervisors." The meeting was related to the impact of AB 109 (Committee on Budget), which was chaptered as urgency legislation in 2011. The LA District Attorney's office took issue with the closed session because the impact of AB 109, which dealt with the realignment of the criminal sentencing and corrections system in California, was largely financial, and did not constitute a threat to public access to services and facilities contemplated by the closed session exception.

While this bill does not address all of the issues raised by the District Attorney's office (namely, whether or not realignment was a topic appropriately covered by the Brown Act's public security exemption), the legislative analysis notes that "it does fix the somewhat incongruous exclusion of the Governor from the terms of the exemption."

### **Ballot Initiatives**

11-0066 (Elimination of Benefits for Part-Time Local Officials) (Proponent Peter Foy, Thomas Hiltachk) – Failed to Qualify 6/08/12

This initiative seeks to amend the California Constitution by adding an article prohibiting a part-time local official from earning any other benefit, including lifetime health insurance, a pension, car allowance, home office allowance and professional dues reimbursement, for their service except for monetary compensation. It also requires the compensation to be posted on the state Controller's website as well as the agency's website. Part-time is defined as less than five days and forty hours per week, excluding holidays.

12-0008 (Government Employee Pension Reform Act) (Proponent Thomas Hiltachk) – Circulation Deadline: 10/04/12 - Signatures Required: 807,615:

This ballot initiative contains the Governor's Pension Reform Plan in its entirety.

### **Process:**

For ballot initiatives, once approved for signature gathering, the proponents need to gather 807,615 signatures if amending the California Constitution, and 504,760 if proposing a statutory change, to qualify for the ballot. The next possible ballot is the November 2012 election. The Secretary of State imposes deadlines by which all signatures must be gathered. Those deadlines fluctuate, as set forth above.

Attachments



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Senior Vice President & Actuary  
pangelo@segalco.com

## MEMORANDUM

To: Administrators, 1937 CERL Systems  
From: Paul Angelo   
Date: June 22, 2012  
Re: Daniel Borenstein's Contra Costa Times Article

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In an article dated June 16, 2012, Contra Costa Times columnist Daniel Borenstein reports on a discussion held on June 13 by the Contra Costa County Employees' Retirement Association (CCCERA) regarding the actuarial assumptions used to determine benefit amounts under optional forms of payment. We believe that article misrepresents both the substance of that discussion and the range of conclusions that could be reasonably drawn from that discussion. In particular, the article claims that because of "improper" calculations, CCCERA has been overpaying certain of its pensioners. This claim is completely untrue – CCCERA's calculations of the optional form of payment amounts are:

- Consistent with long-established practice utilized by Segal, by predecessor actuarial firms serving CCCERA and by actuaries serving other similar retirement systems, and
- In accordance with the requirements of the statutes governing these systems.

### Background

CCCERA is a retirement system operating under the County Employees Retirement Law of 1937 (CERL). When a participant retires from CCCERA (or any CERL system), his or her benefit is calculated in accordance with a formula based on the participant's years of service and final average pay. Absent an election to the contrary, the retiree will receive an "unmodified allowance" of this amount, payable for the retiree's lifetime. If the retiree is married (or has a domestic partner), then 60% of this unmodified amount is continued to the surviving spouse upon the retiree's death. At CCCERA (as well as for most CERL system benefit tiers), after retirement the retiree's benefit (and the surviving spouse's) increases annually with a Cost of Living Adjustment (COLA) based on actual price inflation, subject to a maximum percentage.

The retiree may elect one of four “optional settlement allowances” which provide for survivor benefits of varying amounts, payable to a spouse or one or more non-spouse beneficiaries. If the retiree elects one of these optional forms of payment, the monthly benefit amount is reduced to an amount that is the “actuarial equivalent” of the unmodified amount (excluding the automatic 60% continuance to a spouse). Generally, two streams of benefit payments are actuarially equivalent when they have the same present value based on a set of actuarial assumptions. Here the reduction is to recognize that the optional payment form may be paid for a period longer than the retiree’s lifetime.

The issue at hand is what actuarial assumptions to include when determining the actuarially equivalent optional payment form amounts. Consistent with the explicit directive of the CERL, current practice at CCCERA and at most other CERL systems is to include assumptions only as to interest and mortality. The discussion at the recent CCCERA meeting was on whether also to include an assumption for future COLA increases.

#### Statutory Provisions Regarding Actuarial Equivalent

The term “actuarial equivalent” and its application to optional forms of payment are defined in two sections of the CERL (emphasis added):

§31456. *“Actuarial equivalent” defined*  
*“Actuarial equivalent” means a benefit of equal value when computed **upon the basis of the mortality tables adopted by the board of supervisors and regular interest thereon.***

§31760. *Election of actuarial equivalent of retirement allowance*  
*Until the first payment of any retirement allowance is made, a member or retired member, in lieu of the retirement allowance for his life alone, may elect to have the actuarial equivalent of his retirement allowance **as of the date of retirement** applied to a lesser retirement allowance payable throughout life in accordance with one of the optional settlements specified in this article.*

The current practice at CCCERA and similar CERL systems is in compliance with a plain reading of both of these sections. The definition of actuarial equivalent refers only to mortality and interest, and the application refers to “the actuarial equivalent of his retirement allowance as of the date of retirement”, i.e., before the addition of any future COLA. Segal and predecessor actuarial firms have followed the long-established practice of determining actuarial equivalence using the mortality and interest assumptions required by the CERL, and reflecting only the benefit as of the date of retirement.

#### Review of Procedures for Determining Optional Payment Form Amounts

Recently the CCCERA Board asked both Segal and outside counsel Reed Smith to prepare discussions of whether a COLA assumption should be incorporated into the determination of actuarially equivalent optional payment form amounts. Segal prepared a discussion dated

June 6. Reed Smith prepared a confidential memo dated June 5 which was released to the public at the June 13 CCCERA Board meeting. Both of those letters are attached. Note that Segal was not involved in the development of the Reed Smith opinion, and was first provided a copy on June 11.

The issue received a thorough discussion at the CCCERA board meeting on June 13, including both of the discussion letters. In that discussion, as discussed above, Segal noted that current practice is consistent with a plain reading of the relevant CERL sections. Furthermore, we noted that some of the interpretations in the Reed Smith letter are in direct conflict both with governing pension law and actuarial best practices.

For example, the Reed Smith letter concludes “that ‘actuarial equivalence’ requires that the actuary compare the present value of the two different streams of payments being examined using the same actuarial assumptions and methodologies for both streams of payments as are used in the actuary’s regular valuation of system liabilities” (emphasis in the original). This is simply not true. Specific to the optional form conversions, the actuarial valuation uses different mortality assumptions for male and female members. As this would be illegal, sex-based discrimination if used to determine the optional payment form amounts, those calculations use a unisex mortality assumption. For another example, when pricing actuarially equivalent additional service purchases, some systems use a retirement age assumption different from the valuation assumption, to reflect the different retirement patterns observed among members who purchase additional service.

We would also note that, to our knowledge, this requirement linking actuarial equivalence assumptions and valuation assumptions is not found in the CERL.

In the June 13 discussion, we also emphasized that the question of whether two payment streams are actuarially equivalent is not as clear-cut as the Reed Smith letter would indicate. Two payment streams can be more or less actuarially equivalent depending on the assumptions used. That is why both our June 6 letter and our June 13 discussion sought to inform the CCCERA board that (1) while the current practice for determining actuarial equivalence is consistent both with the statutory definition and with many decades of established practice, it can produce increases in liability (that are reflected in the next actuarial valuation) when retirees elect optional forms of payment, and (2) adding a COLA assumption to the actuarial equivalence calculation would reduce but not eliminate such increases in liability. The question we believe needed to be addressed by counsel was whether including a COLA assumption was legally permissible, given that the relevant language of the CERL would seem to indicate otherwise.

Finally we acknowledge that the above discussion may appear to contradict our customary statement (as found in our June 6 letter) that “As in all matters pertaining to the interpretation and application of the law, Plan or individual Optional Settlement calculation provisions, you should be guided by the advice of the Plan’s Legal Counsel.” We believe that the system actuary has specific and distinctive professional competence to understand and evaluate all the

considerations relevant to actuarial concepts such as “actuarial equivalence.” For that reason we believe that, when obtaining legal opinions on actuarial matters, it is essential that retirement systems have their legal counsel and their actuary work together in the development of counsel’s legal opinion. We regret that in this case that opportunity was not available. We would hope that Reed Smith would reconsider its views, taking into account a more complete analysis of both the governing law and actuarial best practices. Failing that, CERL systems (including CCCERA) should consider seeking an alternative legal opinion that would address the matter in full.

### Conclusion

In summary, we believe that the prevalent current practice of calculating actuarial equivalent optional payment form amounts based only on mortality and interest assumptions is an acceptable definition of actuarial equivalence and is consistent with the plain text of the County Employees Retirement Law of 1937. We note that our documentation of the basis for these calculations has consistently stated that actuarial equivalence was based on mortality and interest only and did not include an assumption related to COLAs. We also believe that if a CERL system retirement board wishes to avoid the actuarial losses that can result from the prevalent current practice, then an appropriate action might be to incorporate a COLA assumption in the actuarial equivalent calculations. We defer to system counsel as to whether such use of a COLA assumption is legally permissible under the CERL, or whether a change in the law would be required.

PPA/jc

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
MEETING OF THE BOARD OF RETIREMENT AND JOINT MEETING  
WITH THE BOARD OF SUPERVISORS MINUTES  
◆DECEMBER 12, 2011 AT 1:00 P.M.◆

1) CALL TO ORDER

Bob Mirata, Board Chair, called the meeting to order at 1:00 P.M.

Roll call was conducted with the following members present: Shari Schapmire, Randy Goodman, Kendall Smith, Craig Walker, Tim Knudsen, Bob Mirata and Richard Shoemaker. Also present: Jim Andersen, Retirement Administrator, Jeff Berk, Legal Counsel and Judy Zeller, Clerk to the Board. Members absent: Dr. Don Coursey and Ted Stephens.

2) PUBLIC COMMENT: None

3) DISCUSSION AND POSSIBLE ACTION REGARDING THE CORRECTED CONTRIBUTION RATES PREPARED BY THE SEGAL COMPANY

**Presenter/s:** Jim Andersen referenced written reports previously distributed to the Board.

**Board Action:** Motion was made by Board member Walker to adopt the "After Correction" Basic Rates for the employer contained on page 3 of the Segal report, and the General Probation and Safety member Basic Rates contained in tables 10 through 12 of the Segal Report. Cost of Living (COL) rates are unchanged. And, Present the corrected rates to the Board of Supervisors at their December 13, 2011 meeting for adoption. Board member Goodman seconded the motion and it was approved unanimously.

**BREAK**

**RECONVENE FOR JOINT MEETING WITH THE BOARD OF SUPERVISORS (1:30 P.M.)**

Roll call was conducted with the following Retirement Board members present: Shari Schapmire, Randy Goodman, Supervisor Kendall Smith, Ted Stephens, Craig Walker, Tim Knudsen, Bob Mirata and Richard Shoemaker. Members absent: Dr. Don Coursey.

Supervisors present: Dan Hamburg, John Pinches, John McCowen, and Carre Brown.

Also present: Jim Andersen, Retirement Administrator, Jeff Berk, Retirement Legal Counsel, Judy Zeller, Clerk to the Board of Retirement, Carmel Angelo, Chief Executive Officer, Jeanine Nadel, County Counsel, Kristine Lawler, Deputy Clerk to the Board, Tim Mitchell, Deputy Clerk to the Board.

◆UKIAH VALLEY CONFERENCE CENTER: 200 SOUTH SCHOOL STREET, UKIAH, CA 95482◆

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
◆PHONE 707-463-4328◆FAX 707-467-472◆WWW.CO.MENDOCINO.CA.US/RETIREMENT◆

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
MEETING OF THE BOARD OF RETIREMENT AND JOINT MEETING  
WITH THE BOARD OF SUPERVISORS MINUTES  
◆ DECEMBER 12, 2011 AT 1:00 P.M. ◆

**PUBLIC COMMENT:** Tony Shaw, Employer's Counsel, and John Dickerson addressed both Boards.

**4) PRESENTATION AND DISCUSSION OF RETIREMENT TOPICS WITH THE BOARD OF SUPERVISORS (JOINT MEETING)**

**Presenter/s:** Jim Andersen referenced a power point presentation. Carmel Angelo, referenced documents regarding the Governor's 12 Point Pension Reform Plan. Jeanine Nadel, referenced documents regarding adopted 1937 Act Government Code Sections.

**Board Direction:** Both Boards requested that County Counsel modify the report on the 1937 Act Government Code Sections to include whether each code section is a vested right or a meet and confer item.

**Board Action:** None Taken.

**PUBLIC COMMENT:** John Dickerson and Tom Liberatore, Association of Mendocino County Retired Employees (AMCRE) President, addressed both Boards.

**ADJORNMENT**

There being no further business Kendall Smith, Board of Supervisors Chair, adjourned the meeting at 4:36 P.M.

◆ UKIAH VALLEY CONFERENCE CENTER: 200 SOUTH SCHOOL STREET, UKIAH, CA 95482 ◆

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**RETIREMENT CODE SECTIONS ADOPTED BY RESOLUTION**

**CODE SECTION      BOARD OF SUPERVISORS      BOARD OF RETIREMENT**

|  |   |  |
|--|---|--|
| <p><b>Section 31462.1</b><br/>Allows for one year final compensation for computation of Retirement allowance</p>   | <p>Adopted 1971</p>                       | <p>N/A</p>   |
| <p><b>Sections 31691, 31452.5, 53205.2</b><br/>Allows for Retired Members health insurance benefits</p>  | <p>Adopted 1974</p>                       | <p>Amendment to Section XIII of Association By-laws 1974</p> |
| <p><b>Section 31672</b><br/>Allows for Board to reduce age of retirement from 55 to 50</p>   | <p>Adopted 1982</p>                       | <p>N/A</p>   |
| <p><b>Section 31592.4</b><br/>Use of Excess Earnings for Retiree Health Insurance excluding employees hired after 1998</p>   | <p>Adopted 1998</p>                       | <p>Adopted 1998</p>  |
| <p><b>Section 31680.2</b><br/>Allows for retired employee to be employed in a position requiring special skills or knowledge, not to exceed 120 days or 960 hours whichever is greater in any one fiscal year.</p> | <p>Adopted 2001</p>                       | <p>N/A</p>   |
| <p><b>Section 31581.2 and 31664.2</b><br/>Allows for County to pay portion of employee contributions. Not a vested right. (Management Safety Members); 3% at 55</p>  | <p>Adopted 2002<br/><br/>Adopted 2002</p> | <p>N/A<br/><br/>N/A</p>                                      |

## **MENDOCINO COUNTY CODE PROVISIONS**

### **Sec. 3.08.010 - State Retirement Act Adopted by Reference.**

The Board of Supervisors of the County of Mendocino, State of California, does hereby accept the provisions of an Act of the Legislature of the State of California, entitled, "An Act to provide for the creation, establishment, and adjustment with other systems, of a retirement system for employees of the several counties and districts as defined herein, and attachees of municipal courts, consisting of retirement compensation and death benefits," approved June 30th, 1937, being Chapter 677 of the Statutes of 1937; and said Board of Supervisors does hereby by reference adopt and incorporate all and every one of the provisions of said Act of the Legislature as a part of and applicable to, and make all and every one of said provisions a part of and applicable to, the system and schedules of compensation of all officers, and other persons employed by said County whose compensation is fixed by the Board of Supervisors of said County and whose compensation is paid by said County, and all employees and officers of the County of Mendocino now or hereafter established by ordinance article of the Board of Supervisors who are or may hereafter be eligible to the benefits of any retirement system under the provisions of said Act, said Act to become operative January 1st, 1948.

(Ord. No. 310, Sec. 1, adopted 1947.)

### **Sec. 3.08.020 - Increase In Benefits Payable to the Retired Members of the Mendocino County Retirement Association.**

Every retirement allowance, optional death allowance, or annual death allowance, (including an allowance payable to a survivor of a member), payable to or on account of any member of the Mendocino Retirement Association or to a superseded system who has been or was retired for service or disability is hereby increased as follows:

| Period during which retirement became effective. | Percentage of increase in monthly retirement allowance. |
|--|---|
| On or prior to June 30, 1962                     | 10%   |
| 12 months ended June 30, 1963                    | 8%  |
| 12 months ended June 30, 1964                    | 6%  |
| 12 months ended June 30, 1965                    | 4%  |
| 12 months ended June 30, 1966                    | 2%  |

(Ord. No. 540, Sec. 1, adopted 1968.)

**Sec. 3.08.030 - Cost of Living Adjustment.**

Pursuant to Section 31874 of the Government Code, the Board of Supervisors of the County of Mendocino does hereby adopt, incorporate by reference, and make applicable in Mendocino County Article 16.5 of the County Employees Retirement Law of 1937, including Section 31870.1 of the Government Code, which authorizes a maximum annual increase or decrease of cost of living allowance of 3 per cent.

(Ord. No. 747A, adopted 1971.)

**Sec. 3.08.034 - Ordinance Maintaining Cost of Living Base for Retired Members.**

Pursuant to the authority granted by Article 16.6 of Chapter 3 of Part 3 of Division 4 of Title 3 of the Government Code (commencing with Section 31875), the annual cost of living for retired members is hereby adjusted on a one time basis to provide a cost of living increase which will be equal to the additional percent the retired members would have received had they been receiving five percent (5%) annual cost of living adjustments under Mendocino County Code Section 3.08.030 from April 1, 1975 until March 31, 1981, instead of three percent (3%). The purpose of this ordinance is to provide retired members with a cost of living base for future retirement allowances that will be equal to that which they would have had, had they been receiving five percent (5%) annual cost of living adjustment instead of a three percent (3%) annual cost of living adjustment under Mendocino County Code Section 3.08.030 from April 1, 1975 until March 31, 1981.

(Ord. No. 3308, adopted 1980.)

**Sec. 3.08.040 - Reassignment of Disabled Member to Another Position.**

The Board of Supervisors of the County of Mendocino does hereby adopt, incorporate by reference, and make applicable in Mendocino County Section 31725.5 of the County Employers Retirement Law of 1937, which authorizes reassignment of a disabled member to another position.

(Ord. No. 806, adopted 1971.)

**Sec. 3.08.050 - Maximum Permissible Increase.**

In no event shall any allowance be increased by an amount greater than Fifty Dollars (\$50.00) a month or less than Ten Dollars (\$10.00) a month.

(Ord. No. 540, Sec. 2, adopted 1968.)

**Sec. 3.08.060 - Taxation of Retirement Contributions.**

**(A) Purpose of Section.** The purpose of this Section is to implement the provisions contained in Section 414(h)(2) of the Internal Revenue Code concerning the tax treatment of employee contributions paid by the County on behalf of affected employees. Pursuant to Section 414(h)(2), contributions to a pension plan, although designated under the plan as employee contributions, when paid by the employer in lieu of contributions by the employee, under circumstances in which the employee does not have the option of choosing to receive the contributed amounts directly instead of having them paid by the employer, may be excluded from the gross income of the employee until these amounts are distributed or made available to the employee.

Implementation of Section 414(h)(2) is accomplished through a reduction in wages pursuant to the provisions of this Section.

**(B) Definitions.** Unless the context otherwise requires, the definitions in this Section govern the construction of this Section.

(1) "Affected employees" means those employees of the County of Mendocino who make employee contributions to the retirement system.

(2) "Employee contributions" means those contributions to the retirement system which are deducted from the salary of employees and credited to individual employees' accounts, or required as a condition of obtaining benefits under the retirement system, including retirement service credit for public service and prior service.

(3) "Employer" means the County of Mendocino.

(4) "Gross income" means the total compensation paid to affected employees by the County as defined in the Internal Revenue Code and rules and regulations established by the Internal Revenue Service.

(5) "Retirement system" means that retirement system as made applicable in Mendocino County under the provisions of the County Employees' Retirement Law of 1937 as amended, and Ordinance No. 310, Sec. 1, passed and adopted in 1947; effective January 1, 1948.

(6) "Wages" means the compensation prescribed in Chapter 3.04 of this Code.

**(C) Pickup of Employee Contributions.**

(1) Pursuant to the provisions of Subsection (D) of this Section, the employer shall make employee contributions on behalf of affected employees, and such contributions shall be treated as employer contributions in determining tax treatment under the Internal Revenue Code of the United States. Such contributions are being made by the employer in lieu of employee contributions.

(2) Employee contributions made under Paragraph (C)(1) of this Section shall be paid from the same source of funds as used in paying the wages to affected employees.

(3) Employee contributions made by the employer under Paragraph (C)(1) of this Section shall be treated for all purposes other than taxation in the same manner and to the same extent as employee contributions made prior to the effective date of the ordinance codified in this Section.

(4) No provision in this Section shall be construed so as to permit or extend an option to affected employees to directly receive the contributions made by the employer pursuant to Paragraph (C)(1) of this Section instead of having them paid to the retirement system.

**(D) Wage Adjustment.** Notwithstanding the provisions of Chapter 3.04 of this Code, the wages of affected employees shall be reduced by the amount of employee contribution made by the employer pursuant to the provisions of this Chapter.

**(E) Limitations to Operability.** This Section shall be operative only as long as the County pickup of employee contributions continues to be excludable from gross income of the employee under provisions of the Internal Revenue Code.

(Ord. No. 3633, Sec. 1, adopted 1986.)

**Sec. 3.08.070 - Sick Leave Credit at Retirement.**

**(A) County Employees.** Any County employee who has accrued sick leave at the time of application for retirement is entitled to have credited one hundred percent (100%) of unused sick leave toward the employee's total County service for the purpose of calculating the retirement benefit. The amount of sick leave accrued as of the day of retirement shall in no case be used in calculating the minimum County service required to be eligible for County retirement.

**(B) Elected Officials.** Elected officials who accrued sick leave during County service, as employees, immediately prior to taking office are entitled to have credited one hundred percent (100%) of unused sick leave toward their retirement benefit. The amount of sick leave accrued as of the day of retirement shall in no case be used in calculating the minimum County service required to be eligible for County retirement.

(C) This Section shall be effective December 31, 1986.

(Ord. No. 3637, Sec. 2, adopted 1987.)

**Sec. 3.08.080 - Applicability of State Law.**

The provisions of Section 31641.04 of the Government Code relating to additional retirement service credit for certain members of the County of Mendocino Employees Retirement Association shall be applicable to such members in accordance with any resolution of the Board of Supervisors adopted pursuant to Government Code Section 31641.04.

(Ord. No. 3810, adopted 1992.)

**Sec. 3.08.085 - Applicability of State Law.**

The provisions of section 31641.05 of the Government Code relating to granting up to four (4) years of additional retirement service credit for certain members of the County of Mendocino Employees Retirement Association who already have ten (10) or more years of service shall be applicable to such members in accordance with any resolution of the Board of Supervisors adopted pursuant to Government Code Section 31641.05.

(Ord. No. 4022, Sec. 1, adopted 1998.)

## 1937 Act Key Events

- Pension Law G.C. 51000
- 1933: Social Security
- 1933 CalPERS: Generally G.C. 21000
- 1935: Local Agencies added to CalPERS
- 1937 Act: Generally G.C. 31000
- 1969: Meyers Milius Brown Act
- First benefit break-through
  - 1968: "CHP" 2% at 50
  - 1990: 2% at 55 Local Miscellaneous
- Industrial Disability Visibility
- 1981: Removal of Constitutional Investment Limitations
- 1992: Prop 162
- 1996: Ventura Decision
- 2000: AB 1937 (Correa): 3% 50 and 55 Local Option
- 2000: AB 448 (Floyd): 2% 55 Local Option
- 2001: AB 616 (Calderon): 3% at 60 and 2.7% at 55 Local Option
- 2003: AB 1587 (Committee): Eliminate option to exclude portions of workforce and require second tier to result from collective bargaining
- 2004: Defined Contribution Constitutional Proposition
- 2004: CAOAC/CSAC Pension Reform Principles
- 2009: SB 752 (Second Tier Orange County Hybrid DC/DB)
- 2010: Retirement Reform Initiatives

## 1937 Act County Retirement Systems

- Alameda
- Contra Costa
- Fresno
- Imperial
- Kern
- Los Angeles
- Marin
- Mendocino
- Merced
- Orange
- Sacramento
- San Bernardino
- San Diego
- San Joaquin
- San Mateo
- Santa Barbara
- Sonoma
- Stanislaus
- Tulare
- Ventura

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

Date: July 18, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Communications to the Board of Retirement

Recommended Action: Informational Item Only

Discussion: Included in this item for the Board of Retirement are articles and items of interest which relate to public pension funds and are presented to the Board as informational items.

1. The Benefits of Pensions. (2012, May). The Public Retirement Journal, p. 7.
2. Bradford, Hazel. (2012, June 25). GASB approves new public pension accounting rules. Pensions & Investments.

# The Benefits of Pensions

With all of the obsession around public pensions these days, and the undeniable need to reform our way to prosperity, we have been a little preoccupied with reading studies – national studies – on the declining availability of retirement security, especially for those in the private sector. The most recent study was the UC Berkeley's Center for Labor Research and Education on Meeting California's Retirement Security Challenges. The **Journal** dissected that study in its December edition which basically concluded that our declining pension systems will have a dramatic impact on our local, state and federal economy when our aging workforce retires – less than 40 percent of Californians aged 18 to 64 have any type of pension benefit, let alone a defined contribution plan. To review, dust off your December 2011 Journal or email us for an e-copy.

Now, the National Institute on Retirement Security (NIRS) has come up with a new study called, "Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures." Since we have all drawn the conclusion through the UC Berkeley study and others we have read over the years that DB plans are a more secure benefit for retirees, how draining are they on our economy?

By way of background, NIRS is a non-profit outfit based in Washington DC. They have a very respectable reputation when it comes to their research reports. NIRS is guided by the vision that every American should have access to retirement security and seeks to encourage the development of public policies that enhance retirement nationwide.<sup>1</sup> In other words, a lot of really smart people like economists and actuaries conduct original research and analyses regarding retirement issues throughout the U.S. In fact, a representative from NIRS was at the State Capitol recently discussing

the pros and cons of a hybrid plan before the Legislative Conference Committee. (Hint: make the bulk of your retirement come from a DB plan.)

Now onto NIRS' study; it was focused on determining how DB pensions affect the U.S. economy. Let's start with the base – which has been declining since the first DB was offered in the late 1800's in the private sector – only 33 percent of today's private sector employers offer a DB pension plan nationwide. That's a dramatic decrease from around the time of the Great Depression, when DB plans were starting to mushroom up all over the place, particularly in state and local governments, as a way to secure workers' future, and subsequent financial collapse. Um, hello, 2008.

In fact, that well oiled machine we call Social Security (pardon the dripping sarcasm), was established in 1935 as a result of the effects of the Great Depression. Fast forward to 2012 and we are not pointing to the collapse of the market, but our own DB pension greed as the reason for the Great Recession. Someone please explain the logic – it just doesn't make sense.

Back to the report: In 2009, state and local pension plans in the U.S. totaled about \$2.5 trillion in assets.<sup>2</sup> Those assets provided benefits for about 14.8 million active employees, 4.6 million inactive members and about 8 million retirees. Total annuities for that same year were about \$187 billion, for an average of \$1,950 payment per month. Arguably, it's difficult to determine if this figure factors in a public sector retiree who has worked solely under the DB plan(s) as opposed to someone like, well, me who is vested in PERS, but hasn't worked for a public sector employer for several years. Does my \$400 per month in annuity (when I retire) factor into the average amount a retiree receives? The only argument here is that it's assumed that on av-

erage, people must live on a fixed income of \$1,950 per month and that's not altogether true. I will certainly take that \$400 per month when I am retired at 60, but I will also be relying on my volatile and unpredictable 401(k) and social security to take me into my sunset years. Knock on wood.

As a side, the NIRS report specifies that the average private sector pension benefit comes to a total of \$1,691 per month. Again, this figure doesn't specify whether or not the pensioner is receiving some other form of annuity.

The report makes the case for DB plans over DC plans by stating the obvious, but it bears repeating. "Pre-funded retirement systems have the advantage that investment earnings can do much of the work of paying for benefits. In such a system, the contributions made on behalf of current employees are invested, and these investment earnings compound over time. Over a span of decades, accumulation of investment earnings can be substantial, and in many cases pay the majority of the pension benefits."

One could make the case (which we certainly will here) that DB plans are more efficient than DC plans – pensions can deliver the same level of retirement benefits at nearly half the cost of a DC plan. Now, we clearly understand that you must compare apples to apples: contrasting a 2.7 percent at 55 benefit formula with a similar 401(k) that is going to likely produce the same returns. That's nearly impossible to do since we don't know of any 401(k) programs out there that are going to produce that kind of return unless you are a very high wage earner. Nevertheless, if you simply look at aggregate state and local pension contributions, you will see that the fund receipts between 1993 and 2009

*Continued page 8*

## BENEFITS OF PENSIONS

Continued from page 7

come from three sources - 27 percent came from employer contributions, 14 percent came from employee contributions and 59 percent came from investment earnings. In other terms, taxpayers paid 27 percent of the total pension funds. Now, it should be noted that this timeframe included two very large market downturns within a single decade. Why is this little nugget of information not on the front page of the LA Times?

DCs on the other hand are volatile and ebb and flow at the whim of the market. If a worker planned to retire at the age of 65 in 2008, they likely either had to continue working, or relied on far less income in their golden years, which might have required them to tap into public assistance programs. Talk about sticking it to the taxpayers.

But the NIRS report takes this concept one step further. It shows what recipients of DB plans do with their income to stimulate the economy. Again, this may sound like basic, common sense stuff, but it shows how the indirect effects of a DB plan keep our financial market in check.

The analysis finds that the \$426.2 billion in gross public and private pension benefits paid out in 2009 supported 6.5 million American jobs. Of those jobs, 2.9 million were supported by state and local pension benefits, 1 million by Federal pensions, and 2.6 million by private pension expenditures - all DB plans.<sup>3</sup>

The report puts these figures into perspective - the 6.5 million jobs supported by DB income is more than the number of Americans that were employed in the entire construction industry in 2009.<sup>4</sup>

So, now that we have stated the obvious - that adequate pensions keep our economy going - we are going to draw some of our own conclusions on DBs vs. DCs in this regard. When the

stock market crashed in 2007, retirees who relied primarily on their 401(k)s didn't spend nearly as much as their DB counterparts. Their annuities were guaranteed payments. There was no guessing that going out to dinner or taking the dog to the groomer may be bad financial choices in a few months when the market does a half nelson on their capricious DC plan.

DBers are steady contributors to the economy, DCers are not.

And last point on this issue - all we here are how DBs are burdening taxpayers. "It's a drain on taxpayer money," "taxpayers are footing the bill for these exorbitant benefits," "taxpayers are up in arms." Well how about this fun little fact? DB recipients give that money right back to local state and Federal coffers. Yep, right back to the taxpayers. See the charts below.

Makes perfect sense, right? The report goes on to point out that the pension expenditure multiplier for 2009 was 2.37.. in other words, for every dollar paid out in a DB plan, the economy gets \$2.37.<sup>5</sup> The investments we make in DB plans are better for our economy than investing in Wall Street. Okay, that may be pushing the envelope, but if we strive for a sustainable economy, a reduced unemployment rate, a revitalized workforce, go for the DB plan.

The report broke down these economic benefits by state. And not surprisingly, California showed the largest employment, output and value added impacts with a total of \$52.5 billion in redirected funds to the state's economy.<sup>6</sup>

There you have it. You want our economy back on track? Look to the stability of a DB plan. Of course, it's not that simple, but we can pretend for just one day that it is. ■

### DB Pensions Support \$74.3 Billion Federal Tax Revenue

|   | From State and Local Pensions | From Federal Pensions | From Private Pensions | Total Federal Tax Revenue* |
|---|-------------------------------|-----------------------|-----------------------|----------------------------|
| Taxes Paid By Beneficiaries on Benefits         | \$3.2 billion                 | \$1.1 billion         | \$2.9 billion         | \$7.2 billion              |
| Tax Revenue Resulting from Retiree Expenditures | 29.4 billion                  | 10.6 billion          | 27.0 billion          | 67.0 billion               |
| <b>Total Federal Tax Revenue Impact</b>         | <b>\$32.6 billion</b>         | <b>\$11.8 billion</b> | <b>\$29.9 billion</b> | <b>\$74.3 billion</b>      |

\* Totals may not add up exactly due to rounding

### DB Pensions Support \$59.7 Billion in State and Local Tax Revenue

|   | From State and Local Pensions | From Federal Pensions | From Private Pensions | Total Federal Tax Revenue* |
|---|-------------------------------|-----------------------|-----------------------|----------------------------|
| Taxes Paid By Beneficiaries on Benefits         | \$2.4 billion                 | \$858.9 million       | \$2.2 billion         | \$5.5 billion              |
| Tax Revenue Resulting from Retiree Expenditures | 23.8 billion                  | 8.6 billion           | 21.8 billion          | 54.2 billion               |
| <b>Total Federal Tax Revenue Impact</b>         | <b>\$26.2 billion</b>         | <b>\$9.4 billion</b>  | <b>\$24 billion</b>   | <b>\$59.7 billion</b>      |

\* Totals may not add up exactly due to rounding

1 [1] NIRSONline.org, About.

2 [2] NIRS: Pensionomics 2012, Introduction: Defined Benefit Pension Plans in the United States, page 2

3 Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures, page 7

4 Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures, page 7

5 National Institute on Retirement Security, Pensionomics, Figure 3: Economy Multipliers, Page 10

6 National Institute on Retirement Security, Pensionomics, Figure 3: Economy Multipliers, Page 22

## Pensions&Investments

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# GASB approves new public pension accounting rules

By: [Hazel Bradford](#)

Published: June 25, 2012

Public pension accounting and reporting standards that place more emphasis on liabilities were approved Monday by the Governmental Accounting Standards Board.

The two sets of rules, for government employers and for public pension plan administrators, were developed after years of deliberation and field testing, to increase transparency about plan liabilities.

“This will present a clearer picture of plans' financial reality,” said GASB Chairman Robert H. Attmore. “By providing more information, people will be able to make informed judgments.”

Under existing standards, public pension plans have concentrated on the annual required contribution amount to keep the focus on funding targets. The new standards call for having a new “net pension liability” figure directly on balance sheets, along with those funding projections.

Public pension plan executives worry that shifting the focus to liabilities will exacerbate fears about a plan's financial conditions and lead to short-sighted funding changes.

“We have a lot of educating to do” to avoid that, said Elizabeth Kellar, president and CEO of the Center for State and Local Government Excellence, Washington. “We have to have some sense of how we're doing on funding.”

Until now, pension plans have focused on the annual required contribution, which highlights their funding targets, while keeping liabilities in the footnotes. Now, the GASB will require plans to put a new “net pension liability” figure directly on the balance sheets, in addition to the funding projections.

In accounting terms, the change means that the unfunded actuarial accrued liability will use traditional entry-age projections offset by the fair value of plan assets. Currently, pension plans vary in which ages they use in their projections.

The standards for public plans' financial statements go into effect for periods beginning after June 15, 2013. The standards for employers are effective for fiscal years beginning after June 15, 2014. GASB plans to issue an implementation guide for both sets later this year.

**Original Story Link:** <http://www.pionline.com/article/20120625/dailyreg/120629944>

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