

Jim Andersen  
Interim Retirement Administrator



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

Date: September 17, 2014  
To: Board of Retirement  
From: Jim Andersen, Interim Retirement Administrator   
Subject: Administrator's Report

Meetings attended:

1. I met with office staff after the Board meeting to discuss actions and directions from the Board. We also discussed any issues of interest to staff; primarily staff assignments in light of the increasing workload associated with automation, the upcoming support required during the audit and actuarial processes, and special projects.
2. I participated in a teleconference meeting with Judy Boyette, Hanson Bridgett, regarding documentation of compliance with MCERA's Voluntary Correction Program (VCP). Judy communicated that the Retiree Health Care/401(h) issue was resolved when the October 9, 2012 letter from Segal was submitted to the IRS (attached). Andy Yeung confirmed the \$9,557,912 in pension funds used for retiree health care and the \$658,654 remaining balance in the retiree health reserve are both included in the 30 year (26 years as of the June 30, 2013) UAAL amortization layer. Hanson Bridgett will be sending updated model regulations for all other compliance issues. We are targeting September 12<sup>th</sup> as the date of receipt, and placement of the model regulations on the Board's October meeting agenda. If the Board would like to further discuss 401(h) compliance, I will be happy to include that on the agenda as well.
3. I met with staff on September 3<sup>rd</sup> to develop a strategy to complete User Acceptance Testing (UAT) for the pension automation system (see below).
4. Conducted a conference call with MMro (Managed Medical Review Organization) to discuss their services in managing disability cases and preparing all due diligence and reports for the Board. MMro is just beginning to market its services in California, and currently does not have a 1937 Act client. We agreed to discuss their progress in marketing and testing their services in February.

Pension Gold Benefits Administration Computer System:

Rob Ellison, Project Manager for Linea Solutions, communicated that MCERA needed to commit additional resources to its User Acceptance Testing (UAT) in order to meet the project

deadline of September 30, 2014. Staff recommended, and the Chair agreed, to close the MCERA office to the public for five (5) consecutive Fridays, September 5<sup>th</sup> through October 3<sup>rd</sup>, and commit staff resources exclusively to UAT on those days. We will be meeting with Linea the week of September 15<sup>th</sup> to determine progress toward the project milestone.

### Recruitments

Alliance Resource Consulting (Alliance) will begin reviewing applications/resumes on September 19<sup>th</sup>. An evaluation of the candidates and a progress report to the recruitment committee are tentatively planned for September.

### Elections

A notice of elections was communicated to all active members through the County email system, and notices were mailed to all retirees. We are once again attaching the timeline of events for conducting elections and working with the Board of Supervisors regarding its appointees. Judy Zeller will be present for any questions you may have.

### Audit

1. Gallina began its audit field work on Tuesday, September 9<sup>th</sup>. Staff is working with the audit team to provide both pre-audit materials and any other materials needed while they are on-site. The field work is anticipated to be completed by August 12<sup>th</sup>.
2. The Audit & Budget Committee will be meeting on September 15<sup>th</sup> to receive an update on the audit fieldwork, any information requests, and discuss dates when work products will become available. Gallina will be calling in for the meeting. Time permitting, we will also discuss GASB 25 Employer Contributions, monthly financial reports, and the quarterly budget review in October.

### Building

1. Trees were removed from the front parking lot the week of September 8<sup>th</sup>. The contractors did an excellent job, and there were no impacts to structures, curbs or the parking lot.
2. In working with the County's General Services Agency (GSA) to secure bids for carpet replacement in the MCERA offices and the common entry way, we found that all vendors would need MCERA to remove all fixtures from the area to be carpeted, including files, partitions, desks, computer stations, etc. Given the significant workload this fall on financial documents, actuarial studies, and the pension automation system, staff is recommending we place a hold on any carpet replacement. We will monitor areas that are badly worn and/or buckling.

JA  
Attachments



<b>Report Type:</b>	Monthly Status Report
<b>Status Date:</b>	09/09/2014
<b>Project Managers:</b>	Rob Ellison – Linea, Jack Blonski – LRS Pension Gold
<b>MCERA Team Members:</b>	Katy Richardson, Judy Zeller, Christie O’Ferrall
<b>Report Period:</b>	August 2014

**1. Current Period Activities**

Activity	Comments
Design	<ul style="list-style-type: none"> <li>Deliverable #2 design drafts continue and are in progress. Design is scheduled through 9/29/2014.</li> </ul>
Data Conversion	<ul style="list-style-type: none"> <li>41 total issues are outstanding (43 last month), 65 closed issues.               <ul style="list-style-type: none"> <li>Courts payroll extract reformat data is now complete from 2002 through 2009. This task is taking a little more time than expected as each year presents some new challenges for reformatting. The goal is to complete this through year 2013 in September.</li> <li>The Court payroll extract file (to-be solution) is in process with ADP. A meeting with ADP occurred in late August and ADP has delivered their first draft file, however, additional issues exist and are being worked on. The target is to have ADP complete this task in September.</li> </ul> </li> </ul>
Development	<ul style="list-style-type: none"> <li>Development for deliverable #1 is complete. Next phase of development will commence when Design for Deliverable #2 is complete.</li> </ul>
User Acceptance Testing	<ul style="list-style-type: none"> <li>UAT testing for deliverable #1 began Thursday 7/31/2014 in the PensionGold UAT test environment and is now in progress. <b>25% of the test cases have been completed by MCERA staff.</b></li> <li>To enable the team to meet the 9/30 target for completing UAT, the office will be closed on Fridays in September so that the MCERA staff can focus on UAT testing on Fridays.</li> </ul>
New Trouble Tickets	<ul style="list-style-type: none"> <li>A total of 12 tickets have been created to date as part of UAT. 3 are closed, 1 resolved, and 8 are resolved and ready for retest in the UAT environment.</li> </ul>
Open Change Requests	<ul style="list-style-type: none"> <li>None</li> </ul>
New Change Requests	<ul style="list-style-type: none"> <li>None</li> </ul>

**2. Scheduled Activities**

Activity	Comments	Start Date	Due Date	Status	Percent Complete
Requirements	<ul style="list-style-type: none"> <li>Delivery by MCERA to LRS of items identified in requirements sessions</li> </ul>	12/10/2013	1/10/2014 1/24/2014	Complete	100%
Analysis of In-House Printing	<ul style="list-style-type: none"> <li>Executive summary outlining the options, costs, and pros/cons of each option for printing checks, advices and 1099's was provided to MCERA.</li> </ul>	12/12/2013	3/28/2014	Complete	100%
Data Conversion	<ul style="list-style-type: none"> <li>Multiple iterations will be needed during implementation</li> </ul>	12/2/2013	4/29/2015	In Progress	33%
Deliverable 1	<ul style="list-style-type: none"> <li>Design 100% complete, development 100% complete, system release testing 100% complete. UAT Training complete, UAT in progress (25% complete).</li> </ul>	12/19/2013	9/30/2014	In Progress	93%
Deliverable 2	<ul style="list-style-type: none"> <li>Benefit Calculations and Payments, design drafts are in progress</li> </ul>	6/23/2014	1/20/2015 (current critical path)	Not Started	5%



MENDOCINO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 Project: PENSION ADMINISTRATION SYSTEM



Activity	Comments	Start Date	Due Date	Status	Percent Complete
Deliverable 3	<ul style="list-style-type: none"> <li>System and MemberDirect</li> </ul>	1/20/2015	4/16/2015	Not Started	0%
Production Go-Live	<ul style="list-style-type: none"> <li>Milestone date for system go-live and beginning of parallel processing</li> </ul>	N/A	4/9/2015	N/A	N/A
Parallel Processing	<ul style="list-style-type: none"> <li>Pension Gold run in parallel with existing systems and processes</li> </ul>	4/9/2015	6/24/2015		0%
Project Completion	<ul style="list-style-type: none"> <li>All documentation delivered</li> <li>Training completed</li> <li>Old system discontinued</li> <li>Warranty period completed</li> <li>System acceptance sign off</li> </ul>	N/A	9/22/2015		N/A

**3. Budget Overview**

Description	Approved Budget	Paid To Date
Pension Admin System Implementation		
LRS (Hosting, software, vendor implementation services)	\$1,374,810.00	\$0.00
LRS additional support	\$0.00	\$0.00
County IT	N/A	*\$24,771.43
Linea	\$490,500.00	**\$131,484.38
<b>Total for all Phases</b>	<b>\$1,865,310.00</b>	<b>\$156,255.81</b>
<b>Projected Total for all Phases</b>		<b>\$1,865,310.00</b>

\*through 8/31/2014

\*\* through 8/28/2014

## 2014 Board of Retirement Election Timeline

Notification to the Board of Supervisors and County Clerk August 29, 2014.

Notice of Election to General and Retired members on 9/05/14.

Declarations of Candidacy are available and accepted 9/8/14 thru 9/19/14. Due by 12:00 noon 9/19/14.

Ballots out 10/2/14. Due by 12:00 noon 10/17/14.

Election to be held on Monday 10/20/14 at 9:00am. (Katrina Bartolomie or representative, Clerk Recorder's Office, to attend.)

Agenda item to the Board of Supervisors 10/21/14.

Certification of election results to the Board of Supervisors on Tuesday, November 4, 2014.

Certification of election results to the Board of Retirement on Wednesday, November 5, 2014.

Term of office begins December 1, 2014.

\*Lloyd Weer's term expires 11/30/14 and is a 3 year term. (3<sup>rd</sup> seat, General Member, Elected)

\*John McCowen's term expires 11/30/14 and is a 3 year term. (5<sup>th</sup> seat, BOS Appointee)

\*Tim Knudsen's term expires 11/30/14 and is a 3 year term. (8<sup>th</sup> seat, Retired Member, Elected)

\*Bob Mirata's term expires 11/30/14 and is a 3 year term. (9<sup>th</sup> seat, BOS Appointee)

\*Richard Shoemaker's term expires 11/30/14 and is a 3 year term. (10<sup>th</sup> seat, Alternate Retired Member, Elected)



THE SEGAL COMPANY  
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

October 9, 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  
Allocation of about \$9.6 Million Allocated as Excess Earnings in Fiscal Year  
2005/2006**

Dear Rich:

As requested, we have analyzed the financial impact since 2006 of the decision to have \$9,557,912<sup>1</sup> allocated as excess earnings in Fiscal Year 2005/2006 and subsequently used to pay retiree health benefits.

We understand that in 2005/2006, the above allocation was made before MCERA had credited all the interest bearing valuation reserves with regular interest at the assumed earnings rate. We understand it has since been confirmed by MCERA that no such excess earnings should have been allocated to pay retiree health benefits before all such regular interest had been credited, and that absent the allocation of the \$9,557,912 to excess earnings, that amount would have been available to credit such interest.

### Discussions and Results

In the actuarial valuations, an assumption is made that the valuation assets will increase annually at the assumed earnings rate. That rate had been set at 8.00% per annum for many years before the Board adopted Segal's recommendation to change the assumption to 7.75% per annum effective with the June 30, 2011 valuation.

<sup>1</sup> We understand that the Board may utilize the \$658,654 balance in the Retirees Insurance Reserve as of June 30, 2011 to mitigate some of the financial impact caused by this prior transfer.



If the Association fails to credit the valuation reserves with the full assumed interest rate, there would be an actuarial investment loss that increases the Unfunded Actuarial Accrued Liability (UAAL). That loss amount would be amortized with other UAALs<sup>2</sup> and paid off with contributions made by the employer over the amortization period established by the Board. The amortization period was a decreasing period of 11 years at the June 30, 2006 valuation and the amortization period was reset by the Board to a decreasing period of 30 years in the June 30, 2009 valuation. As of the most recent valuation as of June 30, 2011, there were 28 years left in the amortization schedule.

In the attached Exhibit, we have included an amortization schedule for the \$9,557,912 in additional UAAL that was created in 2005/2006 by the failure to credit this amount to the valuation reserves. The scheduled UAAL amortization payments since the June 30, 2006 valuation related to the \$9,557,912 in UAAL, the outstanding balance of that UAAL as of June 30, 2011 (i.e., \$8,690,157) and the amount of payments that would continue to be made to amortize the remaining balance of that UAAL after the June 30, 2011 valuation are all included in the Exhibit.

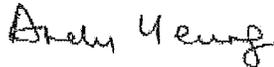
In reviewing the Exhibit, it should be noted that the outstanding balance of \$8,690,157 as of June 30, 2011 has already been included as part of the total UAAL (i.e., \$124.9 million) for MCERA as of June 30, 2011. Correspondingly, out of the total UAAL contribution rate of 11.22% of payroll determined in the June 30, 2011 valuation, a contribution rate of 0.78% of payroll is required to fund the \$9,557,912 in UAAL created by the original allocation of excess earnings to pay retiree health benefits in 2005/2006.

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

AYY/kek  
Enclosure

cc: Judith W. Boyette, Esq.

<sup>2</sup> The other UAALs may arise as a result of other non-investment actuarial gains/losses, change in actuarial assumptions and methods, etc.

**SECTION 1: Valuation Summary for the Mendocino County Employees' Retirement Association**

before the June 30, 2010 valuations, with the revised amounts based on information extracted from MCERA's audited financial statements.

> Based on action taken by the Board earlier this year, the total unrecognized deferred return through June 30, 2011 (restated, based on the information in the bulleted item above) has been recognized in four level amounts, with three years of recognition remaining after the June 30, 2012 valuation.

*Ref. Pg. 5*

> After consulting with outside tax counsel, the Board has designated the \$658,654 allocated to the Retirees Health Insurance Reserve as a valuation reserve and so will serve to reduce the UAAL in the June 30, 2012 and subsequent valuations.

> As indicated in Section 2, Subsection B (see Chart 7) of this report, the total unrecognized investment loss as of June 30, 2012 is \$23.2 million. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that if the Association earns the assumed net rate of investment return of 7.75% per year on a market value basis, it will result in investment losses on the actuarial value of assets after June 30, 2012.

*Ref. Pg. 5*

The deferred losses of \$23.2 million represent 6.8% of the market value of assets as of June 30, 2012. Unless offset by future investment gains or other favorable experience, the recognition of the \$23.2 million market loss is expected to have a significant impact on the Association's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred losses were recognized immediately and entirely in the valuation value of assets, the funded percentage would decrease from 74.1% to 70.1%.
- If the deferred losses were recognized immediately and entirely in the valuation value of assets, the aggregate employer rate would increase from 25.65% to about 27.7% of payroll.

> The actuarial valuation report as of June 30, 2012 is based on financial information as of that date. Changes in the value of assets subsequent to that date are not reflected. Declines in asset values will increase the actuarial cost of the plan, while increases will decrease the actuarial cost of the plan.

**SECTION 2: Valuation Results for the Mendocino County Employees' Retirement Association**

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Retirement has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

**CHART 7**

**Determination of Actuarial Value of Assets for Year Ended June 30, 2012<sup>(1)</sup>**

	Actual Market Return (net)	Expected Market Return (net)	Investment Gain / (Loss)	Deferred Factor	Deferred Return
1. Market value of assets:					\$342,736,812
2. Calculation of deferred return:					
(a) Year ended June 30, 2008	\$(15,554,126)	\$28,043,159	\$(43,597,285)	see footnote (2) below	
(b) Year ended June 30, 2009	(51,892,628)	26,211,450	(78,104,078)		
(c) Year ended June 30, 2010	38,132,500	21,358,039	16,774,461		
(d) Year ended June 30, 2011	64,075,101	23,640,399	40,434,702		
(e) Year ended June 30, 2012	(4,078,489)	27,196,991	(31,275,480)		
(f) Total unrecognized return*				75%	1,838,512
3. Preliminary actuarial value of assets: (1) - (2f)				80%	(25,020,384)
4. Adjustment to be within 25% corridor of market value					\$ (23,181,872)
5. Final actuarial value of assets: (3) + (4)					\$365,918,684
6. Actuarial value as a percentage of market value: (5) ÷ (1)					\$0
7. Non-pension reserves:**					\$365,918,684
Contingency reserve					106.8%
8. Valuation value of assets: (5) - (7)					\$3,431,339
					\$362,487,345

The chart shows the determination of the actuarial value of assets as of the valuation date.

(1) At the request of the Board, actual and expected market returns on assets on or before June 30, 2010 have been restated based on MCERA's audited financial statements. After the restatement, the unrecognized deferred gain as of June 30, 2011 was reduced from \$3,101,790 to \$2,451,350.  
 (2) Based on action taken by the Board in 2012, the total deferred return through June 30, 2011 (restated, based on the information in footnote 1 above) has been recognized in four level amounts, with three years of recognition remaining after the June 30, 2012 valuation.

\*The amount of deferred return that will be recognized in each subsequent valuation is as follows (note: amounts may not total exactly due to rounding):

6/30/2013	\$ (5,642,258)
6/30/2014	(5,642,258)
6/30/2015	(5,642,258)
6/30/2016	(6,255,096)
Total	\$ (23,181,872)

\*\* After consulting with outside tax counsel, the Board has designated the \$658,654 allocated to the Retirees Health Insurance Reserve as a valuation reserve and so will serve to reduce the UAAL in the June 30, 2012 and subsequent valuations.

**FIRST AMENDMENT TO LEGAL SERVICES AGREEMENT**

This Amendment (the "Amendment"), is made by and between the Mendocino County Employees' Retirement Association ("MCERA") and the Law firm of Manatt, Phelps & Phillips LLP ("Attorney"). This Agreement is required by Business and Professions Code section 6148 and is intended to fulfill its requirements.

**RECITALS**

WHEREAS, Attorney has significant and recognized experience in 1937 Act issues; and

WHEREAS, MCERA has determined that Attorney's assistance is needed in connection with a benefits-related issue.

NOW THEREFORE, in consideration of the mutual covenants contained in this Agreement, the parties agree as follows:

**AGREEMENT**

1. Section 2. Compensation: This provision of the Agreement is amended to state that total payments shall not exceed \$30,000.

2. This Amendment shall be governed by and construed under the internal laws of the State of California, and any action to enforce the terms of this Agreement or for the breach thereof shall be brought and tried in the County of Sonoma.

COUNTY AND CONTRACTOR HAVE CAREFULLY READ AND REVIEWED THIS AMENDMENT AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS AMENDMENT, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

Dated: September \_\_, 2014

Manatt, Phelps & Phillips LLP

By: \_\_\_\_\_  
Ashley Dunning

Dated: September \_\_, 2014

By: \_\_\_\_\_  
Shari Schapmire  
Board Chair

Reviewed as to form.

Dated: September \_\_, 2014

By: \_\_\_\_\_  
Jeffrey L. Berk  
MCERA Legal Counsel

**ADDENDUM TO MENDOCINO COUNTY EMPLOYEES' RETIREMENT  
ASSOCIATION  
AT WILL EXTRA HELP EMPLOYMENT CONTRACT**

This agreement ("Agreement"), dated as of May 25, 2014, and amended as of September 17, 2014, is by and between the, Mendocino County Employees' Retirement Association hereinafter referred to as "MCERA", and James Andersen, hereinafter referred to as the "EMPLOYEE".

**RECITALS**

WHEREAS, Pursuant to Government Code Section 31522.2, the MCERA (Retirement Board) may appoint an Administrator who serves at the pleasure of the Board, and

WHEREAS, the term of the extra-help employment agreement between MCERA and EMPLOYEE ends effective September 30, 2014, and

WHEREAS, MCERA is continuing to recruit for a permanent Retirement Administrator, MCERA desires to obtain the services of an Interim Retirement Administrator; and,

WHEREAS, EMPLOYEE is professionally qualified to provide such services and is willing to provide same to MCERA on the terms and conditions set forth in this Agreement.

NOW, THEREFORE it is agreed between the parties that the agreement is amended as follows:

**APPOINTMENT**

1. Appointment. Pursuant to Government Code section 31522.2 MCERA employs EMPLOYEE on a part-time basis for such hours as directed by the Board Chair, commencing May 25, 2014, and ending November 30, 2014, subject, however, to earlier termination as provided below.

2. All other terms and agreements shall remain the same.

**Mendocino County Employees'  
Retirement Association**

By: \_\_\_\_\_  
Shari Schapmire  
Board of Retirement Chair

**James M. Andersen**

By: \_\_\_\_\_  
Signature

**Name and Address of Employee:**

James M. Andersen  
\_\_\_\_\_  
494 Luce Ave.  
\_\_\_\_\_  
Ukiah CA 95482  
\_\_\_\_\_

**Approved as to Form:**

By: \_\_\_\_\_  
Jeff Berk  
MCERA Legal Counsel

James M. Andersen  
Retirement Administrator



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

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

Date: September 17, 2014  
To: Board of Retirement  
From: Jeff Berk, MCERA Counsel  
Jim Andersen, Interim Retirement Administrator  
Subject: Discussion and Possible Action to Adopt Resolutions 2014-05 and 2014-06 to Update the Definitions of Compensation Earnable Pursuant to Government Code Sections 31461 and 7522.34

Introduction

On August 26, 2014, the Board of Supervisors approved a Memorandum of Understanding (MOU) with the Service Employees International Union (SEIU) Local 1021. The MOU, in part, established a one-time payment of \$1,200 for all employees in that bargaining unit on the date the MOU was approved. The relevant page is attached.

The County also sought a legal opinion from Liebert Cassidy Whitmore (LCW) as to whether or not the one-time payment was compensation earnable for determination of retirement, and thereby subject to payroll deductions to be deposited in the pension system. Finally, the County sought an opinion from The Segal Company (Segal) regarding the impact of the one-time payment on the funded ratio of the pension plan. Both the legal and actuarial opinions are attached.

Discussion

Pursuant to Government Code Sections 31461 (applicable to Legacy members) and 7522.34 (applicable to PEPRA members), the Board of Retirement determines compensation earnable. Both administrative staff and legal counsel have reviewed the relevant code sections and the opinion from LCW. In addition, legal counsel has conferred with other systems to determine if similar compensation has been offered by a sponsor, and whether it was determined to be compensation earnable. Five systems responded. All systems agreed that on-time payments to PEPRA members are not pensionable. As to legacy member, four systems said pensionable and one system found one payment pensionable and another non-pensionable.

As discussed below, MCERA counsel, Jeff Berk, and I agree that based on fact that payments are made to all employees in that bargaining unit and that the County's intent is not to enhance benefits, but to reduce County costs, the Board should find this one-time payment to be pensionable for legacy members, but not for PEPRA members.

GC Section 31461(b)(1)(B) states that compensation earnable does not include “Any one-time or ad hoc payment made to a member, but not to all similarly situated members in the member's grade or class.” Section 7527.34(c)(3) states that pensionable compensation does not include: “Any one-time payment or ad hoc payments made to a member.” Since the additional language for legacy members must be given some meaning, a reasonable interpretation is that one-time payments to all members should be pensionable.

Another possible basis to exclude it would be if the Board determines under 31461(b)(1) that the purpose of the payment is to enhance a member’s benefit. Our understanding is that this is not the case. Here, the MOU reached between the County and SEIU was not for the purpose of spiking pensions or inducing retirements, rather the one-time payment was an effort to begin to rebuild employee compensation in an uncertain revenue environment. The one-time payment also does not impact base pay, and by extension all premiums calculated off the base pay. This allows the County and SEIU to maximize the one-time payment due to savings on premiums linked to base pay. In researching retirements in the past fiscal year, MCERA staff could only find three very unique cases where compensation after 2011 was used to calculate the highest year, or average of the highest three years, salaries. It does not appear that the one-time payment will change that fact because recent wage reductions are still in place.

#### Recommended Motion/Action

1. Approve MCERA Resolution 2014-05 defining compensation earnable for pre-PEPRA members to include this one-time payment; and
2. Approve MCERA Resolution 2014-06 defining non-compensation earnable for PEPRA members to exclude this one-time payment.

JA

Attachments

**§31459.1. Board (Los Angeles)**

(a) In a county in which a board of investments has been established pursuant to Section 31520.2:

(1) As used in Sections 31453, 31453.5, 31454, 31454.1, 31454.5, 31472, 31588.1, 31589.1, 31591, 31592.3, 31594, 31595.1, 31595.9, 31596, 31596.1, 31601.1, 31607, 31610, 31611, 31612, 31613, 31616, 31618, 31621.11, 31625, 31639.26, 31784, and 31872, "board" means board of investments.

(2) As used in the first paragraph of Section 31592.2 and the first paragraph and subdivision (c) of the second paragraph of Section 31595, "board" means a board of investments.

(3) Sections 31521, 31522, 31522.1, 31522.2, 31523, 31524, 31525, 31528, 31529, 31529.5, 31535.1, 31580.2, 31614, 31680, and 31680.1, apply to both the board of retirement and board of investments, and "board" means either or both the board of retirement and board of investments.

(4) Subdivision (a) of Section 31526 and subdivisions (a) and (b) of the second paragraph of Section 31595 apply to both the board of retirement and board of investments, and "board" means either or both the board of retirement and board of investments.

(b) In Article 17 (commencing with Section 31880) of this chapter, "board" means the Board of Administration of the Public Employees' Retirement System.

(c) In all other cases, "board" means the board of retirement.

(d) This section shall apply only in a county of the first class, as defined in Section 28020, as amended by Chapter 1204 of the Statutes of 1971, and Section 28022, as amended by Chapter 43 of the Statutes of 1961.

(Amended by Stats. 2011, Ch. 48 (SB 637), Sec. 1)

**§31460. "Compensation" defined**

"Compensation" means the remuneration paid in cash out of county or district funds, plus any amount deducted from a member's wages for participation in a deferred compensation plan established pursuant to Chapter 8 (commencing with Section 18310) of Part 1 of Division 5 of Title 2 or pursuant to Article 1.1 (commencing with Section 53212) of Chapter 2 of Part 1 of Division 2 of Title 5, but does not include the monetary value of board, lodging, fuel, laundry, or other advantages furnished to a member.

(Amended by Stats. 1972, Ch. 1370, Sec. 10)

**→ §31461. "Compensation earnable" defined**

(a) "Compensation earnable" by a member means the average compensation as determined by the board, for the period under consideration upon the basis of the average number of days ordinarily worked by persons in the same grade or class of positions during the period, and at the same rate of pay. The computation for any absence shall be based on the compensation of the position held by the member at the beginning of the absence. Compensation, as defined in Section 31460, that has been deferred shall be deemed "compensation earnable" when earned, rather than when paid.

(b) "Compensation earnable" does not include, in any case, the following:

(1) Any compensation determined by the board to have been paid to enhance a member's retirement benefit under that system. That compensation may include:

(A) Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member, and which was converted to and received by the member in the form of a cash payment in the final average salary period.

(B) Any one-time or ad hoc payment made to a member, but not to all similarly

situated members in the member's grade or class.

(C) Any payment that is made solely due to the termination of the member's employment, but is received by the member while employed, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period regardless of when reported or paid.

(2) Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, in an amount that exceeds that which may be earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.

(3) Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.

(4) Payments made at the termination of employment, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.

(c) The terms of subdivision (b) are intended to be consistent with and not in conflict with the holdings in *Salus v. San Diego County Employees Retirement Association* (2004) 117 Cal.App.4th 734 and *In re Retirement Cases* (2003)110 Cal.App.4th 426.

(Amended by Stats. 1993, Ch. 396, Sec. 3)

(Amended by Stats. 1995, Ch. 558 (SB 226), Sec. 1)

(Amended by Stats. 2012, Ch. 297 (AB 197), Sec. 2)

**§31461.1. Counties of the first class; compensation; compensation earnable; operative effect; construction of section (Los Angeles)**

(a) This section applies only to a county of the first class, as defined by Section 28020, as amended by Chapter 1204 of the Statutes of 1971, and Section 28022, as amended by Chapter 43 of the Statutes of 1961.

(b) Notwithstanding Sections 31460 and 31461, neither "compensation" nor "compensation earnable" shall include any of the following: cafeteria or flexible benefit plan contributions, transportation allowances, car allowances, or security allowances, as enumerated in a resolution adopted pursuant to subdivision (c).

(c) Except as provided in subdivision (d), this section shall not be operative until the board of supervisors, by resolution adopted by a majority vote, makes this section operative with respect to any employee who becomes a member after the effective date of the resolution.

(d) Regardless of whether it has acted pursuant to subdivision (c), at any time the board of supervisors, by separate resolution adopted by a majority vote, may make this section operative with respect to any member not represented by a certified employee organization who makes an irrevocable election to become subject to this section.

(e) Nothing in this section shall be construed to affect any determination made by the board of retirement, pursuant to Section 31461, prior to the effective date of this section.

(f) Nothing in this section shall be construed to affect the validity of any memorandum of understanding or similar agreement that has been executed prior to the effective date of this section.

(Amended by Stats. 1993, Ch. 396, Sec. 4)

(Amended by Stats. 1994, Ch. 1100 (SB 2003), Sec. 1)

(Amended by Stats. 2006, Ch. 538 (SB 1852), Sec. 303)

**§31461.2. "Compensation earnable" defined**

"Compensation earnable" by a public administrator, coroner or coroner-public administrator member compensated by means of fees means the average compensation as determined by the board, for the period under consideration, upon the basis of the average

section.

(Added by Stats. 2012, Ch. 296 (AB 340), Sec. 15)

(Amended by Stats. 2013, Ch. 528 (SB 13), Sec. 6, Effective October 4, 2013, as an urgency statute)

**7522.32. Determination of benefit paid to new member of public retirement system; final compensation; restrictions on plan modification**

For the purposes of determining a retirement benefit to be paid to a new member of a public retirement system, the following shall apply:

(a) Final compensation shall mean the highest average annual pensionable compensation earned by the member during a period of at least 36 consecutive months, or at least three consecutive school years if applicable, immediately preceding his or her retirement or last separation from service if earlier, or during any other period of at least 36 consecutive months, or at least three consecutive school years if applicable, during the member's applicable service that the member designates on the application for retirement.

(b) On or after January 1, 2013, an employer shall not modify a benefit plan to permit a calculation of final compensation on a basis of less than the average annual compensation earned by the member during a consecutive 36-month period, or three school years if applicable, for members who have been subject to at least a 36-month or three-school-year calculation prior to that date.

(Added by Stats. 2012, Ch. 296 (AB 340), Sec. 15)

(Amended by Stats. 2013, Ch. 528 (SB 13), Sec. 7, Effective October 4, 2013, as an urgency statute)



**§7522.34. Pensionable compensation**

(a) "Pensionable compensation" of a new member of any public retirement system means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules, subject to the limitations of subdivision (c).

(b) Compensation that has been deferred shall be deemed pensionable compensation when earned rather than when paid.

(c) Notwithstanding any other law, "pensionable compensation" of a new member does not include the following:

(1) Any compensation determined by the board to have been paid to increase a member's retirement benefit under that system.

(2) Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member and which was converted to and received by the member in the form of a cash payment.

(3) Any one-time or ad hoc payments made to a member.

(4) Severance or any other payment that is granted or awarded to a member in connection with or in anticipation of a separation from employment, but is received by the member while employed.

(5) Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, regardless of when reported or paid.

(6) Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.

(7) Any employer-provided allowance, reimbursement, or payment, including, but not limited to, one made for housing, vehicle, or uniforms.

(8) Compensation for overtime work, other than as defined in Section 207(k) of Title 29 of the United States Code.

(9) Employer contributions to deferred compensation or defined contribution plans.

(10) Any bonus paid in addition to the compensation described in subdivision (a).

(11) Any other form of compensation a public retirement board determines is inconsistent with the requirements of subdivision (a).

(12) Any other form of compensation a public retirement board determines should not be pensionable compensation.

(13) (A) Any form of compensation identified that has been agreed to be nonpensionable pursuant to a memorandum of understanding for state employees bound by the memorandum of understanding. The state employer subject to the memorandum of understanding shall inform the retirement system of the excluded compensation and provide a copy of the memorandum of understanding.

(B) The state employer may determine if excluded compensation identified in subparagraph (A) shall apply to nonrepresented state employees who are aligned with state employees subject to the memorandum of understanding described in subparagraph (A). The state employer shall inform the retirement system of the exclusion of this compensation and provide a copy of the public pay schedule detailing the exclusion.

(Added by Stats. 2012, Ch. 296 (AB 340), Sec. 15)

(Amended by Stats. 2013, Ch. 528 (SB 13), Sec. 8, Effective October 4, 2013, as an urgency statute)

#### **§7522.40. Health benefit vesting schedule**

(a) A public employer shall not provide to a public employee who is elected or appointed, a trustee, excluded from collective bargaining, exempt from civil service, or a manager any vesting schedule for the employer contribution payable for postretirement health benefits that is more advantageous than that provided generally to other public employees, including represented employees, of the same public employer who are in related retirement membership classifications.

(b) This section shall not require an employer to change the vesting schedule for the employer contribution payable for postretirement health benefits of any public employee who was subject to a specific vesting schedule pursuant to statute, collective bargaining agreement, or resolution for these employer contributions prior to January 1, 2013, or who had a contractual agreement with an employer prior to January 1, 2013, for a specific vesting schedule for these employer contributions.

(Added by Stats. 2012, Ch. 296 (AB 340), Sec. 15)

(Amended by Stats. 2013, Ch. 528 (SB 13), Sec. 9, Effective October 4, 2013, as an urgency statute)

#### **§7522.42. Additional limitations on compensation used for determination of public retirement benefit and employer contributions; exemption**

(a) In addition to any other benefit limitation prescribed by law, for the purposes of determining a public retirement benefit paid to a new member of a public retirement system, the maximum salary, compensation, or payrate taken into account under the plan for any year shall not exceed the amount permitted to be taken into account under Section 401(a)(17) of Title 26 of the United States Code or its successor.

(b) A public employer shall not seek an exception to the prohibition in subdivision (a) on

**ARTICLE 7. SALARY AND SALARY UPON STATUS CHANGE**

1. Salary

Effective February 5, 2012, the salary for all SEIU represented employees shall be reduced permanently by 10%.

Following ratification and approval of a new MOU the County will provide a one-time payment of \$1,200 to all bargaining unit employees who are employed on the date of the payment. The supplemental payment will be issued separate from the normal payroll check after the Board of Supervisors adopts the resolution and approves the MOU.

2. Salary Surveys

Upon Union ratification and Board approval, the parties shall establish a survey jurisdiction comprised of the following agencies:

City of Ukiah  
City of Santa Rosa  
El Dorado County  
Humboldt County  
Lake County  
Napa County  
Nevada County  
Sonoma County  
Sutter County  
Yolo County

A. Survey Methodology

The County will survey at market average.

Salary data will be compiled at the top step of the applicable benchmark.

No employee will suffer a wage reduction as a result of the survey.

3. Salary Plan Administration

The salaries or rates of compensation prescribed are fixed on the basis of full-time service in full-time positions, unless otherwise designated.

4. Merit Increase

Upon progress and productivity, employees may be considered for increase from one step in the salary range to the next step in the salary range according to the following plan:

The numbers 1,2,3,4, and 5, respectively, denote the various steps in the pay range. Each step represents a five percent (5%) increase in salary above the previous step.

Step 1 shall be paid upon initial employment except when a higher step in a salary range is authorized under Article 7.6 of this Memorandum.

Step 2 shall be authorized upon receiving an overall rating equivalent to satisfactory, or above, after completion of twenty-six (26) pay periods of employment at Step 1.

Step 3 shall be authorized upon receiving an overall rating equivalent to satisfactory, or above, after completion of twenty six (26) pay periods of employment at Step 2.

Step 4 shall be authorized upon receiving an overall rating equivalent to satisfactory, or above, after completion of twenty six (26) pay periods of employment at Step 3.

Step 5 shall be authorized upon receiving an overall rating equivalent to satisfactory, or above, after completion of twenty six (26) pay periods of employment at Step 4.

Nothing in this section should be construed to prevent any pay for performance strategies.

August 15, 2014

**CONFIDENTIAL AND ATTORNEY-CLIENT PRIVILEGED**

**VIA EMAIL**

weselsky@co.mendocino.ca.us  
Tammi Weselsky  
Human Resources Director  
County of Mendocino  
501 Low Gap Road, Room 1326  
Ukiah, CA 95482

**Re: Compensation Earnable and One Time Supplemental Payment**  
**Client-Matter: MA038/003**

Dear Ms. Weselsky:

Thank you for the opportunity to assist the County with its question regarding pensionable compensation.

You asked us for an opinion regarding the pensionability of a one time, supplemental payment to all members of a single bargaining unit. Specifically, you inquired whether the supplemental payment would be considered "pensionable compensation" (hereinafter "pensionable compensation" or "compensation earnable") if paid via a stand-alone check, separate from an employee's paycheck, and/or whether the supplemental payment would be compensation earnable if paid, one time, as part of an employee's regular paycheck. Based on the discussion below, we conclude that the supplemental payment will be compensation earnable for "classic members" of the County's retirement system, regardless of the form of pay, *but not* pensionable compensation for "new members," regardless of the form of the payment.

**I. QUESTIONS PRESENTED**

1. If the County provides all members of a bargaining unit with a supplemental, one-time payment as a part of the employees' regular paychecks, during a single pay period, will such payment be pensionable?
2. If the County provides all members of a bargaining unit with a supplemental, one-time payment in the form of a stand-alone check, separate from the employees' regular paychecks, will such payments be pensionable?

## **II. SHORT ANSWER**

1. The supplemental payment will be pensionable for “classic members,” paid via a regular paycheck, or otherwise; but will not be pensionable for “new members,” whether or not the payment is included in the new members’ regular paycheck.
2. The supplemental payment will be pensionable for “classic members” even if paid by a stand-alone check. The payment will not be pensionable for “new members,” regardless of the form of pay.

## **III. FACTUAL BACKGROUND**

The facts as we understand them are as follows. The County has determined that it will make a one-time, “supplemental” payment of \$1200 to each member of one of its bargaining units. The payment will be issued through the County’s general, payroll fund – though some of the amount will be generated by matching state/federal fund contributions. The County initially informed the union representing the bargaining unit that the supplemental payments would be pensionable, because they would be coming out of the general, payroll fund.

The union then requested the payments in the form of ‘stand-alone’ checks to the employees, separate from their regular payroll checks. An internal County department expressed an understanding that the supplemental payments would only be pensionable compensation if they were reflected in the employees’ regular payroll checks; but that the supplemental payments would not be pensionable if issued via a separate check. The County now seeks clarity regarding the two forms of issuing the supplemental payment, and whether the payments would be pensionable under either option.

## **IV. DISCUSSION**

### **1. Compensation Earnable for Classic Members of the County’s Retirement System Under Government Code Section 31461**

The supplemental payments will likely be considered compensation earnable, or pensionable compensation, for those employees who are considered “classic members” of the County’s retirement system. In accordance with the Public Employees’ Pension Reform Act (“PEPRA”), employees who are considered “classic members” of the County’s retirement system – those who were members of a public retirement system before January 1, 2013 – are subject to the retirement plan that the County had in place for employees as of December 31, 2012.<sup>1</sup> As a ‘37 Act Agency, “compensation earnable” under the County’s retirement system, as of December 31, 2012, was defined by Government Code section 31461. Government Code section 31461 provides that compensation earnable does not include “[a]ny compensation determined by the board to have been paid to enhance a member’s retirement benefit under that system,” which may include: “[a]ny one-time or ad hoc payment made to a member, but not to

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<sup>1</sup> Gov. Code, § 7522.02.

all similarly situated members in the member's grade or class."<sup>2</sup> Accordingly, so long as a one-time or ad hoc payment is made to *all similarly situated members* who are subject to Government Code section 31461, i.e. "classic members," the payment will be considered compensation earnable/pensionable compensation for those members.

## 2. Pensionable Compensation for New Members of the County's Retirement System Under Government Code section 7522.34

While a supplemental payment to "all similarly situated members" may be compensation earnable for classic members under Government Code, section 31461, such payments are excluded from the definition of "pensionable compensation" for employees who are considered "new members" of the County's retirement system.<sup>3</sup> Under Government Code section 7522.34, added by PEPRA, "pensionable compensation" means "the *normal monthly rate of pay or base pay* of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours," subject to specific limitations.<sup>4</sup> One such limitation provides that "pensionable compensation" for a "new member" of a public employer's retirement system does not include "[a]ny one-time or ad hoc payments made to the member".<sup>5</sup> Therefore, for employees considered "new" pension system members, the supplemental payments will not be considered pensionable because the supplemental payment is not part of the new members' normal "rate of pay" or "base pay." Rather, the supplemental payment would be a one-time or ad hoc payment, specifically excluded from the definition of pensionable compensation for "new members" in accordance with Government Code section 7522.34.

Government Code section 7522.34 does not indicate that the 'pensionability' of a supplemental payment depends on *how* it is paid, but rather on the type of payment – for example, a one time, ad hoc payment; or a payment that is the base or normal rate of the employee's pay. Therefore, the supplemental payment will not be considered "pensionable compensation" for new members of the County's retirement system, regardless of how the payment is made.

## V. CONCLUSION

Based on the foregoing legal principles, it is our assessment that the supplemental payment being offered to members of the County's bargaining unit, will be pensionable for "classic" members, regardless of the form of pay. However, the supplemental payment will *not* be considered pensionable compensation for "new" members of the County's retirement system, paid via payroll check or otherwise.

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<sup>2</sup> Gov. Code, § 31461(b)(1)(B).

<sup>3</sup> As of January 1, 2013, PEPRA applies to "all state and local public retirement systems and to their participating employees," including retirement systems created pursuant to the '37 Act. (Gov. Code, § 7522.02(a).) "New Member[s]" are those individuals who became members of a public retirement system on or after January 1, 2013. (Gov. Code, § 7522.04(f)(1).)

<sup>4</sup> Gov. Code, § 7522.34(a), emphasis added.

<sup>5</sup> Gov. Code, § 7522.34(c)(3), emphasis added.

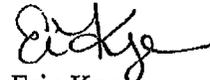
Re: *Compensation Earnable and One Time Supplemental Payment*

Page 4

Thank you for the opportunity to be of assistance in this matter. Please do not hesitate to call me if you have further questions.

Very truly yours,

LIEBERT CASSIDY WHITMORE



Erin Kunze



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RECEIVED BY

AUG 25 2014

The Mendocino County Employees  
Retirement Association

VIA EMAIL AND USPS

August 22, 2014

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

**Re: Impact of Possible Flat \$1,200 Salary Increase for SEIU Members in 2014/2015**

Dear Jim:

We have been requested to provide commentary concerning the impact that a possible one-time flat \$1,200 salary increase for SEIU members during fiscal year 2014/2015 will have on future MCERA actuarial valuation results and on employer contributions in particular. We start with background information on the possible salary increase in comparison to assumed increases, followed by a general comment on how lower than expected salary increases affect employer contributions, and then we provide a more detailed discussion of the effect that lower than expected salary increases for SEIU members would have on MCERA.

### **Results**

Since a flat \$1,200 salary increase in fiscal year 2014/2015 is less than that expected by the long-term salary increase actuarial assumptions, everything else being equal we would expect an actuarial gain in the June 30, 2015 actuarial valuation. However, the ultimate impact from the less than expected salary increases for SEIU members can only be calculated after all of the factors described in this letter are examined in the June 30, 2015 valuation.

### **Background**

We understand that SEIU members, who represent about 80%-85% of the active General members<sup>1</sup>, may receive a flat \$1,200 dollar salary increase during FY 2014/2015. Based on the census data provided by MCERA for all General members for the June 30, 2013 valuation, this

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<sup>1</sup> As of June 30, 2013 (the date of the latest completed valuation).

flat \$1,200 salary increase would be equivalent on average to an approximate salary increase rate of 2.3% of the projected pay for FY 2014/2015.

Under the current long-term salary increase assumptions utilized by MCERA, continuing active members are expected to receive annual salary increases each year based on inflation (3.50%), plus across-the-board salary increases (0.50%), plus merit and promotional increases (ranging from 0.50% to 5.00% for General members, depending on service). Therefore, the possible granting of a \$1,200 salary increase (or 2.3% of projected pay, on average) to SEIU members, versus our combined 4.00% (3.50% plus 0.50%) wage increase assumption before considering any merit and promotional increases, would mean that most General members would receive an increase that is less than expected by those long-term assumptions during FY 2014/2015.

### **General Effect of Less Than Expected Salary Increases on Pension Costs**

Less than expected salary increases can have varying impacts on pension costs and liabilities. The impact can differ as to different components of the contributions and also differ between short and long term impact. Another key factor is whether the less than expected salary increases are effectively permanent or whether salaries ultimately revert back to where they would have been if the salary increase assumptions had been met.

Pension contributions have two components: a "Normal Cost," which is the cost for current service for active members, and a "UAAL amortization payment," which is the current year payment to fund any unfunded actuarial accrued liability, or UAAL. Furthermore, each of these cost components can be expressed as a percentage of pay contribution rate or as a dollar amount. Both these distinctions – cost component and contribution form or basis – are helpful in understanding how less than expected salary increases affect pension contributions.

The Normal Cost applies only to active members and is generally proportional to payroll. In effect, the Normal Cost is first determined as a percent of pay Normal Cost rate and then applied to current payroll to get a Normal Cost dollar amount. This means that when payroll is less than expected, the Normal Cost *rate* remains unchanged while the Normal Cost *dollars* decrease.

In contrast, the UAAL and the related amortization payments are first determined as dollar amounts and then converted to a rate by dividing by payroll. When payroll is less than expected, the UAAL dollar amount is relatively unaffected (especially in the short term). Generally, this means that while the UAAL amortization payment *dollars* remain unchanged, the UAAL amortization cost *rate* increases, since those fixed dollars are spread over a smaller than expected payroll.

Also, it should be noted that under the MCERA Board's funding policy adopted on April 17, 2013, in addition to the UAAL contribution rate, a "minimum" amortization amount equal to the UAAL contribution rate times the covered payroll (as estimated in the actuarial valuation that establishes such UAAL contribution rate) will be calculated for each employer. The final actual UAAL payment by each employer will be equal to the UAAL contribution rate times the actual covered payroll or the above "minimum" amortization amount, if greater. This avoids the "contribution loss" that would often result from not collecting the full UAAL payment.

This discussion assumes that the less than expected salary increases are permanent (meaning there will be no "catch-up" increases later on) so that the benefits for the active members will ultimately reflect the lower salary levels. If future salary increases restore salaries to the expected levels, the temporary reduction in Normal Cost dollar amounts will have to be made up by higher future contributions, usually through increases in future UAAL contributions.

This is a simplified description of the impact of less than expected salary increases, presented mainly to illustrate the impact on different contribution components and bases. There are other complications which we will discuss next as they might specifically apply to the lower than expected salary increases for SEIU members.

### **Flat \$1,200 Salary Increases for SEIU**

This less than expected salary increase for SEIU members would affect both the contribution requirements and the liabilities of the pension plan. At the same time, if the expected salary increases are not made up in the future, then there would generally be a reduction in the members' projected retirement benefit because the benefit is salary related.

In the near term, both the County and the members would continue to contribute in accordance with the contribution rates that were determined in the June 30, 2013 actuarial valuation for the period from July 1, 2014 to June 30, 2015, but based on a less than expected salary. Therefore, the normal cost component of the dollar contributions actually collected during FY 2014/2015 would be less than the expected contributions, which is appropriate as discussed above. Note that when we perform the upcoming June 30, 2014 actuarial valuation, the lower than expected salary increases resulting from the \$1,200 flat amount during FY 2014/2015 will still not be reflected in the census data used to perform that valuation. Therefore, the normal cost component of the dollar contributions actually collected during FY 2015/2016, which will be based on the rates developed in the June 30, 2014 valuation, would again be less than the expected contributions and remain appropriate.

As discussed earlier, the normal cost rate would generally not be affected by the less than expected salary increases. The normal cost is the amount of contribution required to fund the cost allocated to the current year of service, expressed as a percentage of pay. To the extent both the benefit and the salary are affected by the same percentage (which again requires that the salary increases will not be made up in the future), then the normal cost rate would remain the same. This same reasoning applies to member contribution rates, which would also generally not be affected.

Note that when we perform the June 30, 2015 actuarial valuation (that sets the contribution rates for fiscal year 2016/2017), we would expect an actuarial gain because the actual salary increases observed during FY 2014/2015 would have been lower than the expected salary increases over that period. This would result in a reduction in the Unfunded Actuarial Accrued Liability (UAAL) amount, and by itself would result in a reduction in the UAAL contribution rate. However, there are two additional factors to keep in mind, as discussed above. First, the amortization of the lower UAAL amount would be over a smaller payroll base, and this could offset the reduction in UAAL contribution rate due to the actuarial gain. Second, according to the change to MCERA's funding policy noted above, the final UAAL payment by each employer

will be equal to the greater of the UAAL contribution rate times the actual covered payroll or the "minimum" UAAL amount as determined in the June 30, 2015 valuation.

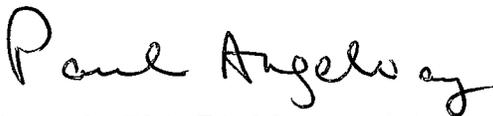
As we have noted throughout this discussion, if the expected salary increases are made up in the future, generally the pension plan would experience the opposite of what we discussed in this letter. Any information on the anticipation of making up the expected salary increases should be communicated to MCERA and its actuary so that the valuations can reflect the ultimate benefits expected to be paid.

In summary, the ultimate contribution impact (both dollar amount and rate expressed as a percent of payroll) from the less than expected salary increases for SEIU members can only be calculated after all of the factors described in this letter are examined in the June 30, 2015 valuation. In that valuation, we would determine the contribution rate impact from the less than expected salary increases and also other actuarial experience during FY 2014/2015.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please give us a call if you have any questions.

Sincerely,



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



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

DNA/hy

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
RESOLUTION 2014-05**

**TO SUPERSEDE RESOLUTION 2012-06, ADOPTED JANUARY 1, 2013, DEFINING  
COMPENSATION EARNABLE PURSUANT TO GOVERNMENT CODE §31461 FOR  
MEMBERS WHO ARE NOT SUBJECT TO GOVERNMENT CODE §7522.34**

**WHEREAS**, for those current members who became active members prior to January 1, 2013, and those members who became active members on or after January 1, 2013, but who are not subject to Government Code §7522.34 of the California Public Employees' Pension Reform Act, the determination of compensation earnable for remuneration earned by those members is governed by Government Code §31461; and

**WHEREAS**, Government Code §31461 provides that compensation earnable by a member means the average compensation as determined by the Board, for the period under consideration upon the basis of the average number of days ordinarily worked by persons in the same grade or class of positions during the period, and at the same rate of pay; and

**WHEREAS**, Government Code §31461 provides that this Board determine which items of remuneration earned by members shall constitute "compensation earnable"; and

**WHEREAS**, the Board has reviewed the current pay items and has determined which of those items are to be included in "compensation earnable" and which items are not to be included; and

**WHEREAS**, it is necessary for this Board from time to time to amend its determinations of compensation earnable due to changes in the compensation schedules of MCERA employers or changes in the law. Therefore be it

**RESOLVED** that effective September 17, 2014, resolution number 2012-06 is rescinded, and pursuant to Government Code §31461 as interpreted by the courts, the Board hereby makes the following determinations to be effective January 1, 2013, as to what is included in "compensation earnable" and items of remuneration that are not included:

1. Compensation earnable shall include:

Pay Code	Description
(303)	Vacation Pay-Out Non Management.
(304)	Vacation Pay-Out Management
(406)	Shift PM
(407)	Shift AM
(409)	Supervisor Shift
(417)	32.50 Bilingual
(418)	18.00 Bilingual
(422)	Confidential 5%
(435)	Supplemental Pay to similarly situated members in the same grade or class.
(438)	2.5% Longevity
(439)	5% Longevity

Pay Code	Description
(440)	On Call Regular
(441)	On Call Prior PP
(443)	7.5% Longevity
(444)	10% Longevity
(445)	Car Allowance
(456)	Board Of Supervisor Auto Allowance
(457)	BA Incentive
(514)	Standby Pay
(515)	Animal Handler
(520)	Field/Specialized Training
(523)	Bilingual 5% MCLEMA
(525)	Uniform Allowance
(528)	Covelo Housing
(529)	Covelo Bonus
(530)	Officer In Charge
(531)	Officer In Charge Level 2
(532)	Detective/Investigator Premium
(556)	AA/AS/Supv Incentive MCLEMA
(558)	10% B/A Incent
(559)	AA/AS DSA 3%
(567)	Bilingual 3% MCLEMA
(926)	Uniform Non-Cash

2. Pursuant to Government Code §31461(b) compensation earnable, shall not include in any case the following:

A. Any compensation determined by the Board to have been paid to enhance a member's retirement benefit under that system. That compensation may include:

(1) Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member, and which was converted to and received by the member in the form of a cash payment in the final average salary period.

(2) Any one-time or ad hoc payment made to a member, but not to all similarly situated members in the member's grade or class.

(3) Any payment that is made solely due to the termination of the member's employment, but is received by the member while employed, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period regardless of when reported or paid.

B. Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, in an amount that exceeds that which may be earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.

C. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.

D. Payments made at the termination of employment, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.

3. Pursuant to Government Code §31641(c), the terms listed above in paragraph 2 are intended to be consistent with and not in conflict with the holdings in *Salus v. San Diego County Employees Retirement Association* (2004) 117 Cal.App.4th 734 and *In re Retirement Cases* (2003)110 Cal.App.4th 426.

**FURTHER RESOLVED** that the above listed determinations by the Board of what is included or not included in compensation earnable, shall be in effect until such time as action taken by the Board or action by the Legislature or the Courts as a matter of law requires a different determination.

The foregoing resolution introduced by Board Member \_\_\_\_\_, seconded by Board member \_\_\_\_\_, and carried this 17th day of September, 2014, by the following vote:

ayes:  
noes:  
absent:

WHEREUPON, The Chair declared said Resolution adopted, and SO ORDERED.

\_\_\_\_\_  
Shari Schapmire  
Board of Retirement Chair

\_\_\_\_\_  
Jim Andersen  
Interim Retirement Administrator

Pending Board Approval

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
RESOLUTION 2014-06**

**TO SUPERSECE RESOLUTION 2012-07, ADOPTED JANUARY 1, 2013, DEFINING  
PENSIONABLE COMPENSATION PURSUANT TO GOVERNMENT CODE §7522.34  
FOR MEMBERS WHO ARE NOT SUBJECT TO GOVERNMENT CODE §31461**

**WHEREAS**, for those members who became active members on or after January 1, 2013, and who are subject to the California Public Employees' Pension Reform Act contained in Government Code §7522 et seq., the determination of their pensionable compensation is governed by Government Code §7522.34; and

**WHEREAS**, the pensionable compensation for those employee members who are subject to Government Code §7522.34 shall be the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules; and

**WHEREAS**, the Board has reviewed the current pay items and has determined which of those items are to be included in "pensionable compensation" and which items are not to be included; and

**WHEREAS**, it will be necessary for this Board, from time to time, to amend its determinations of pensionable compensation due to changes made by MCERA employers in their compensation schedules as well as changes in the law; Therefore be it

**RESOLVED**, that effective September 17, 2014, resolution number 2012-07 is rescinded, and pursuant to Government Code §7522.34, the Board hereby makes the following determinations to be effective January 1, 2013, as to what is included in "pensionable compensation" and items of remuneration that are not included:

1. Pensionable compensation shall include:

Pay Code	Description
(406)	Shift PM
(407)	Shift AM
(409)	Supervisor Shift
(417)	32.50 Bilingual
(418)	18.00 Bilingual
(422)	Confidential 5%
(438)	2.5% Longevity
(439)	5% Longevity
(443)	7.5% Longevity
(444)	10% Longevity
(457)	BA Incentive
(515)	Animal Handler
(520)	Field/Specialized Training

Pay Code	Description
(523)	Bilingual 5% MCLEMA
(529)	Covelo Bonus
(530)	Officer In Charge
(531)	Officer In Charge Level 2
(532)	Detective/Investigator Premium
(556)	AA/AS/Supv Incentive MCLEMA
(558)	10% B/A Incent
(559)	AA/AS DSA 3%
(567)	Bilingual 3% MCLEMA

2. Pensionable compensation, at a minimum, shall not include, in any case, the following pay items.

A. The following pay codes are not included:

Pay code	Description
(303)	Vacation Pay-Out Non Management
(304)	Vacation Pay-Out Management
(435)	Supplemental Pay to Similarly Situated Members in the Same Grade or Class
(440)	On Call Reg
(441)	On Call Prior PP
(445)	Car Allowance
(456)	BOS Auto Allowance
(514)	Standby Pay
(525)	Uniform Allowance
(528)	Covelo Housing
(926)	Uniform Non-Cash

B. Pursuant to Government Code §7522.34, pensionable compensation does not include the following:

1. Any compensation determined by the Board to have been paid to increase a member's retirement benefit.
2. Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member and which was converted to and received by the member in the form of a cash payment.
3. Any one-time or ad hoc payments made to a member.
4. Severance or any other payment that is granted or awarded to a member in connection with or in anticipation of a separation from employment, but is received by the member while employed.

5. Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, regardless of when reported or paid.
  6. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.
  7. Any employer-provided allowance, reimbursement, or payment, including, but not limited to, one made for housing, vehicle, or uniforms.
  8. Compensation for overtime work, other than as defined in Section 207(k) of Title 29 of the United States Code.
  9. Employer contributions to deferred compensation or defined contribution plans.
  10. Any bonus paid in addition to the compensation described in subdivision (a) of Government Code §7522.34.
  11. Any other form of compensation the Board determines is inconsistent with the requirements of subdivision (a).
  12. Any other form of compensation that this Board determines should not be pensionable compensation.
3. Pursuant to Government Code §7522.10, whenever pensionable compensation, as defined in §7522.34, is used in the calculation of a benefit, the pensionable compensation shall be subject to the monetary limitations set forth in subdivision §7522.10.

**FURTHER RESOLVED** that the above-listed determinations by the Board of what is included or not included in pensionable compensation, shall be in effect until such time as this Board, the Legislature or the Courts take action that as a matter of law requires a different determination.

The foregoing resolution introduced by Board Member \_\_\_\_\_, seconded by Board member \_\_\_\_\_, and carried this 17th day of September, 2014, by the following vote:

ayes:  
noes:  
absent:

WHEREUPON, The Chair declared said Resolution adopted, and SO ORDERED.

\_\_\_\_\_  
Shari Schapmire  
Board of Retirement Chair

\_\_\_\_\_  
Jim Andersen  
Interim Retirement Administrator

**THIRD AMENDMENT TO  
MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STANDARD SERVICES AGREEMENT**

This Agreement third amendment, dated as of September 17, 2014 is by and between the MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION, hereinafter referred to as "MCERA", and Fechter & Company, hereinafter referred to as "CONTRACTOR".

**WITNESSETH**

WHEREAS, MCERA may retain independent contractors to perform special services to or for MCERA; and

WHEREAS, MCERA desires to continue to obtain Accounting Services ("Services"); and

WHEREAS, CONTRACTOR is professionally qualified to provide such Services and is currently engaged by an agreement dated July 1, 2013 (amended December 18, 2013 and June 18, 2014) with MCERA to provide same Services;

NOW, THEREFORE, MCERA and CONTRACTOR agree to the following amendments to the existing agreement (July 1, 2013 as amended December 18, 2013 and June 18, 2014) to provide the Services, with all other General Terms and Conditions specified in the Agreement, and Additional Provisions attached and incorporated thereto, and all exhibits which are incorporated the current Agreement remaining intact and enforceable including the amendments dated December 18, 2013 and June 18, 2014):

The compensation payable to CONTRACTOR for the period of July 1, 2014 through December 31, 2014 shall not exceed Twenty Thousand Dollars (\$23,600.00)

Term 20, TERMINATION, shall allow for payment to CONTRACTOR that does not exceed \$23,600.00 for services and related travel expenses provided under this amendment dated October 15, 2014 for the period of July 1, 2014 through December 31, 2014 prior to the effective date of any suspension, termination or abandonment of the agreement by either party.

**IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.**

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**CONTRACTOR/COMPANY NAME**

By: \_\_\_\_\_  
Jim Andersen  
Interim Retirement Administrator

By: \_\_\_\_\_  
Scott A. German, CPA  
Fechter & Company

**NAME AND ADDRESS OF CONTRACTOR:**

Fechter & Company  
\_\_\_\_\_  
1870 Avondale Avenue, Suite 4  
\_\_\_\_\_  
Sacramento CA 95825  
\_\_\_\_\_

**ATTEST:**

**INSURANCE REQUIREMENTS:**

KRISTIN McMENOMEY, Director  
General Services Agency

By: \_\_\_\_\_  
Judy Zeller, Administrative Assistant

By: (see agreement dated 7/1/13)  
Risk Manager

**APPROVED AS TO FORM:**

By signing above, signatory warrants and represents that he/she executed this Agreement in his/her authorized capacity and that by his/her signature on this Agreement, he/she or the entity upon behalf of which he/she acted, executed this Agreement

By: \_\_\_\_\_  
Jeff Berk, MCERA Legal Counsel