

Jim Andersen
Interim Retirement Administrator



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

Date: December 3, 2013
To: Board of Retirement
From: Jim Andersen, Interim Retirement Administrator *JA*
Subject: Discussion and Possible Action Regarding the Actuarial Valuation and Review as of June 30, 2014

Introduction

Subsequent to the Board's action to approve the triennial experience study and to thereby change past actuarial assumptions, Segal Consulting (Segal) prepared the annual actuarial valuation and review. In addition, at the direction of the Board, Segal prepared a supplemental letter and tables describing changes in employer contributions for the 2015/16 fiscal year if contribution rate impacts of new assumptions adopted from the triennial experience study are phased in over two or three fiscal years. Andy Yeung of Segal will present the valuation report and supplemental information. Staff has also contacted all plan sponsors to inform them that the report and rates would be discussed and likely acted upon at your December 3, 2014 meeting.

Discussion

Significant findings, which can also be found on pages ii through vi include:

- Actuarial Assets do not include roughly \$33 million in market gains that will be smoothed in over the next four (4) years. The actuarial value of assets is only 92.5% of the market value of assets at June 30, 2014 (page 5). In this valuation, that results in a funded ratio of 69.3% at (smoothed actuarial or) valuation value rather than 75.7% at market value (page v). If all other actuarial assumptions are met during the next 4 years, the funded ratio would be expected to increase and employer contributions would be expected to decrease.
- Similarly, the Unfunded Actuarial Accrued Liability (UAAL) increases to \$179,573,042 using the valuation value of assets, but is calculated to be \$142,120,436 on a market value of assets basis (page v). The increase in UAAL from the change in the assumed rate of return from 7.75% to 7.25% and the other adopted assumptions is roughly \$50

million, which is then slightly offset by all other variables impacting the UAAL (page 42).

- The total employer contribution rate is proposed to change from 26.00% of payroll to 33.38% of payroll, which results in a \$4,122,000 increase in employer contributions. Almost the full amount of the increase is due to the change in the assumed rate of return on investments from 7.75% to 7.25% and the other adopted assumptions. All other actuarial gains and losses virtually offset each other. While the change in policy regarding the valuation of the Cost of Living Adjustments (COLAs) to surviving spouses results in an increase of 1.08% of payroll, or \$603,000, again, it is almost completely offset by the other actuarial gains (page 19).
- The County CEO submitted a letter dated October 28, 2014, requesting consideration of phasing in the rates to mitigate the budgetary impact in FY 2015/16. Phasing in the rates will result in the unfunded liability increasing over the next one or two fiscal years and will require that higher subsequent UAAL contributions be paid over eighteen (18) year amortization periods.

Recommended Motion/Action

Approve the employer and employee rates and minimum sponsor dollar contributions contained in the Actuarial Valuation and Review as of June 30, 2014 (pages 15 through 18 for employer rates and minimum dollar employer contributions, and pages 73 through 87 for employee rates).

Alternative Motion/Action

Approve the employer rates phased in over a two or three year period as provided by Segal in their supplemental letter and authorize Segal to supplement those rates with breakdowns between normal cost and UAAL and between basic and COLA.

Approve the employee rates as contained in the Actuarial Valuation and Review as of June 30, 2014.

JA

Attachments

Jim Andersen - Follow up

From: Jim Andersen
To: Andy Yeung
Date: 11/21/2014 11:34 AM
Subject: Follow up
CC: Bob Mirata; Judy Zeller; Lloyd Weer; Randall Goodman; Stan Conwell; ...

Hi Andy:

The MCERA Audit & Budget committee met this morning to review the annual valuation study. Just as they did with the triennial experience study, the committee members developed questions that they would like to have you address on December 3rd. The questions are:

1. How many other systems that Segal serves have requested information on phasing in employer rates? How many of those systems adopted a phase in strategy? Had all of those systems conducted triennial experience studies this year where assumptions were changed and the BOR and sponsors were facing significant contribution increases?
2. On page 25, the report has a section for "vested" terminated members who are in General Tier 4. What is the definition of "vested?" Given that Tier 4 has only existed since 1/1/13, how could there be any "vested" members?

Rather than taking a position on phasing in rates, the committee opted to leave this decision to the full board. In addition, they believed it would be important to have the precise information requested in number 1.

Thank you, and please don't hesitate to call if you have any questions.

Jim



COUNTY OF MENDOCINO

Executive Office

CARMEL J. ANGELO
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October 28, 2014

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

Dear Mr. Andersen,

It is my understanding that during the October 15 Board of Retirement meeting, the Board approved a one half percent decrease to the current assumed investment return rate. As you are aware, the decrease results in a significant and immediate impact to County's finances.

At this time, the Board of Supervisors has not had the opportunity to consider the matter and decide how to best manage the increased cost. In order to provide them with an array of options in addition to full implementation in year one, I am requesting that the actuary prepare and provide us with the option for a two, and a three year phase-in plan.

Please contact me if I can provide you with any further information or answer any questions regarding this matter.

Sincerely,

A handwritten signature in black ink that reads "Carmel J. Angelo". The signature is fluid and cursive, with a long horizontal stroke at the end.

Carmel J. Angelo
Chief Executive Officer
County of Mendocino