

**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 SPECIAL MEETING AGENDA DECEMBER 3, 2012 – 9:00 A.M.**

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## **ROLL CALL (9:00 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) APPROVAL OF THE MINUTES OF THE BOARD MEETING HELD NOVEMBER 7, 2012 (Estimated Time 5 min.)**

## **2) CLOSED SESSION (Approximately 9:10 A.M.) (Estimated Time 1 hour 30 min.)**

- **Potential litigation pursuant to Government Code Section 54956.9(b)(3)(A) – 1 case**

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

## **3) DISCUSSION AND POSSIBLE ACTION REGARDING PEPRA (Estimated Time 15 min.)**

**◆RETIREMENT BOARD SPECIAL MEETING AGENDA◆**

**◆DECEMBER 3, 2012 - 9:00 A.M.◆**

**4) DISCUSSION AND POSSIBLE ACTION REGARDING ACTUARIAL ASSUMPTION FOR SICK LEAVE CONVERSION AND VACATION CASH OUTS (Estimated Time 30 min.)**

**5) GENERAL BOARD MEMBER DISCUSSION (Estimated Time 5 min.)**

**ADJOURNMENT (Approximate Time 11:35 A.M.)**

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

**◆RETIREMENT ASSOCIATION CONFERENCE ROOM: 625-B KINGS COURT, UKIAH, CA 95482◆**

**◆PHONE 707-463-4328 FAX 707-467-6472◆ WWW.CO.MENDOCINO.CA.US/RETIREMENT◆**

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆NOVEMBER 7, 2012 AT 8:30 A.M.◆

**CALL TO ORDER**

Bob Mirata, Board Chair, called the meeting to order at 8:31 A.M.

**ROLL CALL**

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

**PUBLIC COMMENT:** None

**1) APPROVAL OF THE MINUTES OF BOARD MEETING HELD OCTOBER 17, 2012 AND THE BOARD STRATEGIC WORKSHOP HELD OCTOBER 17 AND OCTOBER 18, 2012**

Upon motion by Board member Goodman, seconded by Board member Knudsen; IT IS ORDERED that the minutes of the October 17, 2012 Board meeting and the Board Strategic Workshop held October 17 and October 18, 2012 are approved by the following vote: Ayes 7 Noes 0 Abstain 0 Absent 2.

John Sakowicz entered the meeting at 8:47 A.M. Mr. Sakowicz explained that he must attend a Grand Jury testimony and left the meeting at 9:16 A.M.

**2) MONTHLY INVESTMENT REPORT**

- Quarterly Investment Report, Callan Associates
- Review of Equity Structure of Investments including review and recommendation on active vs. passive allocation, Callan Associates
- Pimco Portfolio Review and Discussion on Derivatives, Matt Clark of Pimco

**Presenter/s:** Greg DeForrest and Jim Van Heuit of Callan Associates referenced information previously distributed to the Board. Matt Clark of Pimco referenced information distributed at the meeting.

**Board Action:** Motion was made by board member Stephens to adopt the Domestic Equity Asset Allocation Alternate B, 13% passive. Board member Knudsen seconded the motion and was approved by the following vote: Ayes 7 Noes 0 Abstain 0 Absent 2.

**Board Direction:** Callan Associates will return in December to present potential passive investment managers to the Board.

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆NOVEMBER 7, 2012 AT 8:30 A.M.◆

Mr. Sakowicz reentered the meeting at 10:17 A.M.

**BREAK**

**3) CLOSED SESSION (10:40 A.M.)**

- Potential litigation pursuant to Government Code Section 54956.9(b)(3)(A) - 1 case

**REPORT OUT FROM CLOSED SESSION (12:20 P.M.)**

**Board Direction:** Direction was provided to staff and counsel.

**LUNCH RECESS**

**RECONVENE (1:22 P.M.)**

**4) MONTHLY FINANCIAL REPORTS**

- September Financial Statements

**5) DISCUSSION AND POSSIBLE ACTION REGARDING 2013 BOARD MEETING CALENDAR**

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

**Board Action:** Motion was made by Board member Supervisor Smith to approve the 2013 Board meeting calendar. Board member Sakowicz seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. (Motion approved)

**6) DISCUSSION AND POSSIBLE ACTION REGARDING SIGNATURE AUTHORITY RESOLUTION 2012-05**

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

**Board Action:** Motion was made by Board member Supervisor Smith to approve the Signature Authority Resolution 2012-05. Board member Knudsen seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. (Motion approved)

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆ NOVEMBER 7, 2012 AT 8:30 A.M. ◆

**7) DISCUSSION AND POSSIBLE ACTION REGARDING PEPR A**

- **Resolution 2012-06 Defining Compensation Earnable Pursuant to Government Code §31461 for members who are not subject to Government Code §7522.34**
- **Resolution 2012-07 Defining Compensation Earnable Pursuant to Government Code §7522.34 for members who are not subject to Government Code §31461**
- **Segal Issues Regarding Implementation of Provisions of PEPR A**

**Board Action:** Motion was made by Board member Schapmire to adopt Resolution 2012-06 Defining Compensation Earnable pursuant to Government Code §31461 for members who are not subject to Government Code §7522.34. Board member Weer seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. (Motion approved)

**Board Action:** Motion was made by Board member Sakowicz to adopt Resolution 2012-07 Defining Pensionable Compensation pursuant to Government Code §7522.34 for members who are not subject to Government Code §31461. Board member Knudsen seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. (Motion approved)

**Board Direction:** Staff will include adoption of Resolutions 2012-06 and 2012-07 to the response to Segal's letter dated November 2, 2012. In the future staff will email additional agenda items to Board members that were not available at the time Board materials were distributed.

**Board Action:** Motion was made by Board member Sakowicz to approve MCERA's response to the letter dated November 2, 2012 from the Segal Company regarding implementation of provisions in CalPEPRA which will include adoption of Resolutions 2012-06 and 2012-07. Board member Goodman seconded the motion and it was approved unanimously. (Motion approved)

**8) DISCUSSION AND POSSIBLE ACTION REGARDING BOARD STRATEGIC PLAN**

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

**Board Action:** Motion was made by Board member Supervisor Smith to adopt the MCERA Mission Statement. Board member Goodman seconded the motion and it was approved unanimously. (Motion approved)

**Board Action:** Motion was made by Board member Knudsen to adopt the MCERA Core Values as amended. Board member Goodman seconded the motion and it was approved unanimously. (Motion approved)

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆NOVEMBER 7, 2012 AT 8:30 A.M.◆

**Board Action:** Motion was made by Board member Supervisor Smith to adopt the MCERA Goals and Objectives as amended. Board member Goodman seconded the motion and it was approved unanimously. (Motion approved)

**Board Direction:** Board members will report back to staff on prioritization of suggested Board Charters and Board Policies. Staff will bring the Strategic Plan Charter back next month with the amendments for adoption.

**9) BENEFITS AND OPERATIONS**

- Member retirements and withdrawals of contributions by inactive members

**10) RETIREMENT ADMINISTRATOR'S REPORT**

- Holiday Office Hours and Office Closure
- Public Records Act Requests
- RV Kuhn's Report

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

Public Records Requests

MCERA received a public records act request from the UNITEHERE International Union, Washington, D.C. which has been completed.

Holiday Hours

MCERA will be closed for the Veteran's Day Holiday on November 12 and closed for the Thanksgiving Holiday on November 22 and 23.

R.V. Kuhns Public Fund Universe Analysis Report

MCERA participated in the annual system comparison report for the period ended June 30, 2012 prepared by R. V. Kuhns.

**11) COMMUNICATIONS**

**12) GENERAL BOARD MEMBER DISCUSSION**

**Board Direction:** Staff will schedule a special Board meeting on Monday December 3, 2012 at 9:00 am.

**ADJOURNMENT (3:51 P.M.)**

There being no further business Bob Mirata, Chair, adjourned the meeting at 3:51 P.M.

Richard A. White, Jr.  
Retirement Administrator



Telephone: (707) 463-4328  
(707) 467-6473  
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**MENDOCINO COUNTY**  
**EMPLOYEES' RETIREMENT ASSOCIATION**  
625-B KINGS COURT  
UKIAH, CALIFORNIA 95482-5027

Date: December 3, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Public Employee Pension Reform Act (PEPRA) Update

As mentioned at your November 7, 2012 Board meeting, the implementation of the PEPRA legislation is a very fluid process and the Board was informed that the interpretations of the PEPRA legislation might change and that staff would return to the Board with additional information. Since your last Board meeting staff attended the SACRS Fall Conference and has had ongoing discussions with other 37 Act systems. The following is a summary of the significant issues. The Board can amend the Resolutions adopted November 7, 2012 if it chooses to do so.

1. **Compensation Earnable & Pensionable Compensation.** At your November 7, 2012 meeting, the Board passed two Resolutions, one for current members ("Compensation Earnable") of MCERA and one for new members ("Pensionable Compensation") hired on or after January 1, 2013, concerning pay elements that are added to base salary for the purpose of determining final compensation.
  - a. Standby pay for current employees. The Board included standby pay as a pay element for current employees in the Resolution which was consistent with past practice. The practice has been to include standby pay and doing so arguably has created an expectation that it would continue. However, PEPRA states that payments for additional services rendered outside of normal working hours shall not be included. The systems are split fairly evenly on whether or not to include this as compensation earnable.
  - b. Base pay for new employees. The Board accepted the inclusion of certain pay elements as pensionable compensation for new employees. At the SACRS conference we learned that CalPERS and a couple of 37 Act systems may interpret the language very strictly and may not provide for any pay elements to be included in pension calculations. This interpretation is based on section 7522.34(a) that refers to "base pay." However, subsection (c) of that section goes on to specifically exclude a list of several items from "Pensionable Compensation." If the real intent was to limit it to base pay there would have been no need for the legislature to include subdivision (c).

2. **Single rate.** The Board confirmed the Segal recommendation to use a single rate instead of the current practice of entry age based rate. The rationale was that Segal believes that using the same single rate methodology for both the new employees and the employer would provide more clarity as to how the Normal Cost contribution rate is shared between the two. Almost every system is going with a single rate. The concern is that PEPRA is ambiguous as to whether a single rate may be used.

A report from the SACRS Legislative Committee indicated that there is a potential for clean up legislation to confirm the use of a single rate methodology.

3. **Board of Supervisors.** The Board of Supervisors received a PEPRA presentation and an actuarial report on new pension tiers at their November 13, 2012 meeting. The presentation was an informational item which did not result in any action being taken, though it is anticipated the Board will take action at their December 11<sup>th</sup> meeting.

In preparation for the Board of Supervisor action it will be necessary to schedule a 'special meeting' of the Board of Retirement in order to take formal action on adopting the contribution rates for the new pension tier. The special meeting is necessary because it will not be possible for the actuary to produce these rates in time for your December meeting and the regularly scheduled January meeting will be later than is desired by the Board of Supervisors and County Executive Office.

4. **California Legislature and Governor Brown.** At the SACRS Conference staff learned that there are efforts currently underway to inform the Legislature of the need for certain 'clean-up' elements within the PEPRA legislation when the new session begins on December 3, 2012. There was not a clear indication given by the SACRS Legislative Committee on either the components of the legislative fixes or of the likely chance of getting it through the Legislature or the Governor's office. We will continue to monitor the situation.

Richard A. White, Jr.  
Retirement Administrator



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

Date: December 3, 2012  
To: Board of Retirement  
From: Richard White, Retirement Administrator  
Subject: Actuarial Assumption for Sick Leave Conversion and Vacation Cash Outs

**Introduction:**

The County of Mendocino provides a retirement benefit to their employees which permits an employee to convert sick leave which has not been used into an equal amount of service credit that is applied to the pension formula (Government Code Section 31641.03 which was adopted by the Board of Supervisors on 1/27/1987). There are certain rules which an employee must comply with in order to receive this benefit which was designed to encourage an employee to limit the use of sick leave. Currently, an employee can earn 120 hours of sick leave annually and can accumulate an unlimited number of hours of sick leave during the employee's career of service.

The conversion of sick leave has not been prefunded during an active employee's career but rather 'funded' at termination when an active employee retires from the County. With the recommendation of The Segal Company to prefund the benefit, there will be an increase in both the Normal Cost and the contribution rate to the Unfunded Actuarial Accrued Liability (UAAL). The funding of this benefit has been solely the employer's responsibility, in accordance with the CERL, though with the passage of the PEPR legislation the normal cost funding will be shared with the members of the system.

The information about the conversion of sick leave was not requested by our previous actuary for the historical valuations. As a part of the review of the actuarial procedure and process with MCERA in preparation for the 2012 valuation, it was identified by MCERA that such data should have been provided and used by the actuary to allow for the prefunding of the benefit.

The recommendation of Segal is to include conversion of sick leave into service credit as a part of the cost calculation and to include this as a part of the June 30, 2012 actuarial valuation.

Additionally, Segal would like to work with MCERA and gather information on the vacation cash outs taken by employees in anticipation of the next triennial study.

**Recommended action:** Approve recommendation of The Segal Company to include sick leave conversion at service retirement as new actuarial assumption and to study the patterns of vacation cash outs for the triennial experience study of June 30, 2014.



THE SEGAL COMPANY

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308

T 415.263.8200 F 415.263.8290 www.segalco.com

November 28, 2012

Mr. Richard A. White  
Retirement Administrator  
Mendocino County Employees' Retirement Association  
625-B Kings Court  
Ukiah, CA 65482-5027

**Re: Mendocino County Employees' Retirement Association  
Actuarial Assumptions for Sick Leave Conversion and Vacation Cash Outs**

Dear Rich:

In this letter, we have outlined a new actuarial assumption we intend to introduce in the June 30, 2012 valuation to anticipate conversion of unused sick leave hours by active members into service credit at retirement. We have also outlined a review that we would conduct in the next triennial experience study as of June 30, 2014 to study the pattern of vacation cash outs by active members during employment and during their final salary averaging period to determine if an assumption to anticipate additional vacation cash outs during the final salary averaging period would be warranted.

**Assumption to Anticipate Conversion of Unused Sick Leave Hours**

As we have discussed, information related to the conversion of unused sick leave hours into service credit at retirement had not been provided to the actuary prior to the June 30, 2012 valuation. As a result, prior sick leave conversions have not been prefunded during an active employee's career. In order to prefund such conversions, as part of the June 30, 2012 valuation we requested from MCERA a file indicating the number of hours of unused sick leave actually converted to service credit for all members who retired during the period July 1, 2011 - June 30, 2012.

We understand that sick leave can only be converted to service by active members who retire directly from active service; that is, deferred members are not eligible for this provision. We further understand that up to 120 sick leave hours can be accrued for each year of employment

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and that there are no restrictions on the number of hours that can be "banked" and then converted at retirement. We were informed that 2,080 hours of unused sick leave is equivalent to 1 year of retirement service credit.

Based on the sick leave file referenced above, we have observed that for new service retirees from active service during the period July 1, 2011 - June 30, 2012, the average unused sick leave hours converted to service credit at retirement was about 0.019 years for each year of employment. Unless prefunded, any sick leave conversion by future retirees would add to the Unfunded Actuarial Accrued Liability (UAAL) for the Association. For that reason, and based on the information above, we intend to introduce a new assumption in the June 30, 2012 valuation to anticipate 0.019 years of sick leave conversion at service retirement for each year of employment.

### **Review of Pattern of Vacation Cash Outs During Employment and Final Salary Averaging Period**

As you know, payments received from vacation cash outs are generally considered pensionable earnings and have been reported in the aggregate to the actuary for the actuarial valuation, together with other elements of pensionable compensation outside of base pay. However, if an active member were to have relatively lower vacation cash outs during employment compared to the final salary averaging period, the Association would experience an increase in the UAAL when such higher cash outs are ultimately used in determining the retirement benefit.

In addition to the collection of data required to study the conversion of unused sick leave hours, we also inquired about the ability of MCERA to provide information on vacation cash outs, both during employment and during the final salary averaging period for new retirees. It is our understanding that, because the salaries for active members have always been reported to the actuary in the aggregate, the breakdown of the salaries into vacation cash outs and other categories during the careers of the new retirees would involve more extensive research.

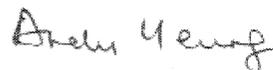
From our discussions with your office, MCERA has agreed to work with Segal so that the information required to study the patterns of vacation cash outs during an employee's career and at retirement would be available at the time of our next triennial experience study as of June 30, 2014.

We look forward to discussing this information with you.

Sincerely,



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



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

DNA/bqb