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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
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DRAFT

Date: July 16, 2014
To: Reform Our County Coalition
From: Shari Schapmire, Chair, Board of Retirement
Subject: Response to Your Concerns Regarding Public Pension Management

The Mendocino County Employees' Retirement Association (MCERA) received your correspondence dated April 22, 2014. The Board of Retirement (Board) has twice placed your request to respond to specific questions or validate findings on its publicly noticed agenda. The MCERA Board appreciates all concerned citizens' interest in public pension issues and encourages them to follow the activities of the Board through its website, televised meetings, or by attending its meetings. We would especially like to encourage any citizen or group to attend the triennial experience study this fall, guided by MCERA's actuary, Segal Consultants (Segal), given many of the concerns raised in your correspondence will be discussed at that time.

Board member and Mendocino County Supervisor John McCowen offered a detailed response to your correspondence, which resulted in yet another set of questions and points of debate. The Board members question the value and use of limited resources to enter into never-ending volleys of correspondence, especially on many issues that have been or are being resolved. As a result, the Board would like to respond to what it believes are the general themes brought up by the Reform Our County Coalition (ROCC).

First, it is our intent to address your characterization that Board membership is skewed to allow MCERA members to protect or enhance their own financial interests; you infer self-dealing by certain members who are legal and committed fiduciaries of the pension trust. Such comments are offensive, unsupported by facts, and a potential obstacle to working closely with ROCC. The Board, pursuant to state law, is comprised of four members of the retirement system, four Board of Supervisor appointees (one of which <u>may</u> be a Board of Supervisors member), and the County Treasurer-Tax Collector, who is elected.

It may be useful to understand the respective roles of both the Board of Retirement and Board of Supervisors. As a brief background, in 1992, the voters passed Proposition 162 (the "Pension Protection Act"), which is part of the California Constitution. Among other things, it provides that a retirement board of a public pension plan has "plenary authority and fiduciary responsibility for investment of moneys and administration of the system." Indeed, one primary role of the Board is to invest moneys. The Board does not determine salaries or the formula(s)

that are used to determine pension amounts, that is the role of the employer. Prop 162 further provides that "a retirement board's duty is to its participants and beneficiaries take precedence over any other duty."

The Board agrees that one of the most significant issues facing state and local governments is making the required contributions to employee pension plans while striving to maintain other government services. The stress building between sufficient pension reserves and the County's financing sources is, in part, the result of an aging "baby-boom" population which is living longer than past generations. The challenge of all retirement boards has been amplified by volatile and less predictable earnings on investments, including two deep, historical recessions since the year 2000. Retirement benefits and wages, while still comparatively low, were increased by the County some ten years ago in an effort to retain and attract employees, thereby increasing long-term pension liabilities. As a result of the conditions and actions described above, employer contributions rose. At the same time, unfunded pension obligations were also rising. MCERA is responsible for setting contribution rates and investing moneys to meet pension obligations. The Board of Supervisors is responsible to meet its legal obligation to make contributions to the pension trust and determine what level of other government services can be provided.

The MCERA Board has been working within its authority to prudently invest assets to pay for pension obligations, protect those assets, and accurately report the funded status of the pension trust. Contrary to the findings of ROCC, MCERA's return on investments has compared favorably to other institutional investors. With the guidance of its nationally respected financial advisor, Callan Associates (Callan), MCERA reviews the performance of its investments quarterly, and conducts an extensive review of how its assets are invested every three years. MCERA has performed well against a universe of roughly 235 funds tracked by Callan. MCERA is also ranked annually by RVKuhns & Associates, Inc., and consistently performs near the top of all 1937 Act retirement systems. MCERA works closely with Segal, its actuarial advisor, to annually determine its pension liabilities, assets, and the amount of unfunded liabilities. Segal conducts an experience study every three years to determine if the assumptions used to project the funded status of the pension plan were accurate. The experience study is where and when important decisions are made regarding the assumed rate of return on our investments, retirement ages, mortality rates, etc.

In Supervisor McCowen's response to ROCC, he describes a large number of actions taken by MCERA to better manage the pension system. The Board wholeheartedly agrees with his depiction of MCERA's accomplishments thus far (response number 3). We have heard the process of pension reform being compared to steering a blimp, where the pilots enter course corrections that result in the nose of the airship beginning to turn ten miles down the flight path. Similarly, pension obligations have been driven by events that occurred over decades, and the strategies to meet those obligations will likely take time as well.

Again, the Board invites and encourages ROCC or any concerned citizen to be engaged in discussions, ask questions or offer comments.

JA/SS/JB/BOR

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Date: July 16, 2014
To: Retirement Board
From: Lloyd Weer, Audit & Budget Committee Chair
Subject: Discussion and Possible Action to Select an Approach to the Valuation Date for the June 30, 2014 Government Accounting Standards Board (GASB) 67 Report

Background

The Audit and Budget Committee met on July 10, 2014 to discuss and make a recommendation regarding the calendar for the 2011-2014 Experience Study, the June 30, 2014 Actuarial Valuation, and the GASB 67 Report. Segal Consulting prepared a detailed calendar for committee review which included target dates for the 2014 Study with GASB 67 Roll-forward, without GASB 67 Roll-forward, and the actual dates of our 2013 study for comparison. This calendar is attached to this report for your review.

The Roll-forward approach would use our existing 2013 Actuarial Report figures. Without the Roll-forward approach we would use our 2014 Actuarial Report figures once approved by the Board of Retirement. The Final 2014 Valuation Report is scheduled to be submitted to the Board for approval on November 21, 2014.

Discussion

The Committee discussed both approaches and that the External Auditor for the County had been asked about our approach. The County will have their figures and will meet their deadline before December 31, 2014. In order to complete their report our figures must be in place before that deadline. If we use the 2013 Actuarial Valuation figures the external auditor will include a qualified opinion in his report noting that the retirement figures are from the 2013 Actuarial Valuation report. There does not appear to be any extra expense to the County to do so and the 2013 figures have been audited and approved. This is not a common practice, but it has been done before.

There was concern that use of the 2013 figures may damage the integrity of the reporting. Reporting issues have become quite political. The public may not accept the use of old numbers and the 2013 figures would not match our approved 2014 Actuarial Valuation figures.

If the 2014 Actuarial Valuation figures are used we will be reporting the most accurate figures available and our reporting will be consistent, but we risk missing deadlines for the State Controller and the GOFA. There are also concerns that our dates may extend into 2015. If the Board wishes

to take this approach it is imperative that we stay on target or shorten the time span and review everything thoroughly.

The Committee agreed that the Assumptions used in the Experience Study may require Board review or approval. Segal Consulting will need to be contacted regarding the Assumptions so that we can include that in the calendar and agenize for Board discussion and possible action. The Interim Retirement Administrator will contact Segal.

Committee Recommendation

1. Use the approved 2014 Actuarial Valuation figures in the GASB 67 Report.
2. Direct the Interim Administrator to contact Segal Consulting regarding the Assumptions to be used in the Experience Study in order to include in the calendar and plan for any required Board action.

JZ/LW
Attachment

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Calendar for the 2011-2014 Experience Study and June 30, 2014 Actuarial Valuation & GAS 67 Reports

Description	Who?	2014 Study Target Date with GAS 67 Roll-forward	2014 Study Target Date without GAS 67 Roll-forward	2013 Study Actual Date
Census Data				
> Provide data request	Segal	May 5, 2014		June 4, 2013
> Send requested data	MCERA	August 6, 2014		August 6, 2013
> Ask data questions	Segal	August 22, 2014		August 23, 2013
> Respond to data questions	MCERA	September 5, 2014		September 5, 2013
Financial Information (including information for economic assumptions review)				
> Provide information for economic assumptions review	MCERA/Callan	August 6, 2014		October 1, 2013[1]
> Provide trial balances	MCERA	October 1, 2014		October 1, 2013[2]
> Provide financial statements (numerical portion only)	MCERA/Gallina	Preliminary Statements: October 1, 2014 Updated/Final Statements: TBD[3]		Preliminary Statements Received: October 1, 2013[2] Updated Draft Received: October 22, 2013
Experience Study Report[4]				
> Provide draft experience study report	Segal	October 1, 2014		November 1, 2011
> Call to discuss draft experience study report	Segal/MCERA	October 3, 2014		November 1, 2011
> Provide final experience study report	Segal	October 8, 2014		November 2, 2011
> Board take action on experience study report	MCERA	October 15, 2014		November 9, 2011
Actuarial Valuation Report & GAS 67 Report				
> Provide draft actuarial valuation report	Segal	November 10, 2014		November 18, 2013
> Call to discuss draft actuarial valuation report	Segal/MCERA	November 14, 2014		November 20, 2013
> Provide final actuarial valuation report	Segal	November 21, 2014		November 22, 2013

(1) No economic assumptions review was performed in 2013. This information was requested for our database.
(2) Follow-up questions sent by Segal on October 3, 2013. Answers provided by MCERA on October 3, 2013 and October 22, 2013.
(3) If it is necessary to issue updated financial statements, the dates shown below are based on the assumption that the updated statements will be provided by October 22, 2014.
(4) The dates in the 2013 column are from the 2011 experience study.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Calendar for the 2011-2014 Experience Study and June 30, 2014 Actuarial Valuation & GAS 67 Reports

Description	Who?	2014 Study Target Date with GAS 67 Roll-forward	2014 Study Target Date without GAS 67 Roll-forward	2013 Study Actual Date
Actuarial Valuation Report & GAS 67 Report (continued)				
> Provide draft GAS 67 report	Segal	November 5, 2014 (estimated)[5]	December 5, 2014	N/A
> Provide comments on GAS 67 report	MCERA/Gallina	November 19, 2014 (estimated)[6]	December 19, 2014	N/A
> Provide final GAS 67 report	Segal	December 3, 2014 (estimated)[7]	By December 31, 2014	N/A
> Audit & Budget Committee/Board take action on actuarial valuation and GAS 67 reports	MCERA	Special December 2014 Meeting: Presentation of actuarial valuation & GAS 67 reports to Audit Committee.	Special December 2014 Meeting: Presentation of actuarial valuation report to Audit Committee. Special January 2015 Meeting: Presentation of GAS 67 report to Audit Committee.	Special Meeting: December 4, 2013 (actuarial valuation) Report Adopted: December 18, 2013 (actuarial valuation)
> Final draft of audited Financial Statements for presentation to Audit & Budget Committee	MCERA/Gallina	January 7, 2015 (estimated)[8]	February 11, 2015 (estimated)[9]	

[5] Actual target date is later of 2 weeks after receipt of updated/final financial statements and October 28, 2014.
[6] Actual target date is 2 weeks after draft GAS 67 report issued.
[7] Actual target date is 2 weeks after comments received on draft GAS 67 report.
[8] Assuming the special December 2014 meeting is held on or before December 17, 2014. The actual target date is 3 weeks after approval of actuarial valuation and GAS 67 reports.
[9] Assuming the special January 2015 meeting is held on or before January 21, 2015. The actual target date is 3 weeks after approval of actuarial valuation and GAS 67 reports.